Energy Sector – Overweight

News Update

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A bullish week for energy sector

- **Larger than expected US products inventory draw**
- **Russia oil and oil product sanction escalated**
- **Biden plans to refill SPR in 3Q**
- **OPEC maintains its production plan in June**

Oil settled at the highest in nearly three weeks stemming from a European Union's proposal to sanction Russian oil, OPEC maintained its production plan in June and Biden plans to refill its emergency oil reserve. Meanwhile, refinery margin continues to be strong which also supporting by news on EU sanction on Russia refined oil products.

Larger than expected US oil products inventory draw

- US commercial crude oil inventory increased by 1.3m bbls w-w, against -0.829m bbls draw expected by the market and 0.69m bbls build last week. Gasoline inventories decreased by another 2.2m bbls while middle distillate inventories also fell by another 2.3m bbls, which larger than consensus expectation of 0.59m bbl draw and 1.34m draw, respectively. We believe that this is due to Russia's war on Ukraine which has led to a tightening of global diesel supplies and lead US refiners exporting record volumes from the U.S. Gulf Coast region.
- US crude oil production was flat w-w at 11.9mbd.
- US petroleum products supplied (a proxy for demand) dropped 0.3m b/d w-w driven by lower other products, fuel oil and jet demand.
- Baker Hughes reported that US oil rig count up by another 5 rigs w-w to 557 rigs as of 6th May.

Russia oil and oil product sanction escalated

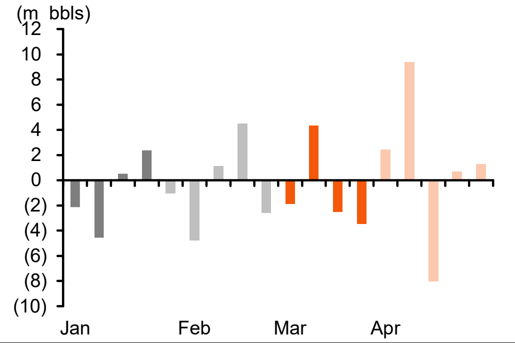
- **EU proposed a full ban on Russian crude and oil products**. The European Commission on Wednesday officially proposed a full ban on Russian crude over the next six months and refined fuels by year end to increase pressure on President Vladimir Putin over his invasion of Ukraine.
- **More time for countries that have higher dependence on Russia's crude**. The European Union is set to give some member states heavily dependent on Russian oil – such as Hungary and Slovakia – time until the end of 2024 to comply with the proposed embargo on oil imports from Russia. Hungary and Slovakia are each account 2% of Russia's oil export in 2020.
- **Sanction on Russia's refined oil products are more severe than on crude.** Russian crude oil product which would normally go to Europe have been redirected to Asia ie to India and China. However, end-use fuels such as diesel may have a harder time finding alternative buyers. This is given two prominent buyers of shunned Russian crude, India and China,

Ex 1: US Weekly data

('000 bbls)	Weekly change		
Crude Oil	+1,303		
Gasoline	(2,232)		
Distillates	(2,343)		
Jet Kerosene	+357		
(kbpd)	**Weekly change**	**% Change**	**Current number**
Production	0	0.0%	11,900
Refinery Runs	-217	-1.4%	15,466

Source: EIA

Ex 2: US Crude Inventory



Source: Bloomberg

Ex 3: Diesel-Dubai Spread Surged

2021 Russian exports (KBD)	Crude	Mogas /Jet	Gasoil	Fuel Oil
Europe	2,720	30	700	330
	(27%)	(2%)	(11%)	(33%)
US	210	50	15	220
	(1%)	(1%)	(0.3%)	(35%)
Asia	1,540	20	80	200
	(4%)	(0.3%)	(0.8%)	(7%)
Other regions	100	80	120	70
	(0.1%)	(1%)	(2%)	(3%)
Total	**4,570**	**180**	**915**	**820**
% global demand	**4.60%**	**1%**	**3%**	**12%**

Source: TOP

are net importers of crude oil and net exporters of oil products - including diesel. Meanwhile, China refined oil export remains limited.

- **Our view**. We think that EU full sanction on oil and oil product implies that supply from will be off the market for sometimes which will lead to upside to our forecast. However, our view on expectation on peak refinery margins in 2022 is unlikely to change. The record margin will likely attract refiners to ramp up utilization which lead to more supply into the market. The key risk is still on China potentially announce more refined oil export quota.

More positive news on oil price

- **Biden plans to refill SPR in 3Q.** The Biden Administration will purchase 60 million barrels of crude in Q3 in an effort to replace volumes in the U.S. strategic petroleum. However, a delivery window that will be set based on when future oil prices and demand are expected to be significantly lower. Recall that on March 31st, the U.S. announced its decision to release 1 m bpd of crude oil from its Strategic Petroleum Reserves (SPR) for 180 days starting in May.
- **No surprise from OPEC meeting.** OPEC and its allies will nominally increase production by 432,000 barrels a day in June. However, OPEC only managed an increase of just 10,000 barrels a day in April, indicating the difficulty the group is having in lifting output in line with its plan.

Ex 4: Prices And Spreads

(US$/bbl)	1Q21	2Q21	3Q21	4Q21	1Q22	QTD	Feb-22	Mar-22	MTD	Last
Oil prices										
Dubai	60	66	71	77	97	102	94	116	101	106
Brent	61	69	73	79	98	107	94	113	106	108
Crack spreads over Dubai										
Gasoline	7.0	9.9	11.6	15.5	17.8	24.1	18.5	20.2	24.1	27.6
Jet fuel	3.3	4.5	5.3	10.2	16.2	31.6	13.8	22.6	31.6	34.2
Diesel	(3.4)	(5.8)	(3.3)	(6.9)	(8.3)	12.5	17.7	26.6	36.7	41.1
High-sulfur fuel oil	0.8	(1.0)	1.6	3.2	(2.1)	(8.7)	(9.8)	(7.9)	8.3	8.0
Singpore complex GRM	**2.1**	**2.3**	**4.0**	**6.4**	**8.4**	**19.8**	**7.4**	**11.1**	**19.8**	**21.9**
(US$/tonne)										
Aromatics spreads										
PX-naphtha	190	241	240	134	192	256	215	193	257	255
BZ-naphtha	189	360	318	222	102	57	190	149	226	230
Olefin spreads										
HDPE-naphtha	577	575	462	509	413	495	448	377	504	460
LDPE-naphtha	962	915	740	890	731	827	778	707	834	800
PP-naphtha	748	694	548	558	419	475	458	364	484	440
Others										
Integrated PET	230	231	185	345	243	306	298	290	310	309
ABS-naphtha	1,811	1,932	1,712	1,565	1,108	1,127	1,103	1,002	1,129	1,120
Phenol-BZ	214	252	257	271	260	260	443	342	282	250
BPA -Phenol	1,565	2,008	1,970	2,236	2,285	2,285	905	736	736	720

Sources: TOP, 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	12.50	17.00	*36.0*	2,463	132.1	(17.3)	4.0	4.8	3.1	3.0	8.6	7.3
BCP	BUY	34.50	34.00	*(1.4)*	1,383	38.2	(33.6)	7.5	11.3	4.6	7.2	5.2	3.5
ESSO	HOLD	9.55	8.20	*(14.1)*	962	na	320.8	48.9	11.6	10.0	7.4	0.0	0.0
IRPC	BUY	3.44	4.40	*27.9*	2,047	(70.7)	489.1	61.4	10.4	12.8	7.4	4.4	4.8
IVL	BUY	44.50	60.00	*34.8*	7,276	31.7	11.5	9.3	8.3	7.5	7.7	5.4	6.0
PTG	BUY	14.20	19.00	*33.8*	691	50.8	19.5	15.6	13.1	6.9	6.5	3.2	3.8
PTT	BUY	37.25	42.00	*12.8*	30,983	(5.0)	4.4	12.6	12.1	4.7	4.4	5.4	5.4
PTTEP	HOLD	154.50	148.00	*(4.2)*	17,861	42.9	(23.8)	9.8	12.8	3.2	3.7	3.9	4.5
PTTGC	BUY	49.50	58.00	*17.2*	6,499	(19.4)	5.4	9.8	9.3	7.6	7.1	5.1	4.8
SPRC	SELL	11.00	8.50	*(22.7)*	1,389	na	(23.1)	13.0	16.9	5.2	6.1	4.5	2.9
SUSCO	BUY	3.36	5.20	*54.8*	108	35.0	30.1	12.6	9.7	5.3	4.4	4.0	5.2
TOP	SELL	58.25	45.00	*(22.7)*	3,460	53.9	(24.2)	13.8	18.2	13.3	17.9	5.2	2.2

Sources: Company data, Thanachart estimates

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