

## Energy Sector – Overweight

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## News Update

## Positive sentiment for refiners

- Large US middle distillate inventory draw
- China plan to halt gasoline and diesel export in April
- Diesel spread reached unprecedented level
- Cabinet announced Diesel excise tax waive for power plants

Several positive news supporting refiners last week which includes i) China halt diesel and gasoline export which triggers a surge in refinery margin especially diesel spread, ii) Thai cabinet also announced diesel and gasoline excise tax waive for power producers, and iii) large middle distillate inventory draw in the US.

## Large US oil middle distillate inventory draw

- US commercial crude oil inventory down by 1.9m bbls w-w, against 0.66m bbls draw expected by the market and 2.6m bbls draw last week. Gasoline inventories decreased by another 1.4m bbls while distillate inventories declined by 5.2m bbls w-w. The magnitude is larger than 0.5m bbls draw last week.
- US petroleum products supplied (a proxy for demand) rose by 0.4mbd this week after declined by 0.6m b/d last week. The improvement was led by higher gasoline demand and other products.
- US oil rig count decline by 3 rigs w-w to 519 rigs.
- US crude oil production remain flat w-w at 11.6m b/d.

## China plan to halt gasoline and diesel export in April

Diesel crack spread reached record level of US\$48.5/bbl on 9 March following news on China aims to halt refined oil export. The spread has dropped to US\$35/bbl the following day, but still very high relative to history.

- NDRC concerns on crude supply following Russia's Ukraine invasion.** China's National Development and Reform Commission (NDRC) has asked China's state refiners to consider pausing exports of gasoline and diesel in April as the Ukraine war sparks supply concerns. Oil firms can appeal to the commission to restore exports when the market demand and supply balance change.
- China domestic market is also feeling cost pressure.** Crude oil price above US\$130/bbl would potentially hurt China's refinery margin as the price ceiling mechanism will be triggered. Retail fuel price in China is regulated and are set twice a month by NDRC. Therefore, Chinese refiners could reduce run rate to limit the loss.

## Ex 1: US Weekly data

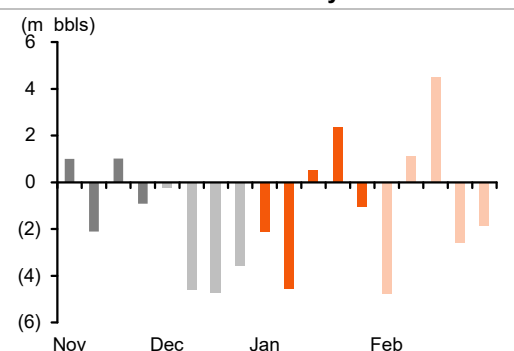
('000 bbls)	Weekly change
Crude Oil	(1,862)
Gasoline	(1,406)
Distillates	(5,230)
Jet Kerosene	+975

(kbpd)	Weekly change	% Change	Current number
Production	0	0.0%	11,600
Refinery Runs	(23)	(0.1%)	15,376

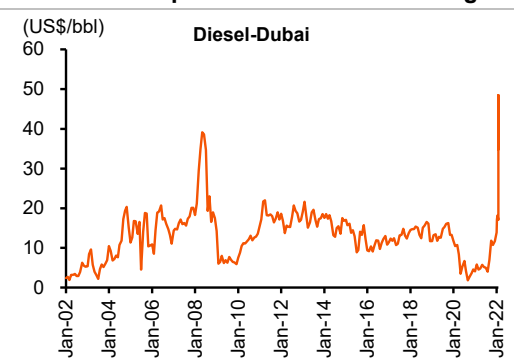
Source: EIA

## Ex 2: US Crude Oil Inventory



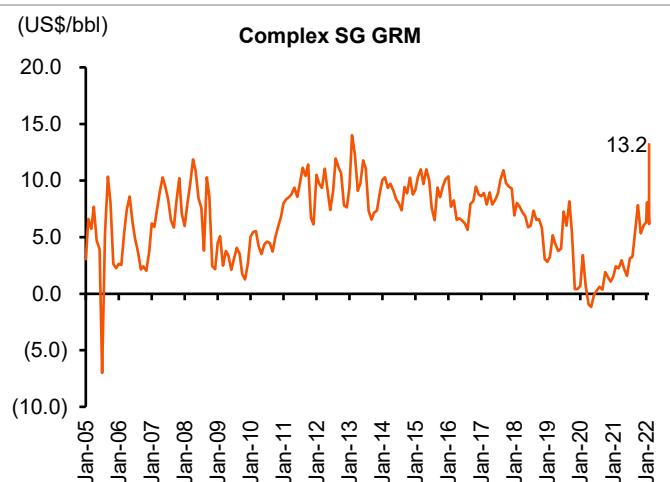
Source: EIA

## Ex 3: Diesel Spread Reached Record High

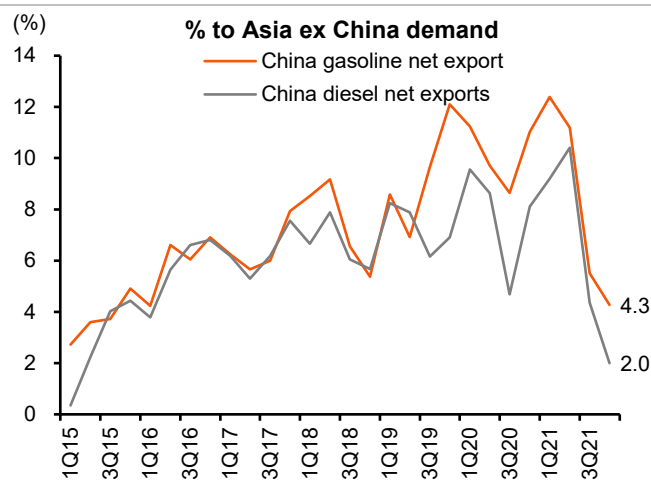


Source: Bloomberg, TOP

- Temporary tailwinds for Thai refiners.** The China export halt comes at a time when market is very tight given European refiners are seeing cost pressure from higher gas cost which could cause lower run rate while global oil product inventory is at low level. Asia Middle distillate stocks in Singapore are currently at 4m bbls (32%) below the pre-pandemic five-year average and at the lowest since 2008. We estimate that Singapore complex GRM rose to US\$13.2/bbl on 10<sup>th</sup> March 22, which is more than double last week average of US\$6.2/bbl. This will likely be offset with higher crude premium.

**Ex 4: Singapore Complex GRM**

Sources: TOP; Thanachart estimates

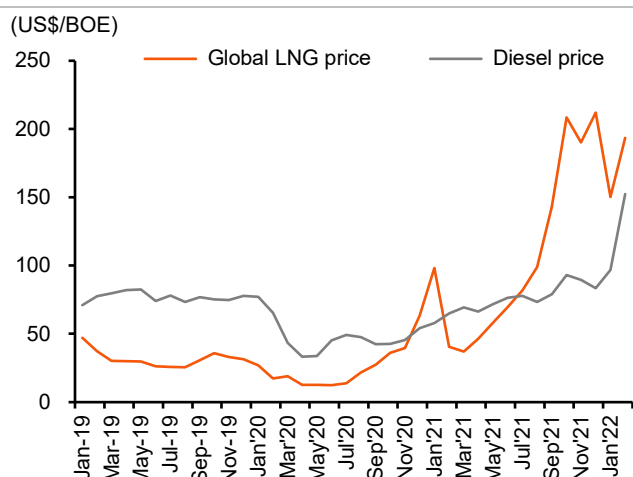
**Ex 5: China Diesel and Gasoline Export**

Sources: Bloomberg; Thanachart estimates

**Diesel excise tax waive for Thai power producers**

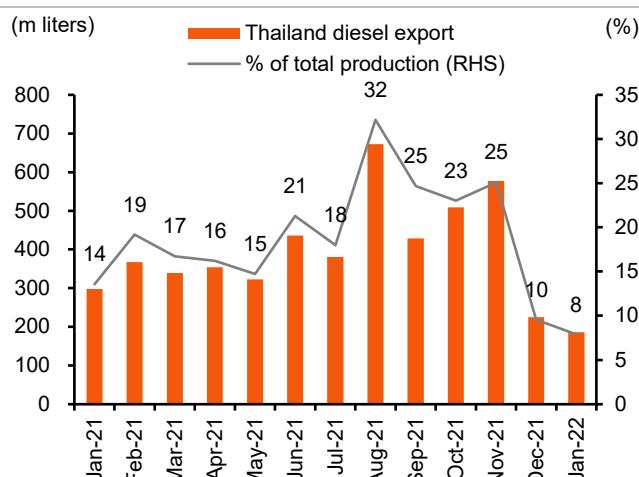
- Cabinet announced Diesel and Gasoline Excise tax waive for power producers** on 8<sup>th</sup> March. Current excise for diesel was at Bt3.44/litre and Bt0.64/litre for fuel oil. This is due to surge in global LNG price given concern on Russia gas supply. Global LNG priced climbed to US\$60/mmbtu, but now already dropped to US\$33.4/bbl. This implies oil price of US\$193/bbl which is higher than market diesel price of US\$152/bbl.
- Domestic refinery benefit from gas-to-oil switching demand.** High global LNG price and depleting domestic production have caused domestic power producers to use diesel in power generation instead of gas. This will benefit Thai refiners via less export volume which has a lower margin comparing to domestic market. Thailand is exporting diesel around 19% of production in 2021, but this has dropped to 8% in Jan 22. Our survey revealed that Thai Oil see the highest increase in domestic diesel volume of around 10%, but crude run was maintained at the same level. BCP doesn't benefit given low amount of export while SPRC and IRPC mainly sale diesel to PTTOR.

## Ex 6: LNG Price vs Diesel Price



Sources: Bloomberg; Thanachart estimates

## Ex 7: Thailand Diesel Export Dropped In Jan 2022



Sources: DOEB

## Ex 8: Prices And Spreads

(US\$/bbl)	1Q21	2Q21	3Q21	4Q21	QTD	Dec-21	Jan-22	Feb-22	MTD	Last
<b>Oil prices</b>										
Dated Brent	60.84	68.63	72.94	78.40	96.15	74.27	85.49	95.66	120.87	116.59
Dubai	59.70	66.43	71.31	76.02	93.48	72.69	83.05	92.60	118.49	114.13
WTI	58.07	66.10	70.52	76.08	91.77	71.69	82.98	91.63	111.61	109.33
<b>Crack spreads over Dubai</b>										
Gasoline	7.49	10.67	12.41	15.59	15.10	14.49	14.79	16.28	13.32	20.36
Jet fuel	4.25	5.36	5.80	11.02	11.32	10.37	12.36	11.10	8.50	5.45
Diesel	5.37	6.09	7.48	10.12	12.58	10.71	12.10	13.16	12.40	10.87
High-sulfur fuel oil	(4.28)	(6.80)	(5.42)	(5.83)	(10.55)	(6.45)	(7.23)	(10.43)	(18.20)	(10.43)
<b>Refining margins</b>										
FCC / Dubai	1.21	0.95	0.85	5.81	6.34	5.78	5.93	5.68	9.71	7.92
Hydrocracking / Dubai	0.71	0.77	1.11	6.11	7.94	6.19	6.79	5.92	13.54	11.68
FCC / Espo	1.47	1.55	1.24	6.20	6.74	6.18	6.33	6.08	10.11	8.32
FCC / Arab Light	0.56	(0.51)	(0.64)	4.32	4.85	4.30	4.45	4.19	8.22	6.43
Hydrocracking / Murban	2.29	2.81	3.41	8.41	10.24	8.49	9.08	8.22	15.83	13.98
<b>(US\$/tonne)</b>										
<b>Aromatics spreads</b>										
PX-naphtha	185	232	229	127	188	119	175	209	151	151
BZ-naphtha	191	367	350	231	222	223	239	220	161	161
<b>Olefin spreads</b>										
HDPE-naphtha	583	576	462	505	414	536	431	433	271	271
LDPE-naphtha	959	936	821	920	755	918	771	773	621	621
PP-naphtha	771	709	557	562	442	538	459	460	301	301
Ethylene-naphtha	416	406	304	321	213	319	156	283	161	161
Propylene-naphtha	461	436	294	242	229	254	240	243	126	126
Henry Hub Gas (US\$/mmbtu)	2.73	2.97	4.32	3.72	4.42	3.86	4.93	4.46	4.70	4.73
Coal (Newcastle) (US\$/tonne)	87.47	106.49	165.89	169.60	254.64	164.42	221.63	236.36	394.47	368.65

Source: Bloomberg

## Ex 9: Valuation

	Rating	Current price (Bt)	Target price (Bt)	Upside/ Downside (%)	Market cap (US\$ m)	Norm EPS growth		— Norm PE —		EV/EBITDA		— Yield —	
						2022F (%)	2023F (%)	2022F (x)	2023F (x)	2022F (x)	2023F (x)	2022F (%)	2023F (%)
BANPU	BUY	11.50	22.00	91.3	2,337	(41.5)	(29.9)	4.9	7.0	3.8	4.0	6.9	5.0
BCP	BUY	31.00	32.00	3.2	1,282	(4.2)	(6.9)	9.7	10.4	7.2	8.4	6.5	6.5
ESSO	HOLD	7.95	8.00	0.6	826	na	17.3	11.7	10.0	8.8	7.4	0.0	0.0
IRPC	BUY	3.70	4.40	18.9	2,271	38.2	19.6	14.0	11.7	8.6	7.9	3.6	4.3
IVL	BUY	44.50	60.00	34.8	7,504	31.7	11.5	9.3	8.3	7.5	7.7	5.4	6.0
PTG	BUY	13.40	19.00	41.8	672	50.8	19.5	14.7	12.3	6.7	6.3	3.4	4.1
PTT	BUY	39.50	46.00	16.5	33,885	10.1	(3.6)	11.5	12.0	5.0	4.6	5.1	5.1
PTTEP	BUY	149.50	152.00	1.7	17,825	32.0	(14.8)	10.2	12.0	3.2	3.5	4.0	4.7
PTTGC	HOLD	51.00	56.00	9.8	6,906	(13.3)	(0.5)	9.4	9.4	7.7	7.3	7.8	5.3
SPRC	SELL	9.10	8.40	(7.7)	1,185	na	(10.7)	12.2	13.6	5.9	5.4	2.9	5.0
SUSCO	BUY	3.34	5.20	55.7	110	35.0	30.1	12.5	9.6	5.3	4.4	4.0	5.2
TOP	SELL	53.75	46.00	(14.4)	3,293	16.2	2.8	16.9	16.4	17.7	17.9	2.4	2.4

Sources: Company data, Thanachart estimates

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