Energy Sector – Overweight

News Update

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Subsidies noise

- **Mixed movement in inventory**
- **Thai government discuss ex-refinery price cap**
- **China issues additional batch of fuel export quotas**
- **OPEC+ May output increase led by Russia**

Brent could oil price remains in a US$120/bbl. OPEC output continue to be under production quota in May. Meanwhile, refinery margin increased by 15% w-w to US$22/bbl as middle distillate margins rebound. Thai refineries stock seen profit taking due to subsidies noise.

Mixed movement in inventory

- US commercial crude oil inventory increased by 2m bbls w-w, against -1.9m bbls draw expected by the market and 5m bbls draw last week.
- Gasoline inventories continue to draw with inventory decreasing by 0.8m bbls vs 0.7m bbls draw last week. Meanwhile, distillate inventory turns into a build of 2.6 m bbls.
- US crude oil production was steady w-w at 11.9mbd.

Thai government discuss ex-refinery price cap

Though we think refinery price cap would be difficult to implement, there is risk that could come in other form of subsidies. Those are at risk most are refineries under state-owed PTT group (TOP, IRPC, PTTGC).

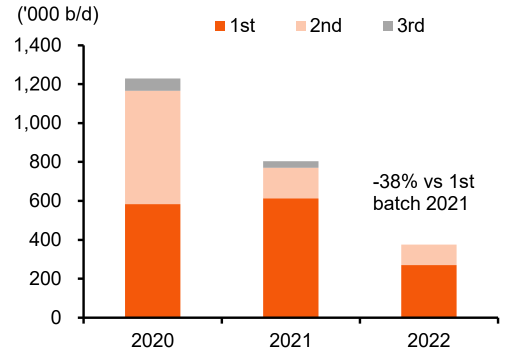
- **Ex-refinery price cap is being discussed**. The Bangkok Post reports that Thailand's Energy Ministry is considering intervention in refinery margins as part of efforts to control energy inflation. Authorities have reportedly formed a working panel to study relevant energy and consumer protection laws and are calling for refinery cooperation to implement a temporary margin intervention.
- **Market intervention would be difficult**. Thai government needs to consider the risk of potential supply shortage as refiners may choose to export instead given more attractive refining margins. The export ban mechanism would be enforced under a more serious scenario, but it will also force refinery to cut production if margin is poor. Note that price intervention at ex-refinery price has never happened before and government normally control price at retail price level via oil fund or tax cut.
- **Could be in other form of subsidies**. There could be other form of subsidies which has been done before in 2008. Companies under PTT's group (BCP, TOP, PTTAR, IRPC) granted discount of Bt3/liter to diesel users who were impacted by high oil price which includes public transportation operators, fishing boats and farmers. The discount last for 6 months during 1 June - 30 Nov 2008 and companies each set a limit for budget to help support. However, the companies set a limit for the amount for subsidies. We find the amount on TOP and BCP filing amounts which

Ex 1: US Weekly data

(m bbls)	Weekly change	Consensus	Last week
Crude Oil	+2.025	(1.917)	(5.068)
Gasoline	(0.812)	+1.075	(0.711)
Distillates	+2.592	+1.060	(0.530)
(kbpd)	**Weekly change**	**% Change**	**Current number**
Production	0	0.0%	11,900
Refinery Runs	+354	2.2%	16,387

Source: EIA

Ex 2: China Fuel Export Quota



Source: Bloomberg

are Bt902m and Bt261m, respectively. Therefore, risk would be greater for refineries under PTT group given there could be a possibility that these refineries voluntary reduce price as a part of national services.

China issues additional batch of fuel export quotas

- **Two batch combined still lower than 1st batch in 2021.** China has issued 4.5mt (104k b/d) of quotas for refined fuel exports. Combined with first batch of 13mt, total export quota YTD in 2022 stands at 17.5mt (376k b/d) which is 40% lower comparing to 1st batch in 2021.
- **China export is expected to continue to be limited**. We expect fuel export from China will continue to be limited given China domestic demand has been improving from lockdown. This means that domestic refiners would ramp up production to meet with rising domestic demand and unlikely export into the regional market.

OPEC+ May output increase led by Russia

- **OPEC + output up 120k b/d m-m**. The increase is mainly led by gains in in Russia and Kazakhstan which output increased by 150,000 b/d and 190,000 b/d m-m, respectively. Kazakhstan also saw a healthy bounce in May to 1.52 million b/d, thanks to repairs to its damaged CPC pipeline from storm damage in April. Exports of Russian crude have remained resilient in the face of the sanctions, with some buyers eager to snap up discounted cargoes. But analysts expect production to contract sharply in the months ahead, as the EU implements a ban on almost all seaborne Russian oil imports by year-end.
- **However, OPEC's 13 members output dropped.** OPEC's 13 members pumped 28.62 m b/d in May, down 180,000 b/d from April, including major losses in Nigeria and Libya. Going forward, the OPEC+ alliance has accelerated its quota increases for July and August, in anticipation of higher global oil demand. The group will hike quotas by 643,000 b/d each month, a roughly 50% rise from the typical 432,000 b/d rises, ministers announced June 2.

Ex 3: Prices And Spreads

(US$/bbl)	1Q21	2Q21	3Q21	4Q21	1Q22	QTD	30-Apr	31-May	MTD	Last week	This week
Upstream											
Dubai	60	66	71	77	97	107	101	109	119	113	119
Brent	61	69	73	79	98	111	106	112	120	122	120
Henry hub (US$/mmbtu)	2.5	2.6	3.3	3.9	4.5	7.7	6.8	8.2	8.9	8.9	8.9
NEX coal price (US$/t)	87	106	165	185	266	356	305	391	406	401	415
Crack spreads over Dubai											
Gasoline	7.0	9.9	11.6	15.5	17.8	34.5	24.1	38.4	40.4	40.0	41.4
Jet fuel	3.3	4.5	5.3	10.2	16.2	37.3	31.6	34.5	45.5	32.0	42.3
Diesel	(3.4)	(5.8)	(3.3)	(6.9)	(8.3)	12.5	36.7	36.8	50.4	33.4	47.1
High-sulfur fuel oil	0.8	(1.0)	1.6	3.2	(2.1)	(8.7)	8.3	(2.7)	(9.8)	(6.1)	(10.6)
Singapore complex GRM	**2.1**	**2.3**	**4.0**	**6.4**	**8.4**	**21.9**	**19.8**	**21.5**	**23.5**	**19.5**	**22.4**
(US$/tonne)											
Aromatics spreads											
PX-naphtha	190	241	240	134	192	321	257	341	480	400	480
BZ-naphtha	190	360	317	196	196	337	226	317	496	416	541
Olefin spreads											
HDPE-naphtha	577	575	462	509	413	453	504	430	360	380	360
LDPE-naphtha	962	915	740	890	731	795	834	776	730	750	730
PP-naphtha	748	694	548	558	419	434	484	408	360	360	360
Others											
Integrated PET	230	231	185	345	297	290	310	284	215	295	219
ABS-naphtha	1,811	1,932	1,712	1,565	1,108	1,093	1,129	1,080	1,010	1,070	1,010
Phenol-BZ	213	252	255	333	421	179	282	180	74	129	29
BPA -Phenol	1,565	2,008	2,074	1,198	843	646	736	693	510	590	510

Sources: TOP, Bloomberg

Ex 4: Valuation

	Rating	Current price (Bt)	Target price (Bt)	*Upside/ (Downside) (%)*	Market cap (US$ m)	Norm EPS growth 2022F (%)	2023F (%)	— Norm PE — 2022F (x)	2023F (x)	EV/EBITDA 2022F (x)	2023F (x)	— Yield — 2022F (%)	2023F (%)
BANPU	BUY	13.00	17.00	*30.8*	2,530	132.1	(17.3)	4.1	5.0	3.2	3.1	8.3	7.0
BCP	BUY	34.25	34.00	*(0.7)*	1,357	38.2	(33.6)	7.4	11.2	4.6	7.2	5.3	3.5
ESSO	HOLD	12.20	8.20	*(32.8)*	1,215	na	320.8	62.4	14.8	11.8	8.9	0.0	0.0
IRPC	BUY	3.50	4.40	*25.7*	2,057	(70.7)	489.1	62.4	10.6	12.9	7.5	4.3	4.7
IVL	BUY	51.25	62.00	*21.0*	8,278	96.4	(18.9)	7.2	8.8	6.8	7.5	3.9	2.9
PTG	BUY	14.40	20.00	*38.9*	692	50.7	19.3	15.9	13.3	7.2	6.2	3.2	3.8
PTT	BUY	37.50	42.00	*12.0*	30,813	(5.0)	4.4	12.7	12.2	4.7	4.4	5.3	5.3
PTTEP	HOLD	173.00	161.00	*(6.9)*	19,757	79.9	(9.8)	8.7	9.6	3.2	3.2	3.5	4.0
PTTGC	BUY	47.25	58.00	*22.8*	6,129	(19.4)	5.4	9.3	8.9	7.4	6.9	5.3	5.1
SPRC	SELL	13.00	8.50	*(34.6)*	1,622	na	(23.1)	15.3	19.9	6.2	7.4	3.8	2.5
SUSCO	BUY	3.80	6.20	*63.2*	120	46.5	11.9	11.4	10.2	6.0	5.2	5.3	5.9
TOP	SELL	56.75	45.00	*(20.7)*	3,330	53.9	(24.2)	13.5	17.8	13.2	17.8	5.3	2.2

Sources: Company data, Thanachart estimates

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