Energy Sector – Overweight

News Update

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Still a tight crude oil market

- **Lower inventory across the broad**
- **EU plan to phase out almost 90% of Russian oil imports**
- **OPEC+ speeds up oil production increases**
- **Aromatic margins rally to multi-year high**

Crude oil price edge higher w-w despite news on OPEC raising output plan. The market remains underpinned by tight global supply and rising demand due to China's easing of COVID restrictions.

Lower inventory across the broad

- US commercial crude oil inventory decreased by 5m bbls w-w, against -1.35m bbls draw expected by the market and 1m bbls draw last week.
- Gasoline inventories continue to draw with inventory decreasing by 0.7m bbls vs 0.48m bbls draw last week. Meanwhile, distillate inventory continues turn into a draw of 0.5m bbls.
- US crude oil production was steady w-w at 11.9mbd.

EU plan to phase out almost 90% of Russian oil imports

- **Phase out timeline in-line with initial plan**. EU officials have confirmed that the bloc's Russian oil embargo will involve phasing out seaborne crude imports within six months and refined product imports within eight months, in line with the timeline proposed in early May.
- **Exemption to certain countries.** The Czech Republic, Hungary and Slovakia have all been granted extra time to phase out their Russian oil imports. The precise timeline for Hungary and Slovakia will be decided at a later date, but in the case of the Czech Republic, it is 18 months.
- **Estimated impact.** Platts Analytics estimates the latest EU measures will hit some 1.9m b/d of Russian crude imports by the year end, with some 300,000 b/d still flowing to Hungary, Slovakia and the Czech Republic via pipeline. Another 1.2m b/d of refined product imports from Russia would cease by the end of the year.

OPEC+ speeds up oil production increases

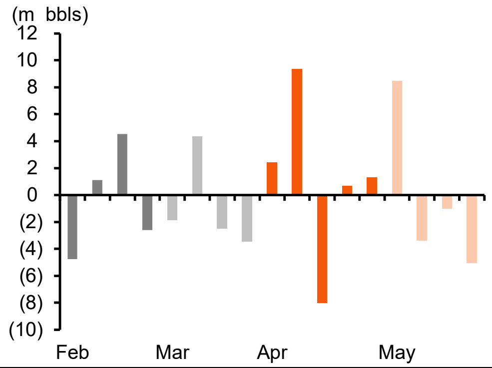
- **Target production increased by 50%.** Opec+ agreed to raise their overall production ceiling to 648,000 b/d in each of July and August. This is about 50% higher than the typical 432,000 b/d monthly raises that it has implemented. The Opec+ coalition will hold its next ministerial meeting on 30 June.
- **Still much lower comparing to Russian oil supply loss**. The raise is only 216k b/d higher than current plan which is still much lower comparing to a potential loss of 1-1.8m b/d loss from Russian crude following EU plans to phase out from Russia oil import within the next six months. Additionally, the group has always missed its target due to supply disruption and continue under investment among African members.

Ex 1: US Weekly data

(m bbls)	Weekly change	Consensus	Last week
Crude Oil	(5.068)	(1.350)	(1.019)
Gasoline	(0.711)	+0.533	(0.482)
Distillates	(0.530)	+0.990	+1.657
(kbpd)	**Weekly change**	**% Change**	**Current number**
Production	0	0.0%	11,900
Refinery Runs	(236)	-1.5%	16,033

Source: EIA

Ex 2: US Crude Inventory



Source: Bloomerg

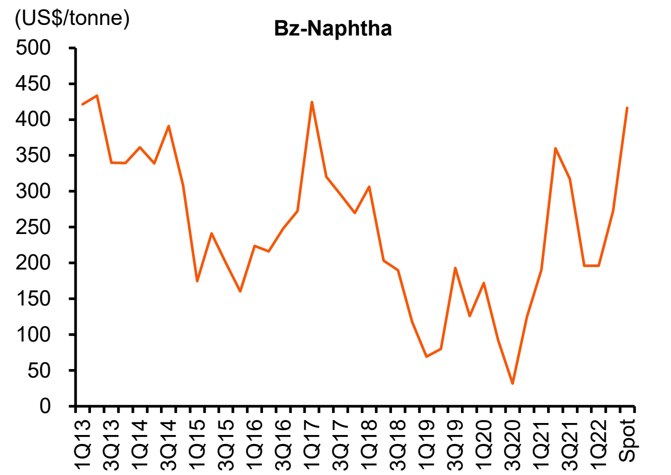
Production was nearly 2.4m b/d below the group's combined target of 39.9m b/d in April.

- **Only Saudi Arabia, UAE hold significant spare capacity.** Saudi Arabia has about 820,000 b/d of production upside that it can tap, while the UAE has about 800,000 b/d, according to Platts Analytics.

Aromatic margins rally to multi-year high

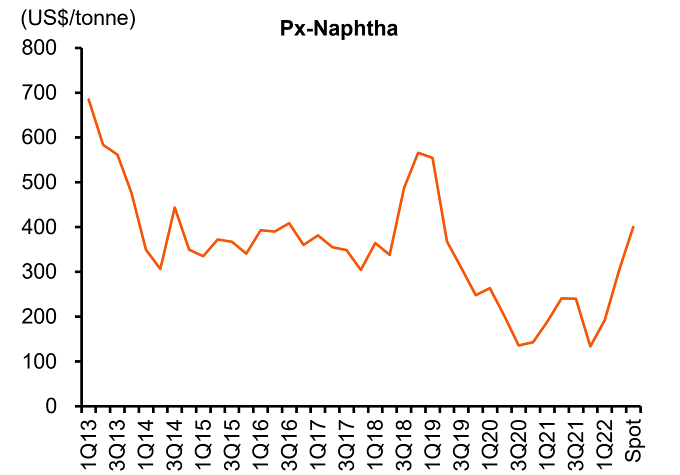
- **Aromatic supply tightens as producers divert to gasoline**. The aromatic spread over naphtha have made a comeback despite pressure from new supply addition. Benzene-Naphtha spread up by 24% w-w to US$416/t, reaching six years high. Meanwhile, paraxylene-naphtha spreads were at US$400/t which was four years high. This is following producers diverting internal resources, switching output to gasoline amid robust demand for road fuel and rapid global inventory drawdown. Spot paraxylene-gasoline spread was US$33/t, significantly below the three-year average of US$208, flagging gasoline as the more profitable product.
- **PTTGC is the key beneficiary**. PTTGC's paraxylene and benzene capacity are accounting for 16% of their total capacity and aromatic accounting for 13% of its EBITDA in 2020-21. TOP will not benefit as much as company mainly used platformate to be key feedstock for its aromatic productions. The platformate price is mainly linked to gasoline which price surge substantially. IRPC doesn't produce paraxylene but have benzene production. However, it's small relative to its total production, accounting for 3.6% of total petrochemical capacity.

Ex 3: Benzene-Naphtha



Source: Bloomberg

Ex 4: Paraxylene-Naphtha



Source: Bloomberg

Ex 5: Prices And Spreads

(US$/bbl)	1Q21	2Q21	3Q21	4Q21	1Q22	QTD	31-Mar	30-Apr	MTD	Last week	This week
Upstream											
Dubai	60	66	71	77	97	105	116	101	109	109	113
Brent	61	69	73	79	98	110	113	106	112	113	122
Henry hub (US$/mmbtu)	2.5	2.6	3.3	3.9	4.5	7.6	5.1	6.8	8.2	8.7	8.9
NEX coal price (US$/t)	87	106	165	185	266	352	350	305	391	416	401
Crack spreads over Dubai											
Gasoline	7.0	9.9	11.6	15.5	17.8	31.3	20.2	24.1	38.4	43.5	40.0
Jet fuel	3.3	4.5	5.3	10.2	16.2	33.1	22.6	31.6	34.5	27.4	32.0
Diesel	(3.4)	(5.8)	(3.3)	(6.9)	(8.3)	12.5	26.6	36.7	36.8	29.9	33.4
High-sulfur fuel oil	0.8	(1.0)	1.6	3.2	(2.1)	(8.7)	(7.9)	8.3	(2.7)	(7.2)	(6.1)
Singapore complex GRM	**2.1**	**2.3**	**4.0**	**6.4**	**8.4**	**20.6**	**11.1**	**19.8**	**21.5**	**19.5**	**19.5**
(US$/tonne)											
Aromatics spreads											
PX-naphtha	190	241	240	134	192	303	193	257	341	399	400
BZ-naphtha	190	360	317	196	196	272	149	226	317	337	416
Olefin spreads											
HDPE-naphtha	577	575	462	509	413	463	377	504	430	409	380
LDPE-naphtha	962	915	740	890	731	802	707	834	776	749	750
PP-naphtha	748	694	548	558	419	442	364	484	408	399	360
Others											
Integrated PET	230	231	185	345	297	298	290	310	285	280	295
ABS-naphtha	1,811	1,932	1,712	1,565	1,108	1,102	1,002	1,129	1,080	1,049	1,070
Phenol-BZ	213	252	255	333	421	231	342	282	180	157	129
BPA -Phenol	1,565	2,008	2,074	1,198	843	715	736	736	693	720	590

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	12.60	17.00	*34.9*	2,482	132.1	(17.3)	4.0	4.8	3.2	3.0	8.5	7.3
BCP	BUY	33.00	34.00	*3.0*	1,323	38.2	(33.6)	7.2	10.8	4.5	7.1	5.5	3.6
ESSO	HOLD	10.30	8.20	*(20.4)*	1,038	na	320.8	52.7	12.5	10.5	7.8	0.0	0.0
IRPC	BUY	3.46	4.40	*27.2*	2,058	(70.7)	489.1	61.7	10.5	12.9	7.4	4.4	4.8
IVL	BUY	49.75	62.00	*24.6*	8,132	96.4	(18.9)	7.0	8.6	6.7	7.3	4.0	3.0
PTG	BUY	14.60	19.00	*30.1*	710	50.8	19.5	16.1	13.4	7.0	6.6	3.1	3.7
PTT	BUY	38.00	42.00	*10.5*	31,600	(5.0)	4.4	12.9	12.3	4.7	4.5	5.3	5.3
PTTEP	HOLD	166.50	161.00	*(3.3)*	19,244	79.9	(9.8)	8.4	9.3	3.1	3.1	3.6	4.2
PTTGC	BUY	48.25	58.00	*20.2*	6,334	(19.4)	5.4	9.5	9.1	7.5	7.0	5.2	5.0
SPRC	SELL	12.50	8.50	*(32.0)*	1,578	na	(23.1)	14.7	19.2	5.9	7.1	4.0	2.6
SUSCO	BUY	3.56	5.20	*46.1*	114	35.0	30.1	13.3	10.3	5.6	4.6	3.7	4.9
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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