Energy Sector – Neutral

News Update

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Oil price climbs on spill-over impact from coal & gas shortages

- **A massive inventory build**
- **Diverging views on global oil demand**
- **Gas price volatility continues**
- **En Plus: Coal shortage remains critical in India**

Energy prices remained elevated last week as coal and gas shortages spilled over into the oil market.

A massive inventory build

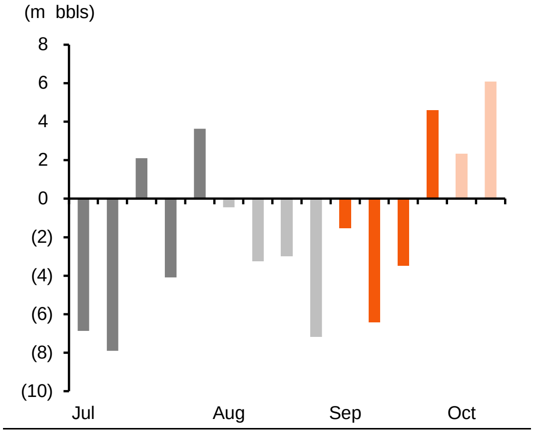
- US commercial crude oil inventory grew by a larger-than-expected 6.09m bbls w-w. However, gasoline inventories declined by about 2m bbls whereas distillate inventories were virtually unchanged w-w.
- US crude oil production increased by another 100kbd to 11.4mbd.
- US petroleum products supplied declined by 1.7mbd to 19.9mbd. Essentially all product categories saw declines w-w.
- Baker Hughes reported that US oil rig count jumped by 12 rigs to 445 rigs as of 15 October.

Diverging views on global oil demand

All major forecasters released their monthly updates last week with diverging views on oil demand.

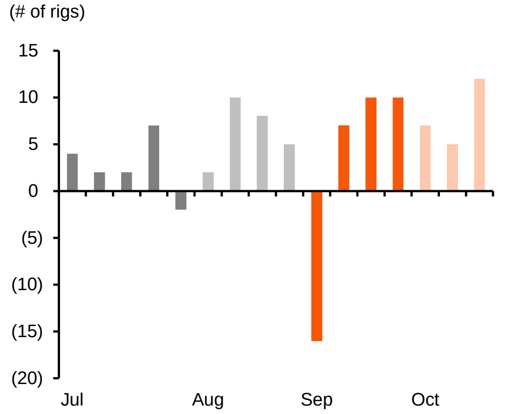
- **IEA**: The IEA raised its global oil demand forecast by 170kbd and 210kbd for 2021-22F, respectively. This was driven by gas-to-oil switching which the agency expects would boost winter demand for heating oil by as much as 500kbd. Demand is now expected to grow by 5.5mbd in 2021F and another 3.3mbd in 2022F when it would exceed pre-COVID level at 99.6mbd.
- **OPEC**: On the other hand, OPEC revised down its demand growth forecast by 160kbd to 5.8mbd in 2021F. This was due to lower-than-expected growths in the first nine months of the year. Still, OPEC forecasts a demand uptick in 4Q21F due to heating and petrochemical feedstock demand. For 2022F, OPEC forecasts growth of 4.2mbd, taking full-year demand to 100.8mbd.
- **EIA**: The US EIA raised its oil demand growth forecast by 90kbd to 5.05mbd in 2021F driven by higher demand in developing countries. For 2022F, however, growth forecast has been revised down by 150kbd to 3.48mbd. Most of the downward revision was driven by OECD countries.

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: World oil demand growth forecasts

(mbd)	Demand growth		Revisions	
	2021F	2022F	2021F	2022F
IEA	5.5	3.3	0.17	0.21
OPEC	5.8	4.2	(0.16)	0.00
EIA	5.1	3.5	0.09	(0.15)

Source: IEA, OPEC, EIA

Gas price volatility continues

Global gas prices continued to be highly volatile last week with.

- **Europe**: TTF, a European gas benchmark, touched EUR116/MWh again earlier last week before pulling back to just below EUR100/MWh as Russian President Vladimir Putin again pledged more supply. Still, it's unclear how much more gas Russia is or will be able to send to Europe as Deputy Prime Minister Alexander Novak said European buyers have not yet asked Russia for more gas.
- **US**: US gas price zigged and zagged between $5.2 and $5.9 per mmbtu last week before pulling back to $5.4/mmbtu on forecasts of average to warmer-than-normal temperatures for the rest of October. Still, low storage injection means inventories are well below historical norms and price could surge again as winter heating season begins.
- **Asia**: Asian LNG spot price touched $56/mmbtu based on Platts JKM assessment. While the peak was not sustained, last week price still averages over $38/mmbtu for November delivery.

En Plus: Coal shortage remains critical in India

Coal inventories remain critically low at power plants in India as the country's largest supplier, Coal India, halts deliveries to industrial users.

- **Critically low inventories**: According to the Central Electricity Authority of India, power plants with 132GW capacity, or almost 70% of the country's coal-fired capacity, have critically low level of coal, meaning less than 5 days of inventories.
- **Power cuts, blackouts**: To cope with coal shortages, some states have started power cuts including Rajasthan, Jharkhand, and Bihar. Other states, such as Maharashtra and Punjab, have had to shut down power plants due to lack of coal. In Punjab, scheduled power cuts of up to 6 hours have prompted protests.
- **Supplies to industrial users being halted**: Reuters reported that Coal India, the country's largest coal miner, has halted supplies to non-power users. Coal India said that this was a "temporary prioritization" as it seeks to shift more supplies to power plants in a bid to divert a major blackout.
- **Situations to improve?**: The government has asked power producers to import up to 10% of their coal needs. Coal India has also promised more supplies and its chairman was quoted as saying that daily supplies now exceed demand by 0.15m tons (2m tons per day supply vs 1.85m tons per day demand).

Ex 4: Prices And Spreads

(US$/bbl)	4Q20	1Q21	2Q21	3Q21	QTD	Jul-21	Aug-21	Sep-21	MTD	Last
Oil prices										
Dated Brent	44.53	60.84	68.63	72.94	82.85	74.22	70.02	74.72	82.85	84.87
Dubai	43.87	59.70	66.43	71.31	80.19	72.79	68.91	72.36	80.19	82.70
WTI	42.74	58.07	66.10	70.52	79.34	72.43	67.71	71.54	79.34	82.28
Crack spreads over Dubai										
Gasoline	5.20	7.49	10.67	12.41	13.97	11.71	12.72	12.79	13.97	16.74
Jet fuel	3.79	4.25	5.36	5.80	9.91	4.44	5.16	7.82	9.91	12.55
Diesel	4.53	5.37	6.09	7.48	11.22	6.54	7.21	8.71	11.22	12.84
High-sulfur fuel oil	(1.02)	(4.28)	(6.80)	(5.42)	(3.51)	(8.13)	(5.62)	(2.49)	(3.51)	(3.53)
Refining margins										
FCC / Dubai	1.07	1.21	0.95	0.85	4.36	0.56	0.83	1.15	4.36	4.89
Hydrocracking / Dubai	0.52	0.71	0.77	1.11	5.17	0.74	0.92	1.69	5.17	5.64
FCC / Espo	(0.33)	1.47	1.55	1.24	4.76	0.96	1.22	1.54	4.76	5.29
FCC / Arab Light	1.45	0.56	(0.51)	(0.64)	2.87	(0.93)	(0.66)	(0.34)	2.87	3.40
Hydrocracking / Murban	1.17	2.29	2.81	3.41	7.46	3.03	3.22	3.98	7.46	7.93
(US$/tonne)										
Aromatics spreads										
PX-naphtha	136	185	232	229	146	230	256	200	146	149
BZ-naphtha	119	191	367	350	271	372	333	341	271	264
Olefin spreads										
HDPE-naphtha	608	583	576	462	456	432	499	462	456	449
LDPE-naphtha	780	959	936	821	886	754	864	862	886	889
PP-naphtha	695	771	709	557	576	552	594	527	576	589
Ethylene-naphtha	463	416	406	304	354	284	279	355	354	339
Propylene-naphtha	499	461	436	294	234	281	323	281	234	224
Henry Hub Gas (US$/mmbtu)	2.76	2.73	2.97	4.32	5.65	3.82	4.03	5.11	5.65	5.41
Coal (Newcastle) (US$/tonne)	66.20	87.47	106.49	165.89	242.29	146.01	167.19	184.41	242.29	240.00

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	13.10	20.00	*52.7*	2,661	na	21.5	8.3	6.8	5.6	5.1	4.6	5.9
BCP	SELL	28.50	21.00	*(26.3)*	1,178	na	na	na	26.1	9.1	7.1	0.0	2.1
ESSO	SELL	8.65	6.90	*(20.2)*	899	na	na	na	158.5	38.8	22.1	0.0	0.3
IRPC	BUY	4.64	5.10	*9.9*	2,847	na	9.6	16.6	15.1	9.8	9.0	3.6	4.0
IVL	BUY	44.25	52.00	*17.5*	7,459	169.1	(0.9)	14.4	14.5	8.5	9.2	2.4	2.4
PTG	BUY	15.90	22.00	*38.4*	797	(3.6)	11.8	14.8	13.3	7.1	6.7	3.4	3.8
PTT	BUY	39.25	50.00	*27.4*	33,660	182.0	5.2	10.4	9.9	4.6	4.2	4.8	5.0
PTTEP	BUY	124.00	140.00	*12.9*	14,780	68.1	15.8	13.7	11.8	4.3	3.8	4.4	5.1
PTTGC	BUY	64.75	86.00	*32.8*	8,765	219.4	(1.2)	12.0	12.1	7.2	7.0	5.0	5.0
SPRC	SELL	11.20	7.20	*(35.7)*	1,458	na	na	na	145.4	26.0	19.3	0.0	0.3
SUSCO	BUY	3.28	4.80	*46.3*	108	3.0	23.4	15.4	12.4	6.5	5.3	3.3	4.0
TOP	SELL	57.50	48.00	*(16.5)*	3,522	na	6.1	29.2	27.5	18.3	19.0	1.5	1.6

Sources: Company data, Thanachart estimates

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