

Energy Sector – Neutral

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News Update

Oil price stable despite Omicron concern

- **Big inventory draws across the board**
- **OPEC+ likely to continue its output hike**
- **A make-or-break moment for Iran’s nuclear deal**
- **En Plus: Indonesia bans coal export in January**

Oil price has been stable despite record-high number of COVID cases worldwide.

Big inventory draws across the board

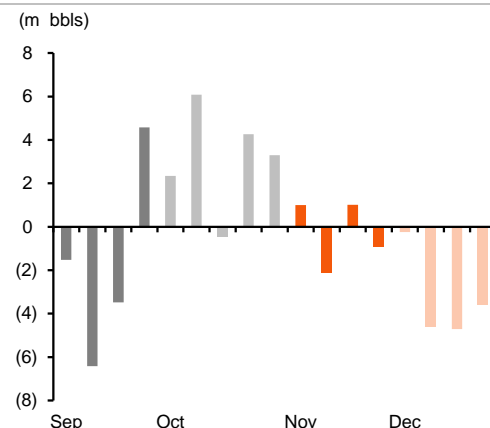
- US commercial crude oil inventory declined by 3.58m bbls, slightly greater than market expectation of a 3.2m bbls draw. Product inventories also saw sizable draws with gasoline and distillate inventories declining by 1.5m and 1.7m bbls, respectively.
- US crude oil production was up a strong 200kbd w-w to 11.8mbd.
- US petroleum products supplied (a proxy for demand) grew 1.8mbd to 22.2mbd, driven mainly by higher demand for gasoline and propane/propylene.
- Baker Hughes reported that US oil rig count was unchanged w-w at 480 rigs as of 31 December 2021.

OPEC+ likely to continue its output hike

OPEC+ is widely expected to continue its output hike of 400kbd for February when the delegates next convene on January 4th.

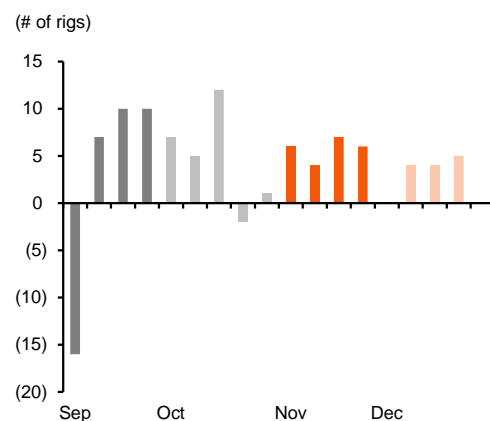
- **Resilient demand, White House pressure:** According to reports by S&P Global Platts and Bloomberg, delegates say they expect the group to go ahead with its planned 400kbd output hike for February. This is underpinned by resilient demand in the face of Omicron outbreak globally. OPEC+ ministers may also be under pressure from the US for more oil as President Biden tries to stem the rise in pump prices at home.
- **Widening surplus:** A continued output hike by OPEC+ is likely to add to the surplus in the first quarter. This is driven by seasonally weak demand, higher output from non-OPEC+ countries as well as releases of strategic petroleum reserves by the US and other countries. Surplus is likely to reach as much as 2.6mbd in March 2022.

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



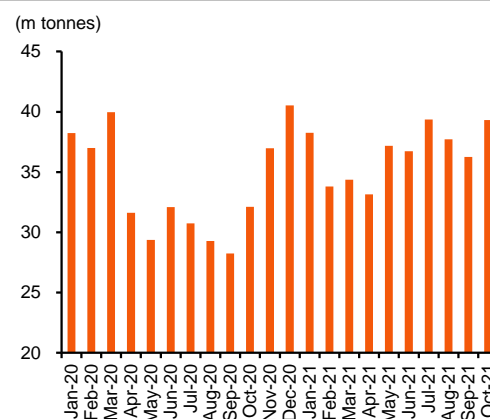
Source: EIA

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



Source: Baker Hughes

Ex 3: Indonesia’s monthly coal export



Source: Bloomberg

A make-or-break moment for Iran's nuclear deal

Talks are continuing between Iran and the US on revamping a nuclear deal that could allow Tehran to re-enter the oil export market.

- **Slow progress:** US State Department's spokesman Ned Price said that Iran is "dragging its feet" in the talks as the country tries to accelerate its nuclear development. This is despite Iran's pledge not to exceed 60% enrichment of Uranium. One key sticking point is Iran's insistence that it be able to freely export oil without any constraint as part of the sanctions relief.
- **Limited window of opportunities:** US officials are keen to set a time frame for the negotiation which Iranian officials have refused to accept. The key risk is that without any progress, the US may resort to military actions against Iranian nuclear infrastructure. Israel has also suggested it could launch a military strike against Iranian targets.
- **Potential impact on oil market:** A return of Iran to international oil market could see the country pump an additional 1.3mbd which could add to further surplus. On the other hand, a failed negotiation and any military action by the US against Iran could send oil price sharply higher.

En Plus: Indonesia bans coal export in January

The Indonesian government has announced a ban on coal export in January to ensure sufficient supply at home.

- **A temporary ban:** The energy ministry's statement said the coal export ban is to ensure sufficient domestic supply. Without it, almost 20 power plants with 10.9GW of installed capacity could face fuel shortage. The ban is expected to be temporary and would be reviewed on January 5th.
- **Bullish for global coal prices:** Indonesia is the world's biggest coal exporter, supplying about 400m tpa to the international market. The ban, even if short-term, could send global coal prices sharply higher as the seaborne coal market is already very tight and there are few countries that could step up to meet the shortfall. We believe Australian and Russian coal producers stand to benefit the most.
- **Likely limited impact on BANPU:** Coal is one of Indonesia's major export and as such a prolonged ban on coal export is likely to hurt its economy. As such, we expect this ban to be short-lived. Moreover, BANPU's ITMG (ITMG IJ, not rated) subsidiary produces mostly high CV coal which is not suitable for Indonesian power plants. As such, we think this temporary export ban will not see the company having to divert supplies to domestic market. Rather, it likely means the company will have to delay its export to later period. Higher coal price, in the mean time, is likely to make up for any small volume shortfall.

Ex 4: Prices And Spreads

(US\$/bbl)	1Q21	2Q21	3Q21	4Q21	QTD	Oct-21	Nov-21	Dec-21	MTD	Last
Oil prices										
Dated Brent	60.84	68.63	72.94	78.40	78.40	83.65	80.75	74.27	78.40	78.40
Dubai	59.70	66.43	71.31	76.02	76.02	81.22	79.78	72.69	76.02	76.02
WTI	58.07	66.10	70.52	76.08	76.08	81.22	78.65	71.69	76.08	76.08
Crack spreads over Dubai										
Gasoline	7.49	10.67	12.41	15.59	15.59	16.28	16.31	14.49	15.59	15.59
Jet fuel	4.25	5.36	5.80	11.02	11.02	10.71	9.17	10.37	11.02	11.02
Diesel	5.37	6.09	7.48	10.12	10.12	11.55	8.89	10.71	10.12	10.12
High-sulfur fuel oil	(4.28)	(6.80)	(5.42)	(5.83)	(5.83)	(5.14)	(8.88)	(6.45)	(5.83)	(5.83)
Refining margins										
FCC / Dubai	1.21	0.95	0.85	5.81	5.81	4.44	4.21	5.78	5.81	5.81
Hydrocracking / Dubai	0.71	0.77	1.11	6.11	6.11	5.19	4.50	6.19	6.11	6.11
FCC / Espo	1.47	1.55	1.24	6.20	6.20	4.83	4.60	6.18	6.20	6.20
FCC / Arab Light	0.56	(0.51)	(0.64)	4.32	4.32	2.95	2.72	4.30	4.32	4.32
Hydrocracking / Murban	2.29	2.81	3.41	8.41	8.41	7.48	6.80	8.49	8.41	8.41
(US\$/tonne)										
Aromatics spreads										
PX-naphtha	185	232	229	127	127	143	112	119	122	132
BZ-naphtha	191	367	350	231	231	260	193	223	231	262
Olefin spreads										
HDPE-naphtha	583	576	462	505	505	490	510	536	517	442
LDPE-naphtha	959	936	821	920	920	914	962	918	893	792
PP-naphtha	771	709	557	562	562	604	565	538	519	442
Ethylene-naphtha	416	406	304	321	321	350	307	319	303	237
Propylene-naphtha	461	436	294	242	242	252	228	254	244	202
Henry Hub Gas (US\$/mmbtu)	2.73	2.97	4.32	3.72	3.72	5.57	5.12	3.86	3.72	3.72
Coal (Newcastle) (US\$/tonne)	87.47	106.49	165.89	169.60	169.60	235.44	153.53	164.42	169.60	169.60

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	10.60	22.00	107.5	2,147	na	(0.3)	4.5	4.5	4.0	3.7	7.2	7.5
BCP	SELL	25.25	21.00	(16.8)	1,041	na	na	na	23.1	8.6	6.7	0.0	2.4
ESSO	SELL	7.35	6.90	(6.1)	761	na	na	na	134.7	35.9	20.3	0.0	0.4
IRPC	BUY	3.84	5.10	32.8	2,349	na	9.6	13.7	12.5	8.8	8.0	4.4	4.8
IVL	BUY	43.25	52.00	20.2	7,269	169.1	(0.9)	14.0	14.2	8.4	9.1	2.5	2.5
PTG	BUY	15.10	22.00	45.7	755	(3.6)	11.8	14.1	12.6	6.9	6.5	3.5	4.0
PTT	BUY	38.00	50.00	31.6	32,492	182.0	5.2	10.1	9.6	4.5	4.1	4.9	5.2
PTTEP	BUY	118.00	140.00	18.6	14,024	68.1	15.8	13.0	11.2	4.1	3.7	4.6	5.3
PTTGC	BUY	58.75	92.00	56.6	7,930	355.8	1.8	7.6	7.5	7.7	6.2	6.6	6.7
SPRC	HOLD	9.80	8.80	(10.2)	1,272	na	na	na	47.4	33.3	12.9	0.0	0.8
SUSCO	BUY	3.24	4.80	48.1	107	3.0	23.4	15.2	12.3	6.4	5.2	3.4	4.1
TOP	HOLD	49.50	57.00	15.2	3,023	na	(11.7)	18.8	21.3	15.1	16.5	2.4	2.1

Sources: Company data, Thanachart estimates

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