

Energy Sector – Neutral

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News Update

Rising geopolitical tension supports oil price

- Large US distillate inventory draw
- Russia Ukraine geopolitical tension continues
- Rising GRM due to supply disruption
- China diesel output rising

Oil prices continue to trend high amid rising tension between Russia and Ukraine, widespread concern about limited spare capacity and demand optimism based on a view that the Omicron wave is waning and is unlikely to hold demand growth back.

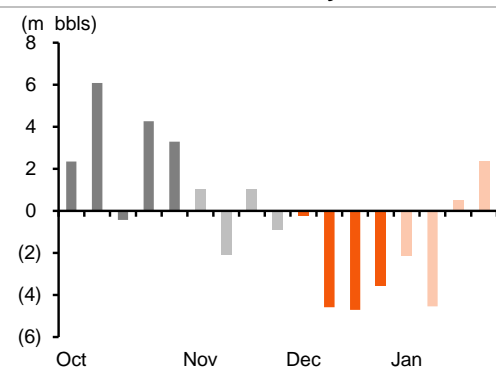
Large US distillate inventory draw

- US commercial crude oil inventory up by 2.3m bbls w-w, against the -0.728m bbls draw expected by the market. However, movement in the oil products are mixed. Gasoline inventories also increased by 1.3m bbls while distillate inventories saw a large draw, dropping by 2.8m bbls w-w, sending inventories to 2014 lows.
- US petroleum products supplied (a proxy for demand) grew by 0.5mbd w-w to 22.4mbd. This was driven by large increases in distillate and “other oil” product categories.
- US crude oil production was dropped marginally w-w by 0.1mbd to 11.6mbd. Note that the production declined marginally by 0.2mbd YTD despite bullish oil momentum.

Russia Ukraine geopolitical tension continues

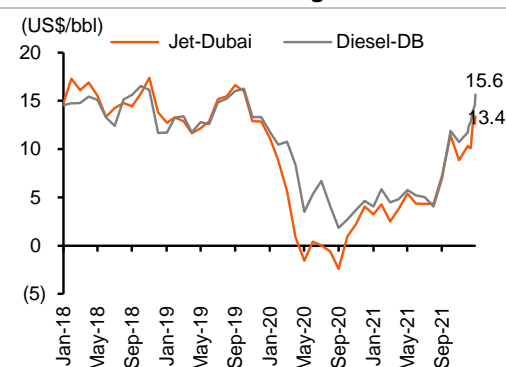
- The tension intensifies as US has rejected Russia's demand to ban Ukraine from Nato and ward Russia might invade its neighbor. Secretary of State Antony Blinken was giving Russia a formal response to its demands to resolve the Ukraine crisis. For more details, please see report: Siam Senses - Weathering the storm, dated 28 January 2022.
- As mentioned in our previous weekly report, half of Russia's crude oil exports, or about 6.5mbd go to Europe which represents about a quarter of all European oil and other product imports.
- This will also put a pressure on gas market as Russia is the key gas supplier to Europe. The EU consumed 394 billion cubic meters of natural gas in 2020 and imports accounted for about 83% of that total. Russia is the dominant source of pipeline imports with a share of around 43% in 2020. The continent's gas storage levels have sunk to historic lows since last year as the result of an extended period of winter cold in 2020-21, lower LNG imports and limited incremental pipeline flows from Gazprom.

Ex 1: US Crude Oil Inventory



Source: EIA

Ex 2: Middle Distillate Margins



Source: Company data

Rising GRM on supply disruption

As of 27 Jan 2022, we estimate Singapore complex refinery margin of USD7/bbl, up from USD6/bbl last week. This is driven by both higher gasoline and middle distillate margins. Diesel crack spread is notably strong at USD15.6/bbl which is higher than pre-COVID 5-year average of USD13/bbl.

- **Vietnam refinery shutdown.** Vietnam's 200,000 bd Nghi Son refinery has slashed its operating rate to 80% from around 110% previously due to financial difficulties. This is Vietnam largest refinery, controlling 35% of country demand. We expect this to only be temporary as Nghi Son's shareholders have already reached an agreement to arrange short-term funds for the refinery to stay operational.
- **Singapore middle distillate inventory rose.** Singapore middle distillate stocks rose 18.9% to 8.53m bbls over the Jan. 13-19 period. The rebound in stocks pushed middle distillate inventory levels to a nine-week high. The rise in inventory levels came amid robust gasoil cracks, which may have worked to incentivize refiners to maximize production of gasoil.
- **China diesel output rise.** China's gasoil output from refineries rose 2.5% to hit a fresh record high of 16.86mt in December from the previous record in November despite a fall in crude throughput, data from the National Bureau of Statistics showed on Jan. 21.

Ex 3: 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	85.20	83.65	80.75	74.27	85.20	90.43
Dubai	59.70	66.43	71.31	76.02	82.82	81.22	79.78	72.69	82.82	86.79
WTI	58.07	66.10	70.52	76.08	82.71	81.22	78.65	71.69	82.71	86.82
Crack spreads over Dubai										
Gasoline	7.49	10.67	12.41	15.59	14.75	16.28	16.31	14.49	14.75	16.15
Jet fuel	4.25	5.36	5.80	11.02	12.24	10.71	9.17	10.37	12.24	14.75
Diesel	5.37	6.09	7.48	10.12	11.97	11.55	8.89	10.71	11.97	15.95
High-sulfur fuel oil	(4.28)	(6.80)	(5.42)	(5.83)	(7.23)	(5.14)	(8.88)	(6.45)	(7.23)	(6.82)
Refining margins										
FCC / Dubai	1.21	0.95	0.85	5.81	5.96	4.44	4.21	5.78	5.96	6.70
Hydrocracking / Dubai	0.71	0.77	1.11	6.11	6.80	5.19	4.50	6.19	6.80	7.68
FCC / Espo	1.47	1.55	1.24	6.20	6.35	4.83	4.60	6.18	6.35	7.09
FCC / Arab Light	0.56	(0.51)	(0.64)	4.32	4.47	2.95	2.72	4.30	4.47	5.21
Hydrocracking / Murban	2.29	2.81	3.41	8.41	9.10	7.48	6.80	8.49	9.10	9.97
(US\$/tonne)										
Aromatics spreads										
PX-naphtha	185	232	229	127	170	143	112	119	170	163
BZ-naphtha	191	367	350	231	245	260	193	223	245	218
Olefin spreads										
HDPE-naphtha	583	576	462	505	431	490	510	536	431	438
LDPE-naphtha	959	936	821	920	778	914	962	918	778	778
PP-naphtha	771	709	557	562	455	604	565	538	455	468
Ethylene-naphtha	416	406	304	321	151	350	307	319	151	113
Propylene-naphtha	461	436	294	242	241	252	228	254	241	253
Henry Hub Gas (US\$/mmbtu)	2.73	2.97	4.32	3.72	4.22	5.57	5.12	3.86	4.22	4.64
Coal (Newcastle) (US\$/tonne)	87.47	106.49	165.89	169.60	208.35	235.44	153.53	164.42	208.35	227.65

Source: Bloomberg

Ex 4: Valuation

	Rating	Current price (Bt)	Target price (Bt)	Upside/ (Downside) (%)	Market cap (US\$ m)	Norm EPS growth		— Norm PE —		EV/EBITDA		— Yield —	
						2021F (%)	2022F (%)	2021F (x)	2022F (x)	2021F (x)	2022F (x)	2021F (%)	2022F (%)
BANPU	BUY	10.70	22.00	105.6	2,169	na	(0.3)	4.6	4.6	4.1	3.7	7.1	7.4
BCP	SELL	27.75	21.00	(24.3)	1,145	na	na	na	25.4	9.0	7.0	0.0	2.2
ESSO	SELL	7.60	6.90	(9.2)	788	na	na	na	139.3	36.5	20.6	0.0	0.4
IRPC	BUY	3.78	5.10	34.9	2,314	na	9.6	13.5	12.3	8.7	8.0	4.4	4.9
IVL	BUY	47.50	52.00	9.5	7,991	169.1	(0.9)	15.4	15.5	8.9	9.5	2.3	2.3
PTG	BUY	14.00	22.00	57.1	701	(3.6)	11.8	13.1	11.7	6.6	6.3	3.8	4.3
PTT	BUY	38.75	50.00	29.0	33,164	182.0	5.2	10.3	9.8	4.6	4.2	4.8	5.1
PTTEP	BUY	128.00	140.00	9.4	15,226	106.3	(5.6)	11.5	12.2	3.5	3.9	3.9	4.9
PTTGC	BUY	56.75	92.00	62.1	7,667	355.8	1.8	7.4	7.2	7.5	6.0	6.8	6.9
SPRC	HOLD	9.70	8.80	(9.3)	1,260	na	na	na	47.0	33.1	12.8	0.0	0.8
SUSCO	BUY	3.40	4.80	41.2	112	3.0	23.4	15.9	12.9	6.6	5.4	3.2	3.9
TOP	HOLD	52.50	57.00	8.6	3,209	na	(11.7)	20.0	22.6	15.5	16.9	2.3	2.0

Sources: Company data, Thanachart estimates

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