

**Energy Sector – Neutral****Earnings Preview**

Chak Reungsinpinya | Email: chak.reu@thanachartsec.co.th

**3Q21F marred by weaker margins, lockdowns**

- **Energy & materials sector earnings likely down 13% q-q**
- **Broad-based weakness from lower margins, lockdowns**
- **Weaker core result for almost every company**
- **BANPU the lone exception**

Below we summarize key price movements in 3Q21:

- **Oil price:** Dubai oil price averaged \$71.7/bbl in 3Q21, increasing from \$66.9/bbl in 2Q21. This will increase cost pressure though it would lead to temporary stock gains as well.
- **Refining margins:** Singapore GRM (against Dubai crude) averaged \$3.8/bbl in 3Q21, increasing from \$2.1/bbl in 2Q21, based on Reuters calculation. This was driven by higher gasoline and fuel oil crack spreads whereas diesel and jet fuel spreads were mostly unchanged. The higher GRM against Dubai was partially offset by rising crude premiums: Arab Light spread over Dubai averaged \$2.5/bbl in 3Q21 vs \$1.6/bbl in 2Q21.
- **Chemical spreads:** HDPE-naphtha spread declined to \$460/ton in 3Q21 from \$580/ton in 2Q21. PP-naphtha spread also narrowed to \$570/ton from \$730/ton over the same period. On the aromatics side, spreads were mostly flat q-q. PX-ULG spread averaged \$210/ton (+\$4/ton q-q) and BZ-ULG spread averaged \$280/ton (-\$30/ton q-q).
- **Domestic oil retail:** We estimate sales volume of gasoline and diesel to have declined about 10% q-q and 15% y-y due to lockdown impacts in 3Q21. We also expect margin to soften marginally q-q due to the rapid increase in oil price and THB weakness.
- **FX:** THB weakened further q-q to average about 32.9 in 3Q21 compared to 31.4 in 2Q21. End-of-period exchange rate was 33.8 weakening from 32.1 at the end of June. This means most companies will report FX losses from translation of USD-denominated debts. The exception, as always, is BANPU which is likely to report a small FX gain.

We provide a preview of 3Q21F earnings for each company below:

- **PTT:** We expect core gas EBITDA to decline about 10% q-q due to weaker GSP contribution (maintenance shutdown, lower petrochemical reference prices). On the other hand, higher oil price is likely to help support gas sales margins for industrial customers. For oil retail, we expect volume to decline in line with the market (roughly 10% q-q, 15% y-y). This would pressure profit from this unit as well.
- **PTTEP:** Volume is expected to be 415 KBOED, +17% y-y (asset consolidation) but down 6% q-q due to lower gas demand as gas separation plants will undergo major turnarounds. Gas price is expected to average \$5.7/mmbtu (roughly flat q-q) whereas liquid ASP is expected to increase along with oil price. Cost is expected to be \$29-30/BOE.
- **PTTGC:** We expect norm profit to decline by 17% q-q. This is mainly driven by lower polyethylene prices (HDPE price down 4.4% q-q). PTTGC also has to rely more on naphtha feedstock this quarter as there is lower availability of gas feedstock due to GSP maintenance shutdowns. We expect slightly higher profit contribution from aromatics business mainly due to cheap condensate feedstock prices relative to naphtha/gasoline. Refinery profit is likely to be flat q-q as PTTGC was not significantly impacted by higher Middle Eastern crude premiums.

- **SCC:** We expect a 21% decline in profit for SCC. This is mainly due to lower olefin chemical spreads. 3Q is also seasonally weak for cement and building material business. For packaging, we expect lower margins due to cost pressure (higher OCC price).
- **IVL:** We expect a small decline q-q in profits for IV. Integrated PET is likely to see softer earnings as spreads in Asia declined. While spreads in the US/Europe increased q-q, most of the volumes have already been locked in via annual contract, and as such IVL would not benefit much from higher spreads in these regions. Fiber business was negatively impacted by lower auto production (itself a result of chip shortage). On the other hand, integrated oxides (IOD) business is likely to see stronger q-q results thanks to higher utilization rates. Even so, MTBE spread was lower q-q as gas price rose more quickly than oil price; MTBE price moves in tandem with gasoline price whereas its feedstock is butane gas.
- **IRPC:** We expect norm profit of Bt500m, down sharply q-q due to lower margins. We forecast gross integrated margin (GIM) of \$12-13/bbl, down from about \$15/bbl in 2Q21. This was mainly due to declining PP spread, lower lube spreads, and higher crude premiums for the quarter.
- **TOP:** We expect a small q-q decline in profit. This was driven by higher crude premium as well as weaker lube oil spread. Aromatics contribution is likely to be flat due to offsetting movements in PX and BZ spreads.
- **SPRC:** We expect earnings to remain under pressure in 3Q21 mainly due to higher crude premiums.
- **ESSO:** Earnings will likely be pressured by limited improvements in crack spreads while crude premiums rose q-q. ESSO's retail operation would have been impacted by lockdowns as well.
- **BCP:** We expect weaker q-q from lower refining and oil marketing profit. This would be partially offset by stronger E&P contribution (higher oil price).
- **BANPU:** We expect BANPU to report normalized profit (excluding FX gain and hedging losses) of about Bt6bn. This is a significant increase q-q and is mostly driven by higher coal and gas prices. Newcastle coal spot price averaged \$163/ton in 3Q21 vs \$108/ton in 2Q21. However, we note that most of the rise in coal price will not be fully captured this quarter as there is typically a 2-3 month lag between spot price movement and actual P&L impacts. We also expect sales volume to increase about 20% q-q for Australian operation and about 12% q-q for Indonesian operation whereas costs are likely to be flat or decline slightly q-q. For gas business, we expect ASP to increase significantly q-q along with the increase in Henry Hub benchmark (which itself averaged \$4.3/mmbtu in 3Q21 vs \$3.0/mmbtu in 2Q21). For non-recurring items, we expect about Bt3bn in pre-tax hedging losses, partially offset by Bt800m in FX gain.
- **PTG:** Earnings is likely to decline significantly q-q. This was due mainly to impact of lockdown which may have caused a 10% decline in volume. Margin is likely to be slightly compressed q-q as well due to the impact of rapidly rising oil price.
- **SUSCO:** Similar to PTG, we believe SUSCO's earnings will be weak due to both lower volume and margin.
- **UTP:** Earnings are likely to decline about 20-25% q-q due to impact of higher OCC and coal costs. Additionally, despite the low base in 2Q21 (maintenance shutdown), sales volume is likely to be flat q-q as some customers had to temporarily shut down operation due to COVID impacts.
- **PRM:** We expect earnings to remain under pressure due to the reset in FSU contracts (lower rates) as well as weak demand for domestic tanker business. This may be partially offset by improved international tanker and offshore businesses.

## Ex 1: 3Q21F Preview

|            | Normalized profit (Bt m) |               |               | 9M as %<br>2021F | Change (%)   |               | Note  |
|------------|--------------------------|---------------|---------------|------------------|--------------|---------------|---|
|            | 3Q20                     | 2Q21          | 3Q21F         |                  | (y-y%)       | (q-q%)        |   |
| BANPU      | (639)                    | 2,901         | 6,000         | 105.4            | na           | 106.8         | ▪ Strong q-q and y-y growths due to higher coal and gas selling prices. Coal volumes also likely to pick up q-q.                          |
| BCP        | (112)                    | 452           | 200           | na               | na           | (55.7)        | ▪ Weaker refining and oil marketing potentially offset by improved upstream earnings  |
| ESSO       | 344                      | (408)         | (600)         | na               | na           | na            | ▪ Refinery likely to suffer from higher crude premium whereas retail operation impacted by lockdowns                                      |
| IRPC       | (439)                    | 2,776         | 500           | 81.4             | na           | (82.0)        | ▪ A sharp pull-back in PP spread, lower lube oil spreads, and higher crude premium pressured margins                                      |
| IVL        | 800                      | 5,846         | 5,300         | 85.0             | 562.5        | (9.3)         | ▪ Lower PET spreads in Asia and declining demand for fiber from auto sector; Integrated oxides show q-q growth on higher u-rate           |
| PTG        | 508                      | 497           | 150           | 65.8             | (70.5)       | (69.8)        | ▪ We expect a 10% y-y decline in volume (due to lockdown impacts) and slightly lower margin q-q   |
| PTT        | 13,218                   | 34,934        | 30,000        | 94.5             | 127.0        | (14.1)        | ▪ Weaker core gas operation from lower GSP contribution; also oil retail impact from lockdowns  |
| PTTEP      | 6,043                    | 11,097        | 11,000        | 85.5             | 82.0         | (0.9)         | ▪ Likely flat norm profit q-q as higher oil price offset lower volume and higher unit costs.  |
| PTTGC      | 719                      | 9,634         | 8,000         | 109.0            | 1,012.9      | (17.0)        | ▪ Lower q-q profits due to decline in polyethylene prices and higher portion of naphtha feedstock (lower gas available from GSP shutdown) |
| SPRC       | (614)                    | (457)         | (550)         | na               | na           | na            | ▪ We expect pressure from higher crude premiums   |
| SUSCO      | 70                       | 62            | 30            | 87.2             | (57.3)       | (51.4)        | ▪ Volume declines due to lockdowns; margin slightly lower q-q as well   |
| TOP        | (1,755)                  | 1,061         | 700           | 61.8             | na           | (34.0)        | ▪ Lower lube oil spreads and higher crude premiums to compress margins  |
| SCC        | 10,818                   | 17,136        | 13,500        | 97.4             | 24.8         | (21.2)        | ▪ Lower chemical spreads pressured margins; 3Q also seasonally weak quarter for cement  |
| PRM        | 426                      | 268           | 260           | 49.4             | (38.9)       | (3.0)         | ▪ Impact of lower FSU rates offset by improved earnings from tanker and offshore  |
| UTP        | 240                      | 234           | 180           | 61.8             | (25.0)       | (23.2)        | ▪ Volume was flat q-q despite lockdown impacts on customers; margin pressured by higher OCC costs   |
| <b>Sum</b> | <b>29,627</b>            | <b>86,033</b> | <b>74,670</b> | <b>93.4</b>      | <b>152.0</b> | <b>(13.2)</b> |   |

Sources: Company data, Thanachart estimates

## Ex 2: Valuation

| Ticker | Rating | Current price | Target price | Upside/downside | Market cap | Norm EPS growth |          | — Norm PE — |          | EV/EBITDA |       | — Yield — |       |
|--------|--------|---------------|--------------|-----------------|------------|-----------------|----------|-------------|----------|-----------|-------|-----------|-------|
|        |        |               |              |                 |            | 2021F           | 2022F    | 2021F       | 2022F    | 2021F     | 2022F | 2021F     | 2022F |
|        |        |               |              |                 |            | (Bt/shr)        | (Bt/shr) | (%)         | (US\$ m) | (%)       | (%)   | (x)       | (x)   |
| BANPU  | BUY    | 12.10         | 20.00        | 65.3            | 2,472      | na              | 21.5     | 7.6         | 6.3      | 5.5       | 4.9   | 4.9       | 6.4   |
| BCP    | SELL   | 28.50         | 21.00        | (26.3)          | 1,185      | na              | na       | na          | 26.1     | 9.1       | 7.1   | 0.0       | 2.1   |
| ESSO   | SELL   | 8.40          | 6.90         | (17.9)          | 878        | na              | na       | na          | 153.9    | 38.3      | 21.7  | 0.0       | 0.3   |
| IRPC   | BUY    | 4.46          | 5.10         | 14.3            | 2,752      | na              | 9.6      | 15.9        | 14.5     | 9.6       | 8.8   | 3.8       | 4.1   |
| IVL    | BUY    | 43.25         | 52.00        | 20.2            | 7,332      | 169.1           | (0.9)    | 14.0        | 14.2     | 8.4       | 9.1   | 2.5       | 2.5   |
| PTG    | BUY    | 15.50         | 22.00        | 41.9            | 782        | (3.6)           | 11.8     | 14.5        | 12.9     | 7.0       | 6.6   | 3.5       | 3.9   |
| PTT    | BUY    | 39.25         | 50.00        | 27.4            | 33,850     | 182.0           | 5.2      | 10.4        | 9.9      | 4.6       | 4.2   | 4.8       | 5.0   |
| PTTEP  | BUY    | 124.00        | 140.00       | 12.9            | 14,863     | 68.1            | 15.8     | 13.7        | 11.8     | 4.3       | 3.8   | 4.4       | 5.1   |
| PTTGC  | BUY    | 65.00         | 86.00        | 32.3            | 8,849      | 219.4           | (1.2)    | 12.0        | 12.2     | 7.2       | 7.0   | 5.0       | 4.9   |
| SPRC   | SELL   | 10.90         | 7.20         | (33.9)          | 1,427      | na              | na       | na          | 141.5    | 25.4      | 18.8  | 0.0       | 0.3   |
| SUSCO  | BUY    | 3.30          | 4.80         | 45.5            | 110        | 3.0             | 23.4     | 15.5        | 12.5     | 6.5       | 5.3   | 3.3       | 4.0   |
| TOP    | HOLD   | 56.75         | 57.00        | 0.4             | 3,496      | na              | (11.7)   | 21.6        | 24.5     | 16.1      | 17.4  | 2.1       | 1.8   |
| SCC    | BUY    | 394.00        | 460.00       | 16.8            | 14,275     | 23.6            | (8.6)    | 10.1        | 11.1     | 8.3       | 9.1   | 4.5       | 4.7   |
| PRM    | BUY    | 6.65          | 14.10        | 112.0           | 502        | 18.7            | 17.9     | 8.7         | 7.4      | 6.6       | 5.8   | 5.2       | 6.1   |
| SCGP   | HOLD   | 64.00         | 55.00        | (14.1)          | 8,295      | 17.5            | 16.9     | 27.3        | 23.4     | 13.3      | 11.8  | 1.8       | 2.1   |
| UTP    | BUY    | 17.20         | 32.00        | 86.0            | 338        | 12.6            | 28.2     | 9.8         | 7.7      | 7.2       | 5.3   | 6.6       | 8.5   |

Sources: Company data, Thanachart estimates

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