# Energy Sector – Neutral

News Update

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## One for the record book

- **A surprise crude build not enough to sour the mood**
- **OPEC+ staying the course**
- **Putin to the rescue?**
- **En Plus: Coal prices at record high**

It was a roller coaster ride in the gas and coal markets last week with prices seeing record high levels across the globe.

### A surprise crude build not enough to sour the mood

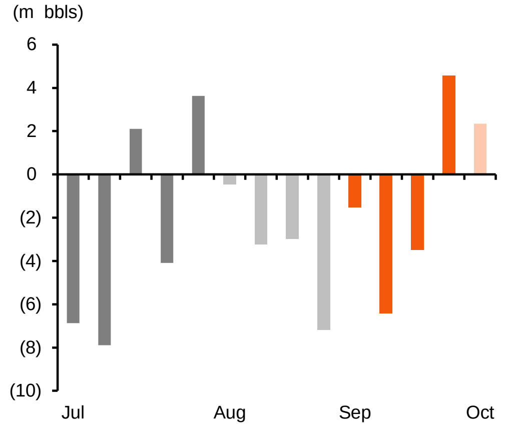
- US commercial crude oil inventory unexpectedly increased by 2.35m bbls for the week ending 1 October. This was against market expectation of a 420kbd draw. For the products, gasoline inventory grew a whopping 3.3m bbls whereas distillate inventories declined by 0.4m bbls.
- US crude oil production nudged up another 200kbd to 11.3kbd.
- US petroleum products supplied (a proxy for demand) was up a strong 1.1mbd w-w to 21.5mbd. Increases were broad-based with the only exception being residual fuel oil.
- Baker Hughes reported that US oil rig count increased by another 5 rigs to 433 rigs as of 8 October. Rig count is now at the highest level since late April 2020 though it remains more than 50% below its pre-pandemic peak.

### OPEC+ staying the course

OPEC+ maintains the pace of its crude oil output for November.

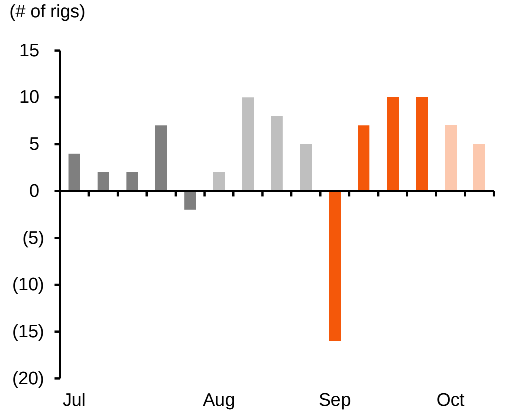
- **Another 400kbd of supply**: OPEC+ decided to increase output by a combined 400kbd in November. This was in keeping with the group's earlier plan to raise output by 400kbd each month through April 2022. However, the market regarded this news as bullish as there were some who expected a bigger hike.
- **September output up 650kbd**: According to Argus, OPEC+ output grew by 650kbd in September, to 36.51mbd. Within OPEC, the increase was driven by Nigeria (+160kbd), Saudi Arabia and Iraq (+100kbd each). Non-OPEC members saw additions from Russia (+100kbd) and Kazakhstan (+50kbd). Despite the output increase being higher than quota, overall compliance rate among OPEC+ member remained high at 113%.
- **Oil surplus by December?**: OPEC internal projection is for a cumulative demand growth of only 700kbd from September to December. This means the market could flip to a surplus by December. Based on S&P Global Platts forecast, demand is exceeding supply by 1.2mbd in October and 0.9mbd in November. However, this could flip to a small surplus of 0.1mbd by December.

**Ex 1: U.S. crude oil inventory w-w change**



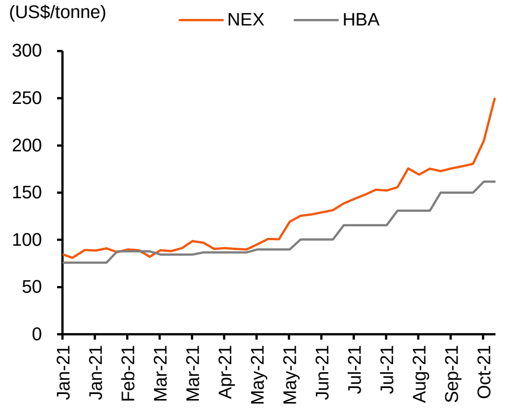

Source: EIA

**Ex 2: U.S. oil rig count w-w change**




Source: Baker Hughes

**Ex 3: NEX and HBA coal prices**




Source: BANPU, Bloomberg

**Putin to the rescue?**

Russian President Vladimir Putin cooled the red-hot European gas market by saying his country stands ready to ease the gas shortage.

- **Gazprom's gas export already at record**: Despite Putin's comment, it is unclear how much more gas Russian can send to Europe in the near term. Gazprom—Russia's largest state-owned gas company—is fulfilling all of its obligations and export to Europe is just shy of record level reached pre-COVID. Additionally, Russia must replenish its own gas storage before the start of the winter. The injection season is set to last through November 1st.
- **Nord Stream 2 start-up could be months away**: The controversial Nord Stream 2, which directly links Russia to Germany, could still be months away from starting up. While construction has been completed, the pipeline still faces regulatory hurdle in Europe that requires separation between pipelines and gas producers. More importantly, there is still plenty of capacity on existing pipeline as Gazprom has booked only a third of available capacity.
- **TTF price reacts**: Despite the lack of evidence that more gas is forthcoming in the near term, Putin's comment was enough to pullback TTF price (a European gas benchmark). The contract settled at around EUR87/MWh at the end of last week, pulling back from as high as EUR118/MWh before Putin made his comment. Still, TTF price is still up some 300% YTD.

**En Plus: Coal prices at record high**

Benchmark Asia Pacific coal prices also reached record high levels last week.

- **Newcastle futures closed in on $300 before a pullback**: Newcastle coal futures reached a high of over $280/ton for November, a fresh record, before pulling back to settle in the low $200s. In the spot market, the Newcastle benchmark closed the week at $244/ton, also a new record.
- **Indonesia's HBA set at a new record**: Indonesia's Ministry of Energy and Mineral Resources (ESDM) set the country's benchmark coal price, HBA, at $161.63/ton for October 2021. This is yet another fresh record high price for HBA. The HBA price discount to average NEX price in the previous month also narrowed to 8% in October compared to 11% for September price setting.
- **Long road ahead**: We think many countries, particularly China and India, will continue to struggle with coal supplies in the near term.

### Ex 4: Prices And Spreads

| (US$/bbl) | 4Q20 | 1Q21 | 2Q21 | 3Q21 | QTD | Jul-21 | Aug-21 | Sep-21 | MTD | Last |
|---|---|---|---|---|---|---|---|---|---|---|
| **Oil prices** | | | | | | | | | | |
| Dated Brent | 44.53 | 60.84 | 68.63 | 72.94 | 81.88 | 74.22 | 70.02 | 74.72 | 81.88 | 82.95 |
| Dubai | 43.87 | 59.70 | 66.43 | 71.31 | 78.13 | 72.79 | 68.91 | 72.36 | 78.13 | 78.20 |
| WTI | 42.74 | 58.07 | 66.10 | 70.52 | 77.92 | 72.43 | 67.71 | 71.54 | 77.92 | 79.35 |
| **Crack spreads over Dubai** | | | | | | | | | | |
| Gasoline | 5.20 | 7.49 | 10.67 | 12.41 | 14.15 | 11.71 | 12.72 | 12.79 | 14.15 | 16.16 |
| Jet fuel | 3.79 | 4.25 | 5.36 | 5.80 | 9.71 | 4.44 | 5.16 | 7.82 | 9.71 | 12.28 |
| Diesel | 4.53 | 5.37 | 6.09 | 7.48 | 11.23 | 6.54 | 7.21 | 8.71 | 11.23 | 13.56 |
| High-sulfur fuel oil | (1.02) | (4.28) | (6.80) | (5.42) | (3.10) | (8.13) | (5.62) | (2.49) | (3.10) | (1.56) |
| **Refining margins** | | | | | | | | | | |
| FCC / Dubai | 1.07 | 1.21 | 0.95 | 0.85 | 3.80 | 0.56 | 0.83 | 1.15 | 3.80 | 4.40 |
| Hydrocracking / Dubai | 0.52 | 0.71 | 0.77 | 1.11 | 4.60 | 0.74 | 0.92 | 1.69 | 4.60 | 5.19 |
| FCC / Espo | (0.33) | 1.47 | 1.55 | 1.24 | 4.20 | 0.96 | 1.22 | 1.54 | 4.20 | 4.79 |
| FCC / Arab Light | 1.45 | 0.56 | (0.51) | (0.64) | 2.31 | (0.93) | (0.66) | (0.34) | 2.31 | 2.91 |
| Hydrocracking / Murban | 1.17 | 2.29 | 2.81 | 3.41 | 6.90 | 3.03 | 3.22 | 3.98 | 6.90 | 7.49 |
| **(US$/tonne)** | | | | | | | | | | |
| **Aromatics spreads** | | | | | | | | | | |
| PX-naphtha | 136 | 185 | 232 | 229 | 144 | 230 | 256 | 200 | 144 | 144 |
| BZ-naphtha | 119 | 191 | 367 | 350 | 279 | 372 | 333 | 341 | 279 | 279 |
| **Olefin spreads** | | | | | | | | | | |
| HDPE-naphtha | 608 | 583 | 576 | 462 | 464 | 432 | 499 | 462 | 464 | 464 |
| LDPE-naphtha | 780 | 959 | 936 | 821 | 884 | 754 | 864 | 862 | 884 | 884 |
| PP-naphtha | 695 | 771 | 709 | 557 | 564 | 552 | 594 | 527 | 564 | 564 |
| Ethylene-naphtha | 463 | 416 | 406 | 304 | 369 | 284 | 279 | 355 | 369 | 369 |
| Propylene-naphtha | 499 | 461 | 436 | 294 | 244 | 281 | 323 | 281 | 244 | 244 |
| Henry Hub Gas (US$/mmbtu) | 2.76 | 2.73 | 2.97 | 4.32 | 5.77 | 3.82 | 4.03 | 5.11 | 5.77 | 5.57 |
| Coal (Newcastle) (US$/tonne) | 66.20 | 87.47 | 106.49 | 165.89 | 241.67 | 146.01 | 167.19 | 184.41 | 241.67 | 238.60 |

Source: Bloomberg

### Ex 5: Valuation

| | Rating | Current price (Bt) | Target price (Bt) | *Upside/ (Downside) (%)* | Market cap (US$ m) | Norm EPS growth 2021F (%) | Norm EPS growth 2022F (%) | Norm PE 2021F (x) | Norm PE 2022F (x) | EV/EBITDA 2021F (x) | EV/EBITDA 2022F (x) | Yield 2021F (%) | Yield 2022F (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| BANPU | BUY | 13.50 | 20.00 | *48.1* | 2,698 | na | 21.5 | 8.5 | 7.0 | 5.7 | 5.2 | 4.4 | 5.7 |
| BCP | SELL | 28.25 | 21.00 | *(25.7)* | 1,149 | na | na | na | 25.9 | 9.1 | 7.1 | 0.0 | 2.1 |
| ESSO | SELL | 8.20 | 6.90 | *(15.9)* | 838 | na | na | na | 150.3 | 37.8 | 21.5 | 0.0 | 0.3 |
| IRPC | BUY | 4.42 | 5.10 | *15.4* | 2,668 | na | 9.6 | 15.8 | 14.4 | 9.5 | 8.7 | 3.8 | 4.2 |
| IVL | BUY | 45.25 | 52.00 | *14.9* | 7,504 | 169.1 | (0.9) | 14.7 | 14.8 | 8.6 | 9.3 | 2.4 | 2.4 |
| PTG | BUY | 16.20 | 22.00 | *35.8* | 799 | (3.6) | 11.8 | 15.1 | 13.5 | 7.2 | 6.8 | 3.3 | 3.7 |
| PTT | BUY | 39.75 | 50.00 | *25.8* | 33,537 | 182.0 | 5.2 | 10.6 | 10.1 | 4.7 | 4.3 | 4.7 | 5.0 |
| PTTEP | BUY | 121.50 | 140.00 | *15.2* | 14,248 | 68.1 | 15.8 | 13.4 | 11.6 | 4.2 | 3.8 | 4.5 | 5.2 |
| PTTGC | BUY | 65.00 | 86.00 | *32.3* | 8,657 | 219.4 | (1.2) | 12.0 | 12.2 | 7.2 | 7.0 | 5.0 | 4.9 |
| SPRC | SELL | 10.60 | 7.20 | *(32.1)* | 1,358 | na | na | na | 137.6 | 24.7 | 18.3 | 0.0 | 0.3 |
| SUSCO | BUY | 3.22 | 4.80 | *49.1* | 105 | 3.0 | 23.4 | 15.1 | 12.2 | 6.4 | 5.2 | 3.4 | 4.1 |
| TOP | SELL | 56.25 | 48.00 | *(14.7)* | 3,390 | na | 6.1 | 28.5 | 26.9 | 18.1 | 18.8 | 1.6 | 1.7 |

Sources: Company data, Thanachart estimates

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