

Energy Sector – Neutral

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News Update

Oil prices tumbled on COVID fear

- **Product draws offset a surprised crude build**
- **SPR releases to add to 1Q22F oil glut**
- **Bullish outlook for US natural gas price**
- **En Plus: Coal price regains lost ground**

Oil prices tumbled more than 10% on Friday as reports of a new worrisome COVID-19 variant emerged.

Product draws offset a surprised crude build

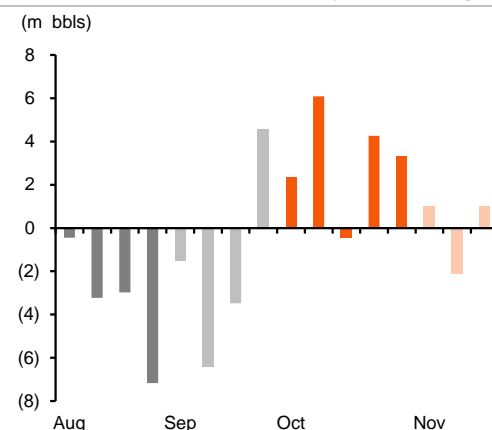
- US commercial crude oil inventory grew by 1m bbls w-w against expectation of a small draw. However, product inventories declined with gasoline inventory down by 0.6m bbls w-w and distillate inventories down by 2m bbls w-w.
- US crude oil production nudged up to 11.5mbd, +100kbd w-w.
- US petroleum products supplied (a proxy for demand) was largely unchanged w-w with gains in light-ends (gasoline, jet fuel, propane) offset by “other oils” category.
- Baker Hughes reported that US oil rig count grew by 6 rigs w-w to 467 rigs as of 26 November.

SPR releases to add to 1Q22F oil glut

The US and selected countries are coordinating releases of strategic petroleum reserves (SPR):

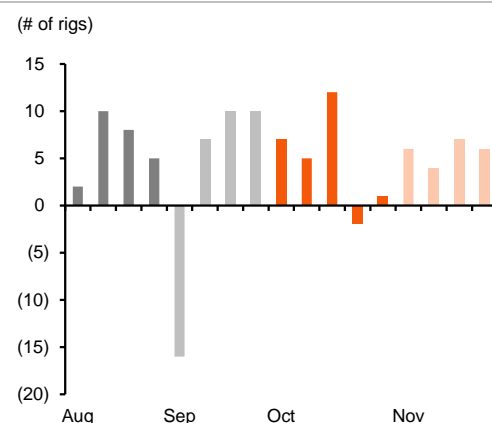
- **US leads with 50m bbls:** The US plans to release up to 50m bbls from its Strategic Petroleum Reserve beginning in in mid-December 2021. This includes 32m bbls exchange (that will needs to be returned in 2022-24F) and another 18m bbls outright sale of crude.
- **Asian allies could release a combined 16m bbls:** India said it would release up to 5m bbls of crude oil from its reserve. South Korea could also release up to 4% of its reserve, equivalent to about 3.8m bbls. Japan said it would also release crude oil from its reserve. While no exact volume has been mentioned, the Minister of Economy, Trade and Industry Koichi Hagiuda said the amount is expected to be “a couple of hundred thousand kiloliters”. This would equate to approx. 1.2-1.8m bbls. In all, the market estimates up to 16m bbls could be released from SPR in Asia.
- **Adding to 1Q22F oil glut:** OPEC’s Economic Commission Board (ECB) believes the additional supply from SPR releases could add to oil glut in 1Q22F. Assuming the releases happen in January-February 2022 (1.1mbd extra barrels), then surpluses are expected to be 2.3mbd in January and 3.7mbd in February.

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



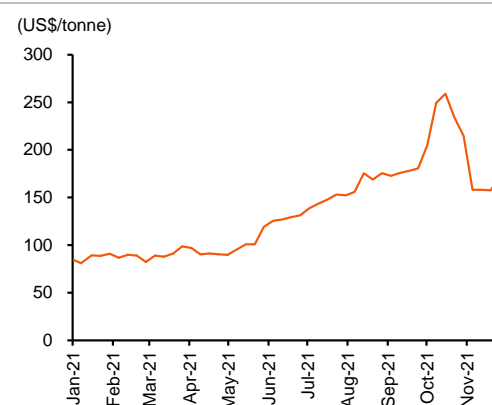
Source: EIA

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



Source: Baker Hughes

Ex 3: NEX coal price



Source: Bloomberg

- **OPEC+ meeting in focus:** OPEC+ members are set to meet on 1-2 December to decide production plan for January 2022. The group is set to increase output by 400kbd though reports of the new COVID variant and the collapse in oil price may force the group to rethink its plan.

Bullish outlook for US natural gas price

US natural gas price outperformed all other energy commodities last week, having rallied by almost 9% on Friday.

- **Withdrawal season begins:** According to the EIA data, US natural gas in storage declined by 21Bcf for the week ending 19 November. This was the first weekly withdrawal of the 2021-22 heating season. Storage stood at 3.62 Tcf, about 8% less than this time last year and 2% below its 5-year average level.
- **Strong LNG export demand:** Besides rising domestic demand for winter heating, export of LNG from the US remains strong. Cheniere Energy is producing first LNG cargo at its 5m tpa Sabien Pass Train 6. This will bring total capacity at the site to 30m tons and Cheniere's total US LNG export capacity to 45m tpa. The company has recently signed up several long-term deals with mostly Asian buyers. This will help the company make final investment decision (FID) on the 10mtpa Corpus Christi Stage 3 within 2022F.
- **Lower oil price is bullish for gas price:** We believe the main reason that led to natural gas 9% rally Friday was the expectation of lower crude oil production in the US which means lower associated gas output. Earlier in the week, production had reached 95 Bcf/d, the highest level since December 2019.

En Plus: Coal price regains lost ground

Coal prices staged a comeback as coal weather starts to bite.

- **NEX price back above \$170/ton:** After lingering in the \$150-160/ton range, the spot Newcastle Export Index (NEX) jumped to \$173/ton as of last Friday. This was likely driven by increased spot buying as talks between Glencore and Tohoku for term contract (October 2021-September 2022) have broken down.
- **South Korea:** Demand for coal-fired power could increase in South Korea this winter as winter restriction on the country's coal-fired generating fleet is less stringent than last year's. According to Argus' calculation, coal fired availability could be increased to 29GW, up 2.98GW compared to December of last year. This could equate to an extra 616k tons of coal demand for the month. South Korea's coal import grew 59k tons on the year to 7.1m tons in October.
- **China:** Despite boosting its domestic output, coal shortage persists with some regions resorting to Mao-era policy of handing out coal coupons. This quota system is to ensure equal distribution of the scarce resource whereby each family is allocated 2 tons of coal, enough to last them through winter and early spring.

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	82.74	70.02	74.72	83.65	81.74	71.55
Dubai	43.87	59.70	66.43	71.31	81.04	68.91	72.36	81.22	80.84	80.94
WTI	42.74	58.07	66.10	70.52	80.53	67.71	71.54	81.22	79.77	68.15
Crack spreads over Dubai										
Gasoline	5.20	7.49	10.67	12.41	16.12	12.72	12.79	16.28	15.95	6.13
Jet fuel	3.79	4.25	5.36	5.80	9.81	5.16	7.82	10.71	8.82	1.19
Diesel	4.53	5.37	6.09	7.48	10.24	7.21	8.71	11.55	8.79	2.86
High-sulfur fuel oil	(1.02)	(4.28)	(6.80)	(5.42)	(7.11)	(5.62)	(2.49)	(5.14)	(9.28)	(12.85)
Refining margins										
FCC / Dubai	1.07	1.21	0.95	0.85	4.22	0.83	1.15	4.44	0.00	3.15
Hydrocracking / Dubai	0.52	0.71	0.77	1.11	4.74	0.92	1.69	5.19	4.24	3.44
FCC / Espo	(0.33)	1.47	1.55	1.24	4.62	1.22	1.54	4.83	4.38	3.54
FCC / Arab Light	1.45	0.56	(0.51)	(0.64)	2.73	(0.66)	(0.34)	2.95	2.50	1.66
Hydrocracking / Murban	1.17	2.29	2.81	3.41	7.03	3.22	3.98	7.48	6.54	5.74
(US\$/tonne)										
Aromatics spreads										
PX-naphtha	136	185	232	229	132	256	200	143	114	133
BZ-naphtha	119	191	367	350	239	333	341	260	204	198
Olefin spreads										
HDPE-naphtha	608	583	576	462	494	499	462	490	501	523
LDPE-naphtha	780	959	936	821	932	864	862	914	961	983
PP-naphtha	695	771	709	557	589	594	527	604	564	573
Ethylene-naphtha	463	416	406	304	333	279	355	350	304	313
Propylene-naphtha	499	461	436	294	242	323	281	252	226	233
Henry Hub Gas (US\$/mmbtu)	2.76	2.73	2.97	4.32	5.38	4.03	5.11	5.57	5.16	5.45
Coal (Newcastle) (US\$/tonne)	66.20	87.47	106.49	165.89	196.43	167.19	184.41	235.44	153.31	157.50

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	22.00	100.0	2,215	na	(0.3)	4.7	4.7	4.1	3.7	6.9	7.2
BCP	SELL	25.00	21.00	(16.0)	1,025	na	na	na	22.9	8.5	6.6	0.0	2.4
ESSO	SELL	7.45	6.90	(7.4)	767	na	na	na	136.5	36.1	20.4	0.0	0.4
IRPC	BUY	3.94	5.10	29.4	2,397	na	9.6	14.1	12.8	8.9	8.1	4.3	4.7
IVL	BUY	40.75	52.00	27.6	6,810	169.1	(0.9)	13.2	13.3	8.1	8.8	2.6	2.6
PTG	BUY	14.60	22.00	50.7	726	(3.6)	11.8	13.6	12.2	6.8	6.4	3.7	4.1
PTT	BUY	37.00	50.00	35.1	31,458	182.0	5.2	9.8	9.4	4.4	4.0	5.1	5.3
PTTEP	BUY	116.50	140.00	20.2	13,767	68.1	15.8	12.9	11.1	4.0	3.6	4.7	5.4
PTTGC	BUY	58.25	86.00	47.6	7,818	219.4	(1.2)	10.8	10.9	6.6	6.4	5.6	5.5
SPRC	SELL	9.55	7.20	(24.6)	1,233	na	na	na	124.0	22.4	16.5	0.0	0.3
SUSCO	BUY	3.22	4.80	49.1	105	3.0	23.4	15.1	12.2	6.4	5.2	3.4	4.1
TOP	HOLD	49.75	57.00	14.6	3,021	na	(11.7)	18.9	21.4	15.1	16.6	2.4	2.1

Sources: Company data, Thanachart estimates

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