Energy Sector – Neutral

News Update

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European lockdowns key downside risk to oil

- **Inventory declines across the board**
- **Global oil balance turning into a surplus**
- **Coordinated SPR releases threaten to bring down oil price**
- **En Plus: China's oil product export subdued in October**

Oil price wobbled last week due to threats of widening lockdowns in Europe.

Inventory declines across the board

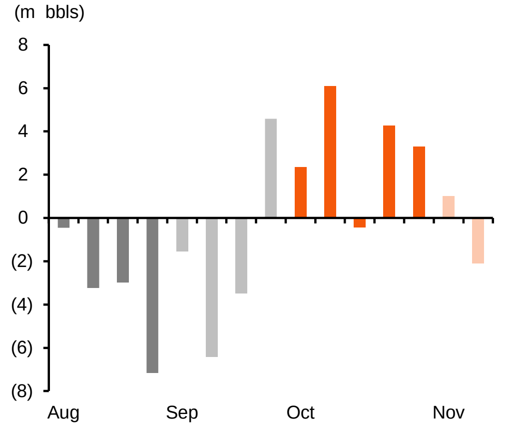
- US commercial crude oil inventory declined by 2.1m bbls w-w compared to market expectation of a 1.4m bbls inventory build. Product inventories also declined with gasoline stockpiles 0.7m bbls lower w-w and distillate inventories down by 0.8m bbls.
- US crude oil production was dipped 100kbd w-w to 11.4mbd.
- US petroleum products supplied was up over 2.3mbd to 21.6mbd. Almost all the growths were in "other oils" category.
- Baker Hughes reported that US oil rig count increased to 461 rigs, up 7 rigs w-w.

Global oil balance turning into a surplus

The IEA expects oil surplus in 4Q21F driven by supply growth.

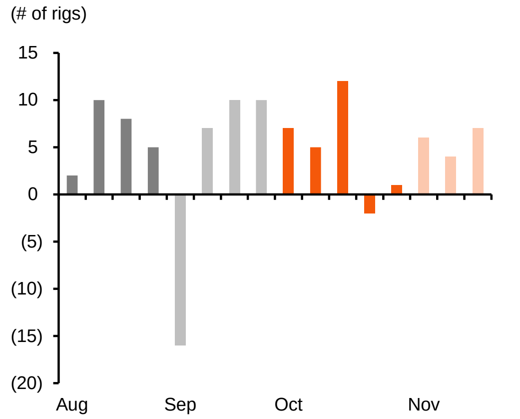
- **Demand growth outlook unchanged**: The International Energy Agency (IEA) has kept its oil demand growth forecasts unchanged at 5.5mbd in 2021F and 3.4mbd in 2022F. The IEA cites the new COVID wave in Europe and slowdown in industrial activity amid higher oil prices as key potential downside risks. These factors are offsetting positive impacts from re-openings in other parts of the world and as more countries open their borders to overseas visitors.
- **Supply growth accelerating**: The IEA expects oil supply growth to accelerate in the coming months. In November and December, supply is expected to grow by 1.5mbd each month, driven by higher US output (c.400kbd per month) and OPEC+ production increases. This follows an estimated supply growth of about 1.4mbd in October.
- **A surplus expected**: OECD total inventory declined by 51m bbls in September, putting inventory level at 2,762m bbls which is about 8% below its 5-year average. However, the IEA expects inventory build from October onwards given supply growth above.

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



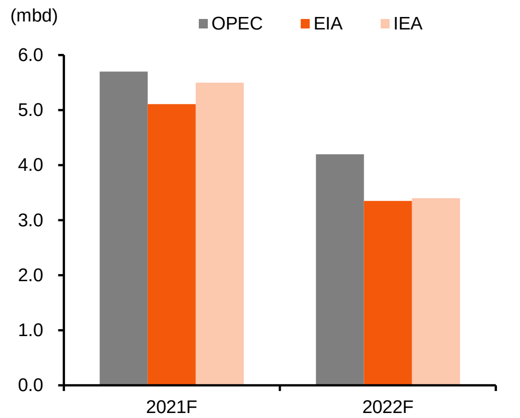
Source: EIA

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



Source: Baker Hughes

Ex 3: Global oil demand growth forecasts



Source: OPEC, EIA, IEA

Coordinated SPR releases threaten to bring down oil price

In a bid to tame gas price and inflation at home, the US President Joe Biden has called on big oil consuming countries to coordinate their strategic petroleum reserve (SPR) releases to temper the oil price rally after calls for more output went unanswered by OPEC+.

- **China, S. Korea, Japan and India**: President Biden has made a call to Chinese President Xi Jinping for the two major oil consumers to coordinate their efforts. Reuters also reported that other major oil importers, including Japan, South Korea and India, have been contacted on this effort. So far, China and Japan are reportedly prepared to follow the US lead by releasing their own petroleum reserves, according to Reuters report.
- **Likely limited impact, if any**: However, the amount of crude oil that may be released from these SPRs is likely to be limited. It may also have only short term impact given countries cannot continue to draw down their SPRs. The move is likely to be more symbolic and as a way to pressure OPEC+ for more production.

En Plus: China's oil product export subdued in October

China's export of oil product fell in October and could fall further in November and December.

- **October export down 7% m-m**: According to government data, China's export of gasoline, diesel and jet fuel totaled 2.4m tons, down 7.3% m-m and 47% y-y. For the first ten months, total exports of these oil products were down 6.8% y-y to 36.1 m tons.
- **Diesel export saw sharpest decreases**: By product category, diesel saw the sharpest decline with export down 29% m-m and 74% y-y to just 560k tons in October. Export of jet fuel, at 830k tons, was also down 7% m-m but this represented growth of 89% y-y. Export of gasoline, on the other hand, grew 10% m-m but was down 47% y-y at 1.01m tons.
- **Limited quota to cap Nov, Dec exports**: Based on export quotas given, China's oil product exports could total just 1.5m tons each month in November and December. These would represent a over 50% declines from the same period of last year. We believe the Chinese government wants to prioritize supply for domestic heating demand. This should help keep regional GRM elevated for at least the next few months.

Ex 4: Prices And Spreads

(US$/bbl)	4Q20	1Q21	2Q21	3Q21	QTD	Aug-21	Sep-21	Oct-21	MTD	Last
Oil prices										
Dated Brent	44.53	60.84	68.63	72.94	83.21	70.02	74.72	83.65	82.60	79.24
Dubai	43.87	59.70	66.43	71.31	81.23	68.91	72.36	81.22	81.25	81.00
WTI	42.74	58.07	66.10	70.52	81.10	67.71	71.54	81.22	80.92	76.10
Crack spreads over Dubai										
Gasoline	5.20	7.49	10.67	12.41	16.19	12.72	12.79	16.28	16.07	12.49
Jet fuel	3.79	4.25	5.36	5.80	10.16	5.16	7.82	10.71	9.39	3.42
Diesel	4.53	5.37	6.09	7.48	10.78	7.21	8.71	11.55	9.70	7.88
High-sulfur fuel oil	(1.02)	(4.28)	(6.80)	(5.42)	(6.88)	(5.62)	(2.49)	(5.14)	(9.31)	(10.30)
Refining margins										
FCC / Dubai	1.07	1.21	0.95	0.85	4.34	0.83	1.15	4.44	0.00	3.15
Hydrocracking / Dubai	0.52	0.71	0.77	1.11	4.88	0.92	1.69	5.19	4.45	3.44
FCC / Espo	(0.33)	1.47	1.55	1.24	4.74	1.22	1.54	4.83	4.60	3.54
FCC / Arab Light	1.45	0.56	(0.51)	(0.64)	2.85	(0.66)	(0.34)	2.95	2.72	1.66
Hydrocracking / Murban	1.17	2.29	2.81	3.41	7.18	3.22	3.98	7.48	6.75	5.74
(US$/tonne)										
Aromatics spreads										
PX-naphtha	136	185	232	229	132	256	200	143	105	107
BZ-naphtha	119	191	367	350	245	333	341	260	207	192
Olefin spreads										
HDPE-naphtha	608	583	576	462	490	499	462	490	490	482
LDPE-naphtha	780	959	936	821	924	864	862	914	950	942
PP-naphtha	695	771	709	557	591	594	527	604	560	542
Ethylene-naphtha	463	416	406	304	336	279	355	350	300	292
Propylene-naphtha	499	461	436	294	244	323	281	252	222	217
Henry Hub Gas (US$/mmbtu)	2.76	2.73	2.97	4.32	5.41	4.03	5.11	5.57	5.19	5.07
Coal (Newcastle) (US$/tonne)	66.20	87.47	106.49	165.89	200.83	167.19	184.41	235.44	152.36	152.50

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	10.60	22.00	*107.5*	2,190	na	(0.3)	4.5	4.5	4.0	3.7	7.2	7.5
BCP	SELL	26.00	21.00	*(19.2)*	1,093	na	na	na	23.8	8.7	6.8	0.0	2.3
ESSO	SELL	7.65	6.90	*(9.8)*	808	na	na	na	140.2	36.6	20.7	0.0	0.4
IRPC	BUY	3.98	5.10	*28.1*	2,483	na	9.6	14.2	13.0	8.9	8.2	4.2	4.6
IVL	BUY	40.75	52.00	*27.6*	6,985	169.1	(0.9)	13.2	13.3	8.1	8.8	2.6	2.6
PTG	BUY	15.50	22.00	*41.9*	790	(3.6)	11.8	14.5	12.9	7.0	6.6	3.5	3.9
PTT	BUY	37.75	50.00	*32.5*	32,919	182.0	5.2	10.0	9.5	4.5	4.1	5.0	5.2
PTTEP	BUY	119.00	140.00	*17.6*	14,423	68.1	15.8	13.1	11.3	4.1	3.7	4.6	5.3
PTTGC	BUY	60.75	86.00	*41.6*	8,362	219.4	(1.2)	11.2	11.4	6.8	6.6	5.3	5.3
SPRC	SELL	9.70	7.20	*(25.8)*	1,284	na	na	na	126.0	22.7	16.8	0.0	0.3
SUSCO	BUY	3.28	4.80	*46.3*	110	3.0	23.4	15.4	12.4	6.5	5.3	3.3	4.0
TOP	HOLD	52.00	57.00	*9.6*	3,239	na	(11.7)	19.8	22.4	15.4	16.8	2.3	2.0

Sources: Company data, Thanachart estimates

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