Energy Sector – Neutral

News Update

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Another wild week for coal

- **Big inventory drawdowns in the US**
- **Saudi Arabia resists the temptation to pump more oil**
- **Gas prices cooled off on mild weather, credit tightness**
- **En Plus: A wild week for China's coal market**

Coal had another wild week while oil and gas prices have settled down.

Big inventory drawdowns in the US

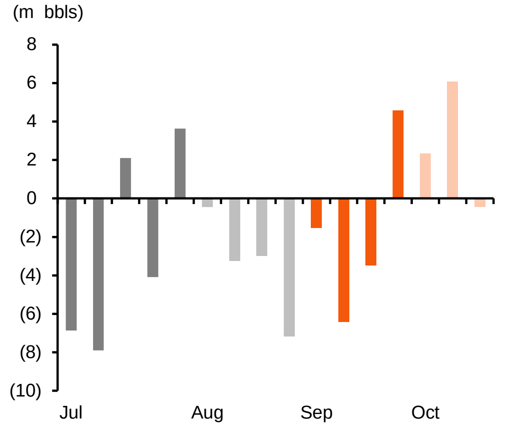
- US commercial crude oil inventory declined by 0.43m bbls w-w against consensus expectation of a 1.86m bbls increase. Moreover, both gasoline and distillate inventories also had large drawdowns of 5.4m bbls and 3.9m bbls, respectively.
- US crude oil production declined by 100kbd w-w to 11.3mbd.
- US petroleum products supplied (a proxy for demand) grew nearly 2mbd w-w to 21.83mbd.
- Baker Hughes reported that US oil rig count had a rare week of decline with 2 lower active rigs w-w. Active oil rig count last stood at 443 rigs as of 22 October.

Saudi Arabia resists the temptation to pump more oil

Saudi Arabia has resisted calls by consumer nations to produce more oil.

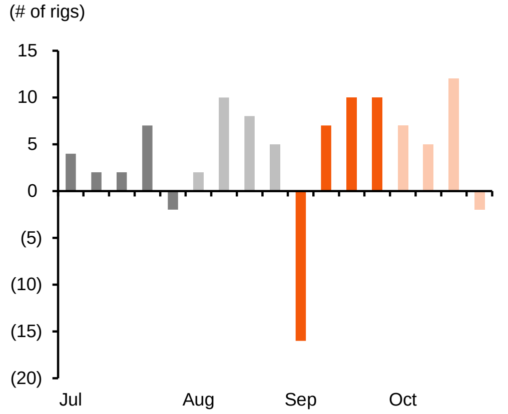
- **US presses OPEC+ for more oil**: White House Press Secretary Jen Psaki said that the Biden Administration continues to press OPEC countries to "address supply issue". This echoes calls by other consumer countries including India. So far, OPEC+ has not responded to these calls for extra barrels.
- **Oil is no cure for gas shortage**: For one, Saudi Arabia does not believe the current energy crisis can be solved by more oil. Specifically, the Saudi Energy Minister Prince Abdulaziz bin Salmin said that he sees the roles of OPEC+ as limited in addressing the current coal and gas shortages, pointedly asking "who's going to burn it?" According to the IEA and Saudi Aramco, the extra demand from gas-to-oil switching during winter months could among to an extra 500kbd.

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



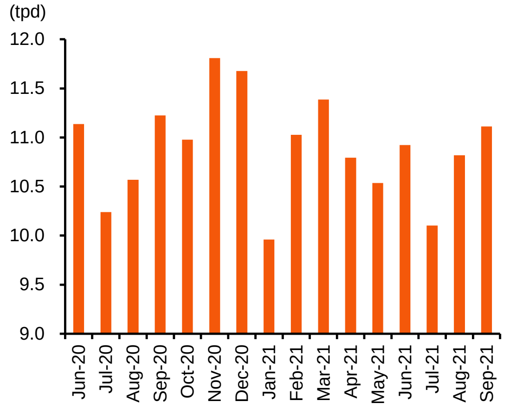
Source: EIA

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



Source: Baker Hughes

Ex 3: China's coal production by month



Source: Bloomberg

Gas prices cooled off on mild weather, credit tightness

Gas prices in Europe and the US declined on forecasts of mild weather.

- **Europe**: European TTF price settled at EUR 88/MWh last Friday, down about 6.6% w-w. This was despite Russia's lower-than-expected gas supply for the month of November (based on forward booking of pipeline capacity). S&P Global Platts attributed the bearish price movement to tight credit in the futures market. With increased price volatility, sellers are demanding more collaterals from the buyers. Moreover, as prices are also much higher than normal, buying the usual volume of gas means putting up more collaterals in monetary terms. This means buyers have stopped buying for storage injection and would prefer to buy as needed.
- **US**: In the US, gas price has declined by about 2.4% w-w to settle at $5.28/mmbtu. This was likely due to forecasts of milder than usual weather across the US which would dampen gas demand. Export demand has also taken a bit of a hit due to production issues at Freeport LNG and Sabine Pass LNG.

En Plus: A wild week for China's coal market

The Chinese government has announced a raft of measures to cool the red-hot coal market and ensure enough supply for the coming winter.

- **A price cap**: The government first asked coal producers to cap the price of coal at 1,800 RMB/ton ($280/ton) when spot prices were as high as 2,500 RMB/ton ($390/ton). While the request was not mandatory, it signaled to the market that the government was not willing to tolerate such high coal prices and those who refused to sell below the cap could face logistical issues (ie, lower rail capacity).
- **A promise of more supply**: The government also told coal miners to produce "as much coal as possible" as the country grapples with power shortages. The target is for production to average 12m tons per day up from 11.1m tpd average in September.
- **Wild moves**: Futures prices on Zhengzhou Commodity Exchange had a wild swing last week. The most traded contract (January 2022) increased by a cumulative 15% on Monday and Tuesday before plunging 31% from peak to settle at RMB 1,408/ton ($220) by Friday's close.
- **Our view**: Despite the government's order, we think the actual supply response may take some time as China's coal production has been flat for most of the year despite strong demand and persistently low inventory levels. The only months of sizable y-y production growths were January and February due to low base effect in 2020. We note that coal production in China tends to increase in the winter months to serve increased demand and production already averaged 11.8m tons in November-December of last year. As such, it is unclear if 12m tpd targeted by the government will be sufficient to meet the growing demand this coming winter. Moreover, inventories remain significantly below normal at power plants (roughly 20% below last year's level). As such, even if productions were to ramp up, it would take much longer to increase inventories to sufficient levels.

Ex 4: Prices And Spreads

(US$/bbl)	4Q20	1Q21	2Q21	3Q21	QTD	Jul-21	Aug-21	Sep-21	MTD	Last
Oil prices										
Dated Brent	44.53	60.84	68.63	72.94	83.38	74.22	70.02	74.72	83.38	84.99
Dubai	43.87	59.70	66.43	71.31	80.86	72.79	68.91	72.36	80.86	82.22
WTI	42.74	58.07	66.10	70.52	80.51	72.43	67.71	71.54	80.51	83.76
Crack spreads over Dubai										
Gasoline	5.20	7.49	10.67	12.41	15.00	11.71	12.72	12.79	15.00	19.79
Jet fuel	3.79	4.25	5.36	5.80	10.50	4.44	5.16	7.82	10.50	11.99
Diesel	4.53	5.37	6.09	7.48	11.57	6.54	7.21	8.71	11.57	11.67
High-sulfur fuel oil	(1.02)	(4.28)	(6.80)	(5.42)	(4.26)	(8.13)	(5.62)	(2.49)	(4.26)	(7.78)
Refining margins										
FCC / Dubai	1.07	1.21	0.95	0.85	4.48	0.56	0.83	1.15	4.48	4.30
Hydrocracking / Dubai	0.52	0.71	0.77	1.11	5.27	0.74	0.92	1.69	5.27	5.02
FCC / Espo	(0.33)	1.47	1.55	1.24	4.87	0.96	1.22	1.54	4.87	4.69
FCC / Arab Light	1.45	0.56	(0.51)	(0.64)	2.99	(0.93)	(0.66)	(0.34)	2.99	2.81
Hydrocracking / Murban	1.17	2.29	2.81	3.41	7.56	3.03	3.22	3.98	7.56	7.32
(US$/tonne)										
Aromatics spreads										
PX-naphtha	136	185	232	229	153	230	256	200	153	167
BZ-naphtha	119	191	367	350	273	372	333	341	273	277
Olefin spreads										
HDPE-naphtha	608	583	576	462	470	432	499	462	470	497
LDPE-naphtha	780	959	936	821	897	754	864	862	897	917
PP-naphtha	695	771	709	557	597	552	594	527	597	637
Ethylene-naphtha	463	416	406	304	343	284	279	355	343	322
Propylene-naphtha	499	461	436	294	252	281	323	281	252	287
Henry Hub Gas (US$/mmbtu)	2.76	2.73	2.97	4.32	5.49	3.82	4.03	5.11	5.49	5.28
Coal (Newcastle) (US$/tonne)	66.20	87.47	106.49	165.89	239.03	146.01	167.19	184.41	239.03	230.00

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	12.50	20.00	*60.0*	2,533	na	21.5	7.9	6.5	5.5	5.0	4.8	6.2
BCP	SELL	30.00	21.00	*(30.0)*	1,237	na	na	na	27.5	9.4	7.3	0.0	2.0
ESSO	SELL	8.55	6.90	*(19.3)*	886	na	na	na	156.7	38.6	21.9	0.0	0.3
IRPC	BUY	4.64	5.10	*9.9*	2,840	na	9.6	16.6	15.1	9.8	9.0	3.6	4.0
IVL	BUY	45.00	52.00	*15.6*	7,568	169.1	(0.9)	14.6	14.7	8.6	9.2	2.4	2.4
PTG	BUY	15.50	22.00	*41.9*	775	(3.6)	11.8	14.5	12.9	7.0	6.6	3.5	3.9
PTT	BUY	40.00	50.00	*25.0*	34,223	182.0	5.2	10.6	10.1	4.7	4.3	4.7	4.9
PTTEP	BUY	125.50	140.00	*11.6*	14,924	68.1	15.8	13.9	12.0	4.3	3.9	4.3	5.0
PTTGC	BUY	66.00	86.00	*30.3*	8,914	219.4	(1.2)	12.2	12.3	7.3	7.1	4.9	4.9
SPRC	SELL	11.20	7.20	*(35.7)*	1,455	na	na	na	145.4	26.0	19.3	0.0	0.3
SUSCO	BUY	3.30	4.80	*45.5*	109	3.0	23.4	15.5	12.5	6.5	5.3	3.3	4.0
TOP	HOLD	58.25	57.00	*(2.1)*	3,559	na	(11.7)	22.2	25.1	16.3	17.6	2.0	1.8

Sources: Company data, Thanachart estimates

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