

Energy Sector – Neutral

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News Update

COVID resurgence in Europe weighs on oil

- **Big product drawdowns in the US**
- **OPEC lowers oil demand growth forecast**
- **OPEC+ production well below target in October**
- **En Plus: Thailand LNG import at all-time high in October**

Oil prices wobble as concerns over COVID spread in Europe linger.

Big product drawdowns in the US

- US commercial crude oil inventory grew by lower-than-expected 1m bbls w-w. There were big decreases for product inventories with gasoline inventories declining by 1.6m bbls w-w while distillate inventories also decreased by 2.6m bbls.
- US crude oil production was unchanged w-w at 11.5mbd.
- US petroleum products supplied declined by 700kbd to 19.3mbd, led by declines in other oils and gasoline.
- Baker Hughes reported that US oil rig count grew by 4 rigs to 454 rigs as of 12 November.

OPEC lowers oil demand growth forecast

Both OPEC and the US EIA released their respective monthly forecasts last week. Below are the updates on oil demand/supply forecasts.

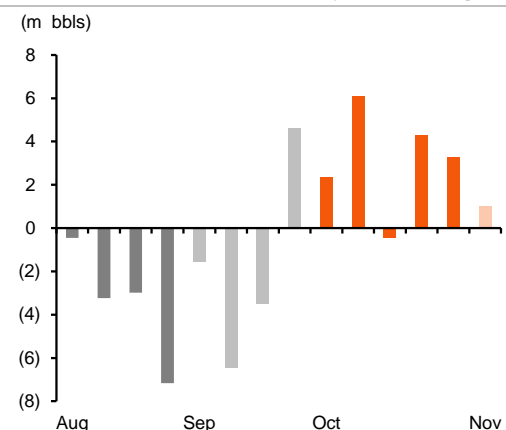
- **OPEC:** OPEC trims its oil demand growth forecast for 2021F by 0.16mbd; demand is now expected to grow by 5.7mbd this year. The downward revision was due to lower-than-expected demand in India and China. For 2022F, growth forecast is unchanged at 4.2mbd as strong demand in OECD Europe offsets softer growth in North America and LatAm. On the supply side, OPEC forecasts 0.7mbd growth from non-OPEC sources. In 2022F, non-OPEC supply growth is also kept unchanged at 3mbd driven by the US and Russia.
- **EIA:** The EIA raised its demand growth in 2021F by 60kbd to 5.11mbd. However, it revised down growth forecast for 2022F by 130kbd to 3.35mbd due to lower expected demand in developed countries. On the supply side, growth is revised upward by 110kbd in 2021F to 1.78mbd. Most of the upward revision comes from the OECD (ie, US). For 2022F, supply growth is expected to reach 5.45mbd, largely unchanged from previous forecast. Growths will come from OPEC+ (normalizing production), the US and other non-OPEC countries.

OPEC+ production well below target in October

According to Argus, OPEC+ added just 230kbd to its production in October, well below 400kbd target.

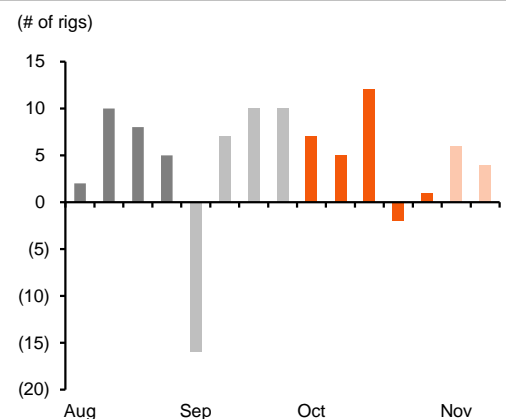
- **Production shortfall:** Total OPEC+ production reached 36.85mbd, up 230kbd from September level. With lower-than-expected October

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: OPEC+ estimated October output

(mbd)	Oct	M-M	vs quota
OPEC 10			
Saudi Arabia	9.78	0.11	(0.03)
Iraq	4.13	(0.01)	(0.02)
UAE	2.82	0.04	(0.01)
Kuwait	2.50	0.04	(0.01)
Nigeria	1.39	(0.11)	(0.24)
Angola	1.12	(0.02)	(0.24)
Others	1.48	(0.02)	(0.02)
OPEC 10	23.22	0.03	(0.57)
Non-OPEC 9			
Russia	9.91	0.10	0.10
Kazakhstan	1.59	0.17	0.07
Malaysia	0.34	(0.05)	(0.19)
Others	1.79	(0.02)	(0.10)
Non-OPEC 9	13.63	0.20	(0.12)
Total OPEC+	36.85	0.23	(0.69)

Source: Argus

production, accumulated output shortfall from the cartel now stands at 690kbd below its monthly target. The group has been struggling to meet its output target for many months, especially as several members grapple with technical issues.

- **Saudi Arabia, Russia, Kazakhstan lead:** Saudi Arabia and Russia accounted for the bulk of output growth. Each added 100kbd output m-m to 9.78mbd and 9.91mbd, respectively. Saudi Arabia's export, on the other hand, grew by 555kbd as the country reduced domestic consumption for electricity generation. Kazakhstan added 170kbd to its output in October which reached 1.59mbd. The country overproduced its quota by 70kbd which helped offset declines elsewhere.
- **Nigeria, Angola, Malaysia struggle:** Nigeria continued to grapple with production issues. Its October output actually fell by 110kbd m-m to stand at 1.39mbd—240kbd below its quota. Angola, likewise, saw its output decline by 20kbd to 1.12mbd, also 240kbd below its target. Among non-OPEC members, Malaysia is the biggest underperformer. The country produced 340kbd in October which is 190kbd below its quota.

En Plus: Thailand LNG import at all-time high in October

Thailand's import of LNG hit the highest level ever in October due to recovering demand and falling supply from Erawan gas field.

- **October import:** October LNG import reached 800k tons, up 55% m-m and 63% y-y. Import had averaged about 520k tons in January-September of this year. Many of the cargoes were bought in the spot market where prices jumped to as high as \$30-35/mmbtu.
- **Falling output at Erawan:** One of the key reasons Thailand needs to import so much LNG is the falling output at Erawan gas field. With concession set to expire in April 2022, the current operator (Chevron) has been winding down operation and investment, resulting in gas output. While production averaged 1,185 mmcf/d in 2020, it fell to 1,036 mmcf/d in January. The drop accelerated from June (1,040 mmcf/d) to 801 and 780 mmcf/d in July and August, respectively. By the end of this year, output could be as low as 500-600 mmcf/d. Dispute between Chevron and the Thai government over decommissioning costs has further complicated transfer of operatorship to PTTEP.
- **4Q21F outlook:** According to guidance, PTT plans to import 1.54m tons of LNG in 4Q21F. This comprises 1.3m tons from the long-term contracts and another 0.24m tons from the spot market. In addition, EGAT may need to procure another 0.2m tons to meet domestic demand. This means total import in 4Q21F could total 1.7-1.8m tons. As such, the record pace of import in October is unlikely to sustain in November/December.
- **Our view:** We think the cost of imported LNG will remain elevated in the next few months given a high mix of spot cargoes. However, we expect demand to soften towards year-end and into early next year as seasonally cooler weather reduces A/C demand. This will reduce the need for spot LNG. We also expect blended gas price to decline once new contracts for Erawan and Bongkot start from April 2022 as these are based on different formulas that offer lower well-head prices vs the existing contracts.

Ex 4: Prices And Spreads

(US\$/bbl)	4Q20	1Q21	2Q21	3Q21	QTD	Aug-21	Sep-21	Oct-21	MTD	Last
Oil prices										
Dated Brent	44.53	60.84	68.63	72.94	83.52	70.02	74.72	83.65	83.24	82.50
Dubai	43.87	59.70	66.43	71.31	81.38	68.91	72.36	81.22	81.71	81.96
WTI	42.74	58.07	66.10	70.52	81.43	67.71	71.54	81.22	81.87	80.79
Crack spreads over Dubai										
Gasoline	5.20	7.49	10.67	12.41	16.16	12.72	12.79	16.28	15.91	15.61
Jet fuel	3.79	4.25	5.36	5.80	10.60	5.16	7.82	10.71	10.37	7.89
Diesel	4.53	5.37	6.09	7.48	11.12	7.21	8.71	11.55	10.20	7.60
High-sulfur fuel oil	(1.02)	(4.28)	(6.80)	(5.42)	(6.45)	(5.62)	(2.49)	(5.14)	(9.21)	(11.50)
Refining margins										
FCC / Dubai	1.07	1.21	0.95	0.85	4.42	0.83	1.15	4.44	0.00	3.86
Hydrocracking / Dubai	0.52	0.71	0.77	1.11	5.01	0.92	1.69	5.19	4.63	3.85
FCC / Espo	(0.33)	1.47	1.55	1.24	4.82	1.22	1.54	4.83	4.78	4.26
FCC / Arab Light	1.45	0.56	(0.51)	(0.64)	2.93	(0.66)	(0.34)	2.95	2.90	2.38
Hydrocracking / Murban	1.17	2.29	2.81	3.41	7.30	3.22	3.98	7.48	6.92	6.15
(US\$/tonne)										
Aromatics spreads										
PX-naphtha	136	185	232	229	136	256	200	143	103	103
BZ-naphtha	119	191	367	350	254	333	341	260	223	223
Olefin spreads										
HDPE-naphtha	608	583	576	462	491	499	462	490	498	498
LDPE-naphtha	780	959	936	821	921	864	862	914	958	958
PP-naphtha	695	771	709	557	600	594	527	604	578	578
Ethylene-naphtha	463	416	406	304	343	279	355	350	308	308
Propylene-naphtha	499	461	436	294	248	323	281	252	228	228
Henry Hub Gas (US\$/mmbtu)	2.76	2.73	2.97	4.32	5.48	4.03	5.11	5.57	5.29	4.79
Coal (Newcastle) (US\$/tonne)	66.20	87.47	106.49	165.89	208.86	167.19	184.41	235.44	153.05	150.00

Source: Bloomberg

Ex 5: Valuation

	Rating	Current price	Target price	Upside/Downside	Market cap	Norm EPS growth	— Norm PE —	EV/EBITDA	— Yield —				
		(Bt)	(Bt)	(%)	(US\$ m)	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
						(%)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
BANPU	BUY	11.00	20.00	81.8	2,268	na	21.5	6.9	5.7	5.3	4.8	5.4	7.0
BCP	SELL	27.50	21.00	(23.6)	1,154	na	na	na	25.2	9.0	7.0	0.0	2.2
ESSO	SELL	7.75	6.90	(11.0)	817	na	na	na	142.0	36.8	20.8	0.0	0.4
IRPC	BUY	4.04	5.10	26.2	2,516	na	9.6	14.4	13.2	9.0	8.3	4.2	4.6
IVL	BUY	41.75	52.00	24.6	7,144	169.1	(0.9)	13.5	13.7	8.2	8.9	2.6	2.6
PTG	BUY	15.20	22.00	44.7	774	(3.6)	11.8	14.2	12.7	6.9	6.5	3.5	3.9
PTT	BUY	37.50	50.00	33.3	32,643	182.0	5.2	10.0	9.5	4.5	4.1	5.0	5.3
PTTEP	BUY	117.50	140.00	19.1	14,216	68.1	15.8	13.0	11.2	4.1	3.7	4.6	5.4
PTTGC	BUY	61.50	86.00	39.8	8,451	219.4	(1.2)	11.4	11.5	6.9	6.7	5.3	5.2
SPRC	SELL	10.20	7.20	(29.4)	1,348	na	na	na	132.4	23.8	17.6	0.0	0.3
SUSCO	BUY	3.26	4.80	47.2	109	3.0	23.4	15.3	12.4	6.4	5.2	3.4	4.0
TOP	HOLD	54.00	57.00	5.6	3,357	na	(11.7)	20.6	23.3	15.7	17.1	2.2	1.9

Sources: Company data, Thanachart estimates

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