Energy Sector – Neutral

News Update

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Stable oil price belies demand weakness

- **Small crude draws, big product builds**
- **EIA lowered oil demand forecasts**
- **OPEC+ boosted Nov output by 500kbd**
- **En Plus: Aramco raised Arab Light OSP for January**

Oil price remained rather stable last week despite bearish inventory data and potential downside risks to demand due to the spread of Omicron variant.

Small crude draws, big product builds

- US commercial crude oil inventory declined by just 0.2m bbls w-w, significantly lower than consensus expectation of a 1.7m bbls draw. Data were even more bearish on the product side with gasoline inventories increasing by 3.9m bbls and distillate inventories up by 2.7m bbls.
- US crude oil production grew by another 100kbd w-w to 11.7mbd.
- US petroleum products supplied (a proxy for demand) declined almost 400kbd w-w to 19.8mbd. This was driven mostly by lower demand for jet fuel and distillates.
- Baker Hughes reported that US oil rig count increased by 4 rigs to 471 rigs w-w after a pause in growth last week.

EIA lowered oil demand forecasts

The US Energy Information Administration lowered its oil demand forecasts for 2021-22F, citing uncertainty over Omicron variant.

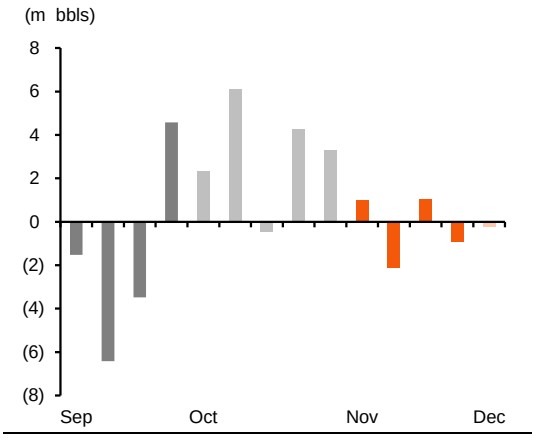
- **Demand forecasts**: The EIA cut its global oil demand forecast to 96.91mbd in 2021F, down 620kbd from previous forecast. For 2022F, demand has been cut by 420kbd to 100.46mbd. The agency cites potential demand weakness in 4Q21-1Q22F due to the spread of Omicron variant as the primary driver.
- **Supply forecasts**: On the supply side, the EIA also lowered its forecasts though by a smaller degree. For 2021F, total supply is expected to reach 95.63mbd, down 340mbd vs previous forecast. For 2022F, supply forecast now stands at 100.93mbd, down 490mbd vs previous forecast.

OPEC+ boosted Nov output by 500kbd

OPEC+ group has raised its output by 500kbd m-m in November, filling in the gap that has been widened in the previous few months.

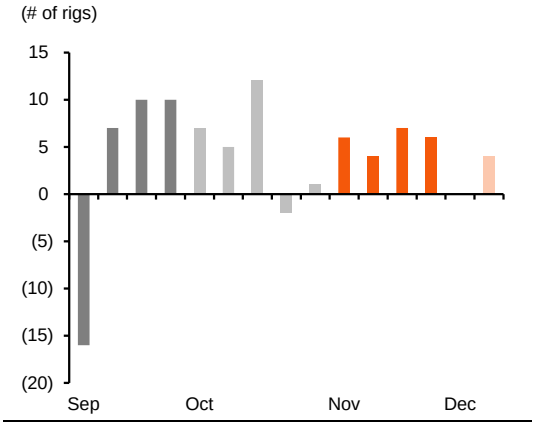
- **OPEC**: The 13 OPEC countries raised their output by 300kbd to 27.85mbd in November, according to S&P Global Platts survey. Saudi Arabia saw the biggest gain among OPEC members with output increasing by 100kbd m-m to 9.89mbd. Other major contributors to growth were Iraq (+80kbd) and Nigeria (+70kbd).

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: EIA oil demand/supply forecasts

(mbd)	Demand		Supply	
	2021F	2022F	2021F	2022F
New	96.91	100.46	95.63	100.93
Old	97.53	100.88	95.97	101.42
Change	*(0.62)*	*(0.42)*	*(0.34)*	*(0.49)*

Source: EIA

- **Non-OPEC**: The non-OPEC countries bound by the agreement collectively raised their output by 200kbd m-m. Russia, the biggest non-OPEC member, raised its output by just 40kbd though it still overproduced by about 90kbd.
- **Compliance remains high**: Despite the strong m-m output growth, OPEC+ still underproduces their own quotas by 520kbd. This equates to 112.31% compliance rate.

En Plus: Aramco raised Arab Light OSP for January

Saudi Aramco raised the Official Selling Price (OSP) for its key crude grades despite demand uncertainty amid the outbreak of Omicron variant:

- **Arab Light OSP at $3.3/bbl**: Arab Light, which is Aramco's biggest crude grade, saw its January OSP for Asian buyers raised to $3.3/bbl over Dubai/Oman benchmark. This represents an increase of $0.6/bbl over OSP for December loading and pushes the premium to its highest level in nearly 2 years.
- **Light vs Heavy**: Other crude grades also saw their OSPs raised m-m. However, the heavier grades saw a larger increase with Arab Heavy OSP up $0.8/bbl m-m to $1.8/bbl over Dubai/Oman. By contrast, Arab Extra Light saw its ASP increased by $0.5/bbl to $4.5/bbl over Dubai/Oman.
- **Other regions**: Arab Light OSP for Northwestern Europe has been cut by $1/bbl to *a discount* of $1.3/bbl vs ICE Brent. This likely reflects potential demand weakness in the region. On the other hand, OSP for the US was raised to $2.15/bbl premium over Argus Sour Crude Index (ASCI), up $0.4/bbl m-m.
- **Read-throughs**: High OSP for Arab Light is negative for Thai refiners which rely heavily on the grade and other similar crudes whose prices will likely be adjusted upwards as well. The higher crude premiums will partially offset improvement in crack spreads.

Ex 4: Prices And Spreads

(US$/bbl)	4Q20	1Q21	2Q21	3Q21	QTD	Sep-21	Oct-21	Nov-21	MTD	Last
Oil prices										
Dated Brent	44.53	60.84	68.63	72.94	80.65	74.72	83.65	80.75	72.54	74.74
Dubai	43.87	59.70	66.43	71.31	79.07	72.36	81.22	79.78	71.57	72.77
WTI	42.74	58.07	66.10	70.52	78.25	71.54	81.22	78.65	69.36	71.67
Crack spreads over Dubai										
Gasoline	5.20	7.49	10.67	12.41	15.57	12.79	16.28	16.31	11.72	15.05
Jet fuel	3.79	4.25	5.36	5.80	10.27	7.82	10.71	9.17	9.35	10.87
Diesel	4.53	5.37	6.09	7.48	10.14	8.71	11.55	8.89	9.68	10.74
High-sulfur fuel oil	(1.02)	(4.28)	(6.80)	(5.42)	(7.05)	(2.49)	(5.14)	(8.88)	(7.27)	(7.26)
Refining margins										
FCC / Dubai	1.07	1.21	0.95	0.85	0.44	1.15	4.44	0.00	0.44	0.44
Hydrocracking / Dubai	0.52	0.71	0.77	1.11	0.60	1.69	5.19	0.60	0.60	0.60
FCC / Espo	(0.33)	1.47	1.55	1.24	0.84	1.54	4.83	0.84	0.84	0.84
FCC / Arab Light	1.45	0.56	(0.51)	(0.64)	(1.05)	(0.34)	2.95	(1.05)	(1.05)	(1.05)
Hydrocracking / Murban	1.17	2.29	2.81	3.41	2.90	3.98	7.48	2.90	2.90	2.90
(US$/tonne)										
Aromatics spreads										
PX-naphtha	136	185	232	229	130	200	143	112	132	132
BZ-naphtha	119	191	367	350	229	341	260	193	217	217
Olefin spreads										
HDPE-naphtha	608	583	576	462	509	462	490	510	597	597
LDPE-naphtha	780	959	936	821	944	862	914	962	1,017	1,017
PP-naphtha	695	771	709	557	592	527	604	565	637	637
Ethylene-naphtha	463	416	406	304	335	355	350	307	367	367
Propylene-naphtha	499	461	436	294	248	281	252	228	302	302
Henry Hub Gas (US$/mmbtu)	2.76	2.73	2.97	4.32	5.12	5.11	5.57	5.12	3.92	3.93
Coal (Newcastle) (US$/tonne)	66.20	87.47	106.49	165.89	188.55	184.41	235.44	153.53	157.39	163.75

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	10.70	22.00	*105.6*	2,163	na	(0.3)	4.6	4.6	4.1	3.7	7.1	7.4
BCP	SELL	25.00	21.00	*(16.0)*	1,028	na	na	na	22.9	8.5	6.6	0.0	2.4
ESSO	SELL	7.50	6.90	*(8.0)*	775	na	na	na	137.4	36.3	20.5	0.0	0.4
IRPC	BUY	3.84	5.10	*32.8*	2,344	na	9.6	13.7	12.5	8.8	8.0	4.4	4.8
IVL	BUY	40.00	52.00	*30.0*	6,710	169.1	(0.9)	13.0	13.1	8.0	8.7	2.7	2.7
PTG	BUY	15.00	22.00	*46.7*	748	(3.6)	11.8	14.0	12.5	6.9	6.5	3.6	4.0
PTT	BUY	37.50	50.00	*33.3*	32,000	182.0	5.2	10.0	9.5	4.5	4.1	5.0	5.3
PTTEP	BUY	118.50	140.00	*18.1*	14,055	68.1	15.8	13.1	11.3	4.1	3.7	4.6	5.3
PTTGC	BUY	58.25	86.00	*47.6*	7,847	219.4	(1.2)	10.8	10.9	6.6	6.4	5.6	5.5
SPRC	HOLD	9.50	8.80	*(7.4)*	1,231	na	na	na	46.0	32.5	12.6	0.0	0.8
SUSCO	BUY	3.26	4.80	*47.2*	107	3.0	23.4	15.3	12.4	6.4	5.2	3.4	4.0
TOP	HOLD	48.25	57.00	*18.1*	2,941	na	(11.7)	18.4	20.8	14.9	16.4	2.5	2.2

Sources: Company data, Thanachart estimates

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