Energy Sector – Overweight

News Update

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Bullish back to crude oil market

- **Slower gasoline inventory draw**
- **Eyes on US oil product demand**
- **Middle East OSP rebound**
- **Atlantic hurricane season to be above normal**

EIA reported a total liquid draw this week with crude surprising to the bull side. The crude draw came on the back of a major uptick in refinery utilization. However, the bullish was offset by U.S. oil demand data which came in weak despite entering high season. Refinery margins continue to trend lower this week due to lower diesel and jet spread. Near term pressure on Thai refinery margin is expected to see from higher Middle East crude premium as China demand rebound. However, there is potential upside risk from upcoming hurricane season in the U.S during June-November.

Slower gasoline inventory draws while distillate continues to build

- US commercial crude oil inventory decreased by 1m bbls w-w, against -0.7m bbls draw expected by the market and 3.4m bbls draw last week. Stronger refining activity has led to crude inventory draw this week.
- Gasoline inventories draw slow down to 0.48m bbls vs 4.8m bbls draw last week. Meanwhile, distillate inventory continues to build, increasing by 1.7m bbl w-w.
- US crude oil production was down 100k bpd w-w to 11.9mbd.

Eyes on US oil products demand

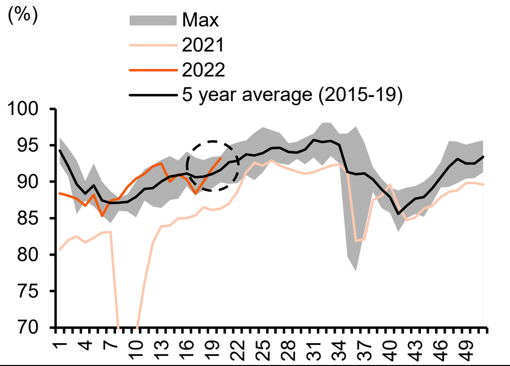
- **Muted seasonal demand impact in US so far**. U.S. oil demand continues to struggle. The gasoline should have seen an increase in demand by now, but it did not. Gasoline consumption is currently below that of 2021. U.S. gasoline demand is currently at 8.9m b/d this week, dropping by 2.5% w-w and 8% below 5-year average during pre-Covid 19.
- **US Distillate demand is also weakening**. Based on EIA data, US distillate demand has dropped by 14% from end of Mar as winter demand passed. The demand was at 3.9m b/d this week, which is 4% below 5-year average during pre-Covid 19
- **Potential sign of demand destruction.** If we do not see an uptick by mid-June, then demand destruction from high prices is real. Going forward, every week the data lags behind is another week suggesting that high oil prices are taking a toll on the economy.

Ex 1: US Weekly data

(m bbls)	Weekly change	Consensus	Last week
Crude Oil	(1.018)	(0.737)	(3.394)
Gasoline	(0.484)	(0.634)	(4.779)
Distillates	+1.657	+0.917	+1.235
(kbpd)	**Weekly change**	**% Change**	**Current number**
Production	0	0.0%	11,900
Refinery Runs	+335	+2.1%	16,269

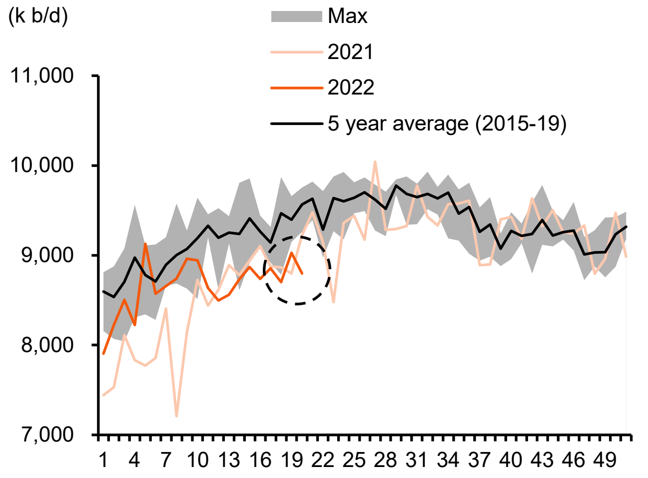
Source: EIA

Ex 2: US Refinery Utilization



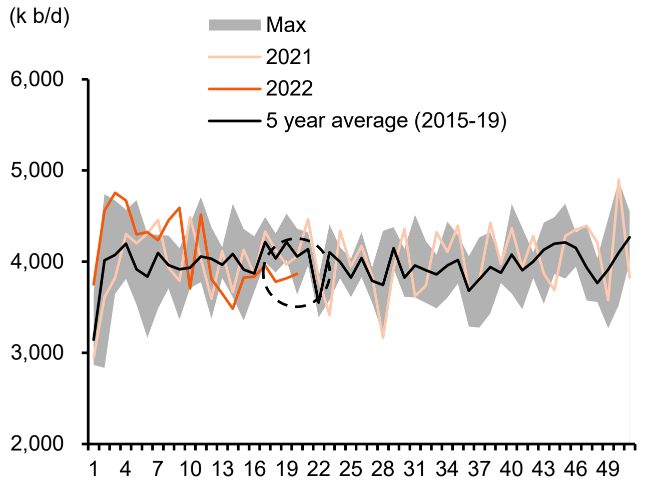
Source: EIA

Ex 3: US Gasoline Demand



Sources: EIA

Ex 4: US Distillate Demand



Sources: EIA

Middle East crude premium rebound

- **Resuming Chinese appetite**. Asian demand for July-loading Middle East medium sour grades has strengthened as healthy refinery margins for middle distillates, improved Chinese appetite.
- **Oman-Dubai reached 2-months high**. Medium sour crudes such as Oman Blend, Al-Shaheen and Upper Zakum. Oman-Dubai futures spread jumped to a premium of $6.08/b at the Asian market close May 18, the highest since March 31, when it was assessed at a premium of $7.30/b, S&P Global data showed.
- **Our take**. This will point to the trend of higher crude premium for other Middle East crudes which are the key crude source for Thai refiners. This will also offset with prevailing strong refinery margin.

Atlantic hurricane season to be above normal

- **65% chance to see above average hurricane activities**. This year's Atlantic hurricane season is set to be above normal, according to the US' National Oceanic and Atmospheric Administration (NOAA). There is a 65% chance that the 1 June-30 November season will be above normal, and a 10% chance for a below normal season. NOAA foresees 14-21 named storms and 6-10 hurricanes, of which 3-6 would evolve into major hurricanes — classed as category 3, 4 or 5 storms.
- **Similar level to 2021**. This range is similar to a year earlier, with 2021 bringing 21 named storms, including seven hurricanes, of which four became major hurricanes. Last year marked a sixth consecutive year of above normal activity, according to NOAA.
- **Potential supply disruption**. Last year, U.S. refinery utilization dropped by 10% during hurricane season which caused refinery margin rebound. It takes around 2 weeks to one month before utilization rate resume back to normal.

Ex 5: Prices And Spreads

(US$/bbl)	1Q21	2Q21	3Q21	4Q21	1Q22	QTD	31-Mar	30-Apr	MTD	Last week	This week
Upstream											
Dubai	60	66	71	77	97	104	116	101	107	106	109
Brent	61	69	73	79	98	108	113	106	111	114	113
Henry hub (US$/mmbtu)	2.5	2.6	3.3	3.9	4.5	7.4	5.1	6.8	8.1	8.0	8.7
NEX coal price (US$/t)	87	106	165	185	266	343	350	305	387	403	416
Crack spreads over Dubai											
Gasoline	7.0	9.9	11.6	15.5	17.8	30.9	20.2	24.1	37.7	34.5	43.5
Jet fuel	3.3	4.5	5.3	10.2	16.2	33.6	22.6	31.6	35.6	38.0	27.4
Diesel	(3.4)	(5.8)	(3.3)	(6.9)	(8.3)	12.5	26.6	36.7	38.3	39.7	29.9
High-sulfur fuel oil	0.8	(1.0)	1.6	3.2	(2.1)	(8.7)	(7.9)	8.3	(1.3)	(1.9)	(7.2)
Singapore complex GRM	**2.1**	**2.3**	**4.0**	**6.4**	**8.4**	**21.0**	**11.1**	**19.8**	**22.3**	**22.0**	**19.5**
(US$/tonne)											
Aromatics spreads											
PX-naphtha	190	241	240	134	192	291	193	257	326	356	399
BZ-naphtha	190	360	317	196	196	257	149	226	289	302	337
Olefin spreads											
HDPE-naphtha	577	575	462	509	413	473	377	504	442	421	409
LDPE-naphtha	962	915	740	890	731	808	707	834	782	771	749
PP-naphtha	748	694	548	558	419	452	364	484	420	391	399
Others											
Integrated PET	230	231	185	345	297	306	290	310	294	279	280
ABS-naphtha	1,811	1,932	1,712	1,565	1,108	1,106	1,002	1,129	1,082	1,061	1,049
Phenol-BZ	213	252	255	333	421	237	342	282	191	144	157
BPA -Phenol	1,565	2,008	2,074	1,198	843	728	736	736	720	755	720

Sources: TOP, Bloomberg

Ex 6: 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	12.10	17.00	*40.5*	2,396	132.1	(17.3)	3.8	4.6	3.1	3.0	8.9	7.6
BCP	BUY	32.25	34.00	*5.4*	1,300	38.2	(33.6)	7.0	10.5	4.5	7.0	5.6	3.7
ESSO	HOLD	9.95	8.20	*(17.6)*	1,008	na	320.8	50.9	12.1	10.3	7.6	0.0	0.0
IRPC	BUY	3.38	4.40	*30.2*	2,022	(70.7)	489.1	60.3	10.2	12.7	7.3	4.5	4.9
IVL	BUY	49.25	60.00	*21.8*	8,094	31.7	11.5	10.3	9.2	7.9	8.0	4.9	5.4
PTG	BUY	14.70	19.00	*29.3*	719	50.8	19.5	16.2	13.5	7.0	6.6	3.1	3.7
PTT	BUY	37.50	42.00	*12.0*	31,352	(5.0)	4.4	12.7	12.2	4.7	4.4	5.3	5.3
PTTEP	HOLD	165.50	161.00	*(2.7)*	19,232	79.9	(9.8)	8.3	9.2	3.1	3.1	3.6	4.2
PTTGC	BUY	47.50	58.00	*22.1*	6,269	(19.4)	5.4	9.4	8.9	7.4	7.0	5.3	5.0
SPRC	SELL	11.80	8.50	*(28.0)*	1,498	na	(23.1)	13.9	18.1	5.6	6.6	4.2	2.7
SUSCO	BUY	3.32	5.20	*56.6*	107	35.0	30.1	12.4	9.6	5.3	4.3	4.0	5.2
TOP	SELL	57.00	45.00	*(21.1)*	3,404	53.9	(24.2)	13.5	17.9	13.2	17.8	5.3	2.2

Sources: Company data, Thanachart estimates

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