# Energy Sector – Overweight

News Update

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## Bullish week despite mixed sentiments

- **US inventory declines across the broad**
- **EU disagrees to put sanctions on Russian's energy imports**
- **Deep Russian crude discount attracts Asian refiners**
- **Two oil supply disruptions**

Oil prices dropped on Friday over easing supply worries on news that European Union (EU) sanctions will exclude the Russian oil sector and oil flow via the Caspian Pipeline Consortium (CPC) was partially resumed. Bullish sentiment resumed following the Houthi attack at Saudi Aramco's Jeddah oil depot facility during the weekend.

### US inventory declines across the broad

- US commercial crude oil inventory down by 2.5m bbls w-w, against 0.1m bbls build expected by the market and 4.3m bbls build last week. Gasoline inventories decreased by another 2.9m bbls while distillate inventories declined by 2.07m bbls w-w. The magnitude is higher than last week.
- US crude oil production was unchanged w-w at 11.6mbd.
- US petroleum products supplied (a proxy for demand) recovered by another 0.47mbd this week. The recovery was led by improvement in distillate and Jet demand.
- Baker Hughes reported that US oil rig count declined by 7 rigs w-w to 531 as of 25 March.

### EU disagree to put sanctions on Russian's energy imports

Commodities price would stay elevated in the near term as EU seeks alternative sources for Russian oil and gas imports despite no direct sanctions on Russian's energy imports by the EU.

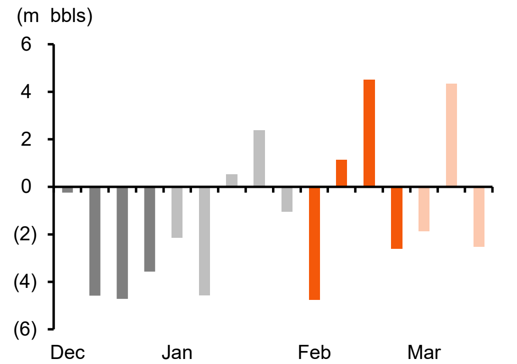
- **EU still has not agreed to fully ban Russia's oil and gas imports.** The EU is struggling to agree on its next steps in sanctioning Russia over its war in Ukraine. Poland and Baltic states seek embargo for oil and gas imports from Russia, while other countries including Germany and Belgium want gradual measures.
- **US comes to the rescue to cut ties with Russia.** The US will work with EU to ensure stable demand of an additional 50bcm per year (4.8 Bcf/d or c. 60mtpa) for US LNG until at least 2030, a volume of gas equivalent to about one-third of US LNG exports of 13.3Bcf/d in February 2022. For a shorter-term plan, the US plans to help find an additional 15 bcm of natural gas for the EU market this year. This is still not enough to completely replace Russian's gas imported by the EU. Russia ships about 150 bcm of gas to Europe via pipelines every year, and another 14-18bcm of LNG. This means the additional LNG imports from the US represent around 9% of Europe's gas import from Russia.

**Ex 1: US Weekly data**

| ('000 bbls) | Weekly change | | |
|---|---|---|---|
| Crude Oil | (2,509) | | |
| Gasoline | (2,948) | | |
| Distillates | (2,072) | | |
| Jet Kerosene | (2,412) | | |
| **(kbpd)** | **Weekly change** | **% Change** | **Current number** |
| Production | 0 | 0.0% | 11,600 |
| Refinery Runs | +276 | 1.8% | 15,877 |

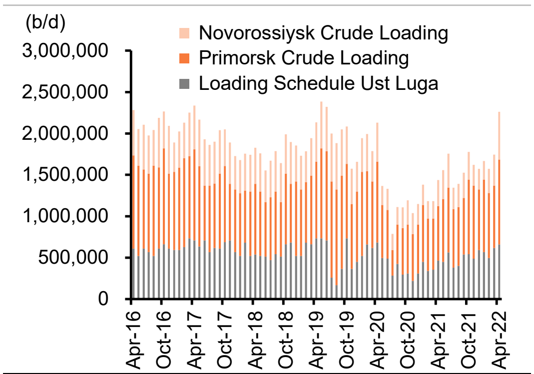
Source: EIA

**Ex 2: US Crude Inventory**




Source: Bloomberg

**Ex 3: Russia's Urals Crude Loading Plan**




Source: Bloomberg

- **EU accelerates a plan to cut dependence on Russia's energy imports.** The Russian war in Ukraine made Europe rethink its energy strategy and has now drafted plans to cut EU demand for Russian gas by two-thirds before the end of 2022 and completely by 2030.

**Deep Russian crude discount attracts Asian refiners**

With Russia's flagship Urals crude is now at US$31/bbl discount to Brent which attracts Asian refiners. However, demand from Asia alone looks insufficient to absorb all the barrels planned for April. That means Russia will see growing pressure to revise down its planned loadings.

- **Russia plans to increase Ural oil shipment next month**. According to Bloomberg, Russia is aiming to ship 2.6m b/d of Urals crude in April vs March loading of 1.7m b/d which is almost three years high**.** This comes as a surprise as many expected Russia might keep its exports steady or lower in April.
- **Asian refiners show interest in Russian Crude**. Russia has exported 360,000 barrels a day of oil to India in March so far, nearly four times the 2021 average. Note that India is heavily dependent on imports to meet its oil requirements. Nearly 85% of the country's average daily crude oil requirement of around 5m b/d is met through imports. Chinese firms are also discreetly purchasing cheap Russian crude.

**Two oil supply disruptions**

Two major events that triggered concern on crude oil supply disruptions last week. There is no substantial impact to oil supply from the two events but rising geopolitical tension in the Middle East has caused the market to concern.

- **Kazakh CPC oil exports suspended**. Crude oil exports from Kazakhstan's Caspian Pipeline Consortium (CPC) terminal on Russia's Black Sea coast stopped on 23rd March after damage caused by a major storm and continued bad weather. Most of the oil in the pipeline belongs to Russia, Kazakhstan and international oil majors such as Chevron. Oil supply could be curtailed by 1m b/d. However, crude loading operations at the CPC export terminal resumed on Friday. New reported that the terminal can operate at 50% of loading capacity.
- **Saudi Aramco's Jeddah oil depot hit by Houthi's drone attack.** The facilities are called North Jeddah Bulk Plant which is a storage and fuel distribution centre for the Saudi domestic refined products. It accounts for more than a quarter of all of Saudi Arabia's supplies. A fire is now under control with new sources indicating there will be limited impact to Saudi Arabia crude oil's exports. However, the attack also led to a concern on geopolitical risk in the Middle East. Saudi Arabia has made it clear that they are not going to increase output until the US deals with the Houthis and Iran's support for armed proxies.

## Ex 4: Prices And Spreads

| (US$/bbl) | 1Q21 | 2Q21 | 3Q21 | 4Q21 | QTD | Dec-21 | Jan-22 | Feb-22 | MTD | Last |
|---|---|---|---|---|---|---|---|---|---|---|
| **Oil prices** | | | | | | | | | | |
| Dated Brent | 60.84 | 68.63 | 72.94 | 78.40 | 99.06 | 74.27 | 85.49 | 95.66 | 116.73 | 119.75 |
| Dubai | 59.70 | 66.43 | 71.31 | 76.02 | 96.35 | 72.69 | 83.05 | 92.60 | 114.10 | 112.43 |
| WTI | 58.07 | 66.10 | 70.52 | 76.08 | 94.35 | 71.69 | 82.98 | 91.63 | 109.04 | 113.90 |
| **Crack spreads over Dubai** | | | | | | | | | | |
| Gasoline | 7.49 | 10.67 | 12.41 | 15.59 | 15.89 | 14.49 | 14.79 | 16.28 | 16.66 | 21.61 |
| Jet fuel | 4.25 | 5.36 | 5.80 | 11.02 | 11.73 | 10.37 | 12.36 | 11.10 | 11.91 | 27.35 |
| Diesel | 5.37 | 6.09 | 7.48 | 10.12 | 13.70 | 10.71 | 12.10 | 13.16 | 15.93 | 29.99 |
| High-sulfur fuel oil | (4.28) | (6.80) | (5.42) | (5.83) | (10.56) | (6.45) | (7.23) | (10.43) | (14.18) | (5.92) |
| **Refining margins** | | | | | | | | | | |
| FCC / Dubai | 1.21 | 0.95 | 0.85 | 5.81 | 6.89 | 5.78 | 5.93 | 5.68 | 9.61 | 12.73 |
| Hydrocracking / Dubai | 0.71 | 0.77 | 1.11 | 6.11 | 8.95 | 6.19 | 6.79 | 5.92 | 13.69 | 17.80 |
| FCC / Espo | 1.47 | 1.55 | 1.24 | 6.20 | 7.28 | 6.18 | 6.33 | 6.08 | 10.01 | 13.12 |
| FCC / Arab Light | 0.56 | (0.51) | (0.64) | 4.32 | 5.40 | 4.30 | 4.45 | 4.19 | 8.13 | 11.24 |
| Hydrocracking / Murban | 2.29 | 2.81 | 3.41 | 8.41 | 11.25 | 8.49 | 9.08 | 8.22 | 15.98 | 20.10 |
| **(US$/tonne)** | | | | | | | | | | |
| **Aromatics spreads** | | | | | | | | | | |
| PX-naphtha | 185 | 232 | 229 | 127 | 194 | 119 | 175 | 209 | 200 | 232 |
| BZ-naphtha | 191 | 367 | 350 | 231 | 221 | 223 | 239 | 220 | 198 | 242 |
| **Olefin spreads** | | | | | | | | | | |
| HDPE-naphtha | 583 | 576 | 462 | 505 | 418 | 536 | 431 | 433 | 382 | 492 |
| LDPE-naphtha | 959 | 936 | 821 | 920 | 764 | 918 | 771 | 773 | 742 | 852 |
| PP-naphtha | 771 | 709 | 557 | 562 | 440 | 538 | 459 | 460 | 388 | 462 |
| Ethylene-naphtha | 416 | 406 | 304 | 321 | 235 | 319 | 156 | 283 | 275 | 382 |
| Propylene-naphtha | 461 | 436 | 294 | 242 | 229 | 254 | 240 | 243 | 197 | 262 |
| Henry Hub Gas (US$/mmbtu) | 2.73 | 2.97 | 4.32 | 3.72 | 4.52 | 3.86 | 4.93 | 4.46 | 4.86 | 5.57 |
| Coal (Newcastle) (US$/tonne) | 87.47 | 106.49 | 165.89 | 169.60 | 268.64 | 164.42 | 221.63 | 236.36 | 363.61 | 327.15 |

Source: Bloomberg

## Ex 5: Valuation

| | Rating | Current price (Bt) | Target price (Bt) | *Upside/ (Downside) (%)* | Market cap (US$ m) | Norm EPS growth 2022F (%) | Norm EPS growth 2023F (%) | Norm PE 2022F (x) | Norm PE 2023F (x) | EV/EBITDA 2022F (x) | EV/EBITDA 2023F (x) | Yield 2022F (%) | Yield 2023F (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| BANPU | BUY | 11.30 | 17.00 | *50.4* | 2,278 | 132.1 | (17.3) | 3.6 | 4.3 | 3.0 | 2.9 | 9.5 | 8.1 |
| BCP | BUY | 30.50 | 32.00 | *4.9* | 1,251 | (4.2) | (6.9) | 9.6 | 10.3 | 7.1 | 8.3 | 6.6 | 6.6 |
| ESSO | HOLD | 8.45 | 8.00 | *(5.3)* | 871 | na | 17.3 | 12.5 | 10.6 | 9.1 | 7.6 | 0.0 | 0.0 |
| IRPC | BUY | 3.56 | 4.40 | *23.6* | 2,167 | 38.2 | 19.6 | 13.5 | 11.3 | 8.4 | 7.7 | 3.7 | 4.4 |
| IVL | BUY | 45.50 | 60.00 | *31.9* | 7,610 | 31.7 | 11.5 | 9.5 | 8.5 | 7.6 | 7.8 | 5.3 | 5.9 |
| PTG | BUY | 13.30 | 19.00 | *42.9* | 662 | 50.8 | 19.5 | 14.6 | 12.2 | 6.7 | 6.3 | 3.4 | 4.1 |
| PTT | BUY | 39.00 | 46.00 | *17.9* | 33,183 | 10.1 | (3.6) | 11.4 | 11.8 | 4.9 | 4.6 | 5.1 | 5.1 |
| PTTEP | HOLD | 151.50 | 148.00 | *(2.3)* | 17,916 | 42.9 | (23.8) | 9.6 | 12.6 | 3.1 | 3.6 | 4.0 | 4.6 |
| PTTGC | HOLD | 51.50 | 56.00 | *8.7* | 6,917 | (13.3) | (0.5) | 9.5 | 9.5 | 7.7 | 7.4 | 7.8 | 5.3 |
| SPRC | SELL | 9.90 | 8.40 | *(15.2)* | 1,279 | na | (10.7) | 13.2 | 14.8 | 6.4 | 6.0 | 2.7 | 4.6 |
| SUSCO | BUY | 3.36 | 5.20 | *54.8* | 110 | 35.0 | 30.1 | 12.6 | 9.7 | 5.3 | 4.4 | 4.0 | 5.2 |
| TOP | SELL | 53.25 | 46.00 | *(13.6)* | 3,236 | 16.2 | 2.8 | 16.8 | 16.3 | 17.7 | 17.9 | 2.4 | 2.5 |

Sources: Company data, Thanachart estimates

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