Energy Sector – Overweight

Earnings Preview

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1Q22F – Inventory gain led improvement

- **Expect sector profit up 16% q-q driven by refinery segment.**
- **PTTEP and PTT see softer profit q-q**
- **Refinery profit support by inventory gain and higher GRM**
- **IVL best performing among chemicals peers**

Expect sector profit up 16% q-q driven by refinery segment. However, we expect 1Q22F to be best quarter for refiners driven by large inventory gain and higher GRM. Looking forward, we expect sector profit growth to be slower in 2Q22 as oil price more stable while strong surge in crude premium offset GRM recovery. We still like IVL best in our sector due to its strong profit momentum should continue in 2Q22F from consolidation of Oxiteno.

Ex 1: 1Q22F Core Profit

(Bt m)	4Q21	1Q22F	Chg (q-q%)	Announcement date
BCP	2,123	1,668	*(21.0)*	11-May
ESSO	593	1,240	*109.0*	TBD
IRPC	250	(836)	*na*	10-May
IVL	4,872	7,275	*49.3*	12-May
PTT	23,553	26,295	*11.6*	12-May
PTTEP	13,406	17,154	*28.0*	28-Apr
PTTGC	5,087	4,443	*(12.7)*	11-May
SPRC	892	1,320	*48*	12-May
TOP	2,064	2,806	*36.0*	10-May
Sum	**52,839**	**61,365**	***16.1***	

Source: Thanachart estimates

Upstream and midstream – Mixed performance

- **Oil price.** Dubai oil price averaged $95.6/bbl in 1Q22, increasing from $78.3/bbl in 4Q21. This will lead to higher selling price for PTTEP and PTT's sale to industrial customers and GSP.
- **PTTEP – oil rally offset by hedging loss**. We expect profit of Bt8.9bn (-16% q-q and -23% y-y) due to hedging loss amount Bt8bn. Stripping out the loss, core profit should improve by 28% q-q to Bt17bn. Gas price is expected to average $6.1/mmbtu (+5% q-q) whereas liquid ASP is expected to increase along with oil price. Cost is expected to be rise from abnormally low level in 4Q21 to $28/BOE vs $26/BOE. Volume is expected to be 427 KBOED, flat q-q due to lower Bongkot production offset by higher production from Arthit field.
- **PTT – higher subsidiaries profit offset weaker gas margin.** We expect core gas EBITDA to decline about 9% q-q due to surge in gas cost which pressure NGV and industrial users' profit. We forecast PTT's pool gas to increase by 34% q-q to $11/mmbtu due to higher LNG price and higher spot LNG import. On the other hand, subsidiary profit should improve q-q with higher refining margin and inventory gain.

Refinery – Strong GRM and inventory gain

We expect overall core profit of refiners generally improve q-q driven by i) refining margin recovery and ii) hefty inventory gain due to rising crude oil price. We expect pure refiners like ESSO to see the strongest profit. SPRC profit was offset by oil spill expense while TOP was offset by weaker lube base margin and hedging loss and BCP by rising dated Brent-Dubai spread.

- **Strong GRM recovery**. Singapore GRM (against Dubai crude) averaged $7.8/bbl in 1Q22, increasing from $6.1/bbl in 4Q21. This was driven by higher crack spreads across all key products which include gasoline, diesel and jet fuel spreads. The higher GRM against Dubai was partially offset by rising crude premiums: Arab Light spread over Dubai averaged $2.8/bbl in 1Q22 vs $1.9/bbl in 4Q21. Consequently, we estimate Thai market GRM average of $7.4/bbl in 1Q22 vs $6.0/bbl in 4Q21.

- **Big inventory gain, but also big hedging loss**. We estimate stock gain for the sector to jump substantially to Bt27.6bn from Bt8.6bn in 4Q21. However, it will largely be offset by hedging loss which could offset inventory gain by c. 50% to > 100% of inventory gain. The hedging come from large improvement in product spreads at the end of 1Q22 vs end of 4Q21. Thai refiners are hedging 30-50% of their products. Only SPRC does not have hedging position and therefore no hedging loss expected to be booked.

Chemical – IVL best performing among chemicals peers

- **Naphtha margins collapsed**. Due to sudden surge in oil price and high supply pressure, HDPE-naphtha spread declined to $453/ton in 1Q22 from $507/ton in 4Q21. PP-naphtha spread also narrowed to $505/ton from $558/ton over the same period. On the aromatics side, spreads movement were mixed. PX-ULG spread averaged $124/ton (+$28/ton q-q) and BZ-ULG spread averaged $110/ton (-$38/ton q-q).
- **IVL see higher core and reported profit.** Integrated PET profit set to drive earnings growth in 1Q22F driven by West PET contract repricing. Europe gas cost pressure is expected to have marginal impact given Dutch TTF gas is only increase by 4% to EUR101/Mwh in 1Q22 as the price came down at the end of quarter. Meanwhile, Asia integrated PET EBITDA should remain resilient q-q. The company also expect to book inventory gain of Bt2bn in 1Q22F.
- **IRPC see the weakest performance.** The company expects to see pressure across all their chemical segments driven by weaker PP, PS, ABS, lube base margins. We estimate market GIM of $8/bbl, below its unit cost of $10/bbl.

Ex 2: 1Q22F Reported Profit Preview

	Net profit (Bt m)			3M as	Change		Note
	1Q21	4Q21	1Q22F	% 2022F	(y-y%)	(q-q%)	
BCP	2,284	1,756	2,827	*44.5*	23.8	61.0	▪ Expect weaker core profit q-q driven by lower profit across all segments. Refinery margins expect to be steady q-q due to higher dated Brent-Dubai premium. The weaker core profit is expected to be offset by inventory gain and BCPG gain from geothermal divestment
ESSO	2,788	750	4,949	*731.7*	77.5	559.6	▪ Refinery margin likely see big improvement and expect big inventory gain
IRPC	5,581	2,193	1,164	*101.6*	(79.1)	(46.9)	▪ Expect market GIM of $8/bbl, below cost of $10/bbl pressured by rising crude oil price and lower chemical spreads.
IVL	6,009	5,392	8,877	*33.0*	47.7	64.7	▪ West PET contract repricing led profit recovery in 1Q22F. Expect inventory gain of Bt2bn.
PTT	32,588	27,544	25,928	*26.5*	(20.4)	(5.9)	▪ Expect softer gas profit pressured by rising pool gas cost. However, it expects to be offset by higher subsidiaries' profit
PTTEP	11,534	10,645	8,904	*14.2*	(22.8)	(16.4)	▪ Hedging loss of Bt8bn wipe out higher profit from higher oil price which lead to lower profit q-q
PTTGC	9,695	3,248	4,464	*19.6*	(54.0)	37.4	▪ Expect lower core profit q-q due to chemical margins decrease. This is despite full contribution from Allnex. Hedging loss wipe out inventory gain.
SPRC	2,006	1,855	4,201	*114.3*	109.4	126.5	▪ Refinery margin likely see big improvement and expect big inventory gain
TOP	3,360	5,033	7,126	*82.9*	112.1	41.6	▪ Refinery margin recovery offset by weaker lube base margin. Large inventory gain is more than offset with large hedging loss.
Sum	**75,844**	**58,416**	**68,440**	***30***	**(9.8)**	**17.2**	

Sources: Company data, Thanachart estimates

Ex 3: 1Q22F Core Profit Preview

	Normalized profit (Bt m)			3M as	Change	
	1Q21	4Q21	1Q22F	% 2022F	*(y-y%)*	*(q-q%)*
BCP	90	2,123	1,668	*26.3*	*1,758.2*	*(21.4)*
ESSO	(344)	593	1,240	*183.3*	*na*	*109.0*
IRPC	333	250	(836)	*na*	*na*	*na*
IVL	3,495	4,872	7,275	*27.1*	*108.1*	*49.3*
PTT	25,950	23,553	26,295	*26.9*	*1.3*	*11.6*
PTTEP	8,649	13,406	17,154	*27.3*	*98.3*	*28.0*
PTTGC	8,769	5,087	4,443	*19.5*	*(49.3)*	*(12.7)*
SPRC	(945)	892	1,320	*35.9*	*na*	*48.0*
TOP	963	2,064	2,806	*32.7*	*191.4*	*36.0*
Sum	**46,959**	**52,839**	**61,365**	***27***	***30.7***	***16.1***

Sources: Company data, Thanachart estimates

Ex 4: Refinery Margin And Inventory Gain Estimate

	1Q21	2Q21	3Q21	4Q21	1Q22F
Stock gain/(loss)&NRV (Bt m)					
TOP	4,765	3,712	3,635	3,283	12,300
BCP	2,180	1,157	1,372	1,325	1,372
SPRC	2,695	1,532	783	920	4,917
IRPC	4,982	3,347	2,661	2,122	5,000
PTTGC	2,296	1,447	1,171	1,040	4,026
IVL	4,292	1,738	1,998	593	3,003
ESSO	3,132	1,903	955	157	4,636
Market GRM (US$/bbl)					
TOP	0.7	0.4	1.6	5.3	7.0
BCP	3.2	4.2	3.1	6.8	7.0
SPRC	3.5	2.7	2.3	6.0	7.8
IRPC	2.6	2.8	1.8	5.1	6.6
PTTGC	2.3	1.1	2.5	6.0	7.6
ESSO	3.0	1.6	1.1	7.0	8.7
Average	**2.6**	**2.1**	**2.1**	**6.0**	**7.4**

Sources: Company data, Thanachart estimates

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	11.90	17.00	*42.9*	2,371	132.1	(17.3)	3.8	4.5	3.1	2.9	9.0	7.7
BCP	BUY	32.00	34.00	*6.3*	1,298	38.2	(33.6)	6.9	10.5	4.4	7.0	5.6	3.8
ESSO	HOLD	8.55	8.20	*(4.1)*	871	na	320.8	43.7	10.4	9.3	6.9	0.0	0.0
IRPC	BUY	3.52	4.40	*25.0*	2,118	(70.7)	489.1	62.8	10.7	13.0	7.5	4.3	4.7
IVL	BUY	47.00	60.00	*27.7*	7,772	31.7	11.5	9.8	8.8	7.7	7.9	5.1	5.7
PTG	BUY	13.30	19.00	*42.9*	654	50.8	19.5	14.6	12.2	6.7	6.3	3.4	4.1
PTT	BUY	37.25	42.00	*12.8*	31,336	(5.0)	4.4	12.6	12.1	4.7	4.4	5.4	5.4
PTTEP	HOLD	146.00	148.00	*1.4*	17,071	42.9	(23.8)	9.2	12.1	3.0	3.5	4.1	4.8
PTTGC	BUY	49.50	58.00	*17.2*	6,573	(19.4)	5.4	9.8	9.3	7.6	7.1	5.1	4.8
SPRC	SELL	10.10	8.50	*(15.8)*	1,290	na	(23.1)	11.9	15.5	4.7	5.5	5.0	3.2
SUSCO	BUY	3.30	5.20	*57.6*	107	35.0	30.1	12.4	9.5	5.2	4.3	4.0	5.3
TOP	SELL	54.25	45.00	*(17.1)*	3,259	53.9	(24.2)	12.9	17.0	12.9	17.5	5.5	2.4

Sources: Company data, Thanachart estimates

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