Energy Sector – Overweight

News Update

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A contrast movement in crude and oil products

- **Oil corrected below US$110 as fear on recession intensify**
- **Yet, refinery margin broke another record high**
- **Strong physical oil demand in Asia despite higher price**
- **Tax waives and subsidies support oil demand**

While Brent crude dropped below US$110/bbl, gasoline and diesel prices haven't fallen anywhere near as fast. In fact, refinery margins continue to be strong and broke record high, reaching US$29/bbl this week vs US$25/bbl last week.

US EIA delays data releases

- The US Energy Information Administration is delaying the bulk of its scheduled data releases for the week starting June 20 due to an unnamed systems issue, according to a June 22 statement.

Strong physical oil demand in Asia despite higher price

- **China demand coming back**. China's roads are getting busy again after major lockdowns in two of its biggest cities ended. Average congestion in 15 Chinese cities with the highest vehicle registrations has now been above a January 2021 baseline for more than a month after spending much of April and March at reduced levels, according to Bloomberg.

- **Indian consumption remains strong.** Indian demand for gasoline, diesel and LPG in the first half of June was substantially higher than the equivalent period of 2019, while jet remained 16% below, according to a Bloomberg survey of refinery officials. Diesel demand in first half of June was 16% higher than 2019 and gasoline was 21% higher.

- **US gasoline and diesel demand still below pre-covid.** US gasoline demand, while rising by 11% YTD, is still underperforming the pre-pandemic years of 2019 by 8%, according to the Energy Information Administration. Meanwhile, distillate demand is also 17% lower than pre-pandemic level.

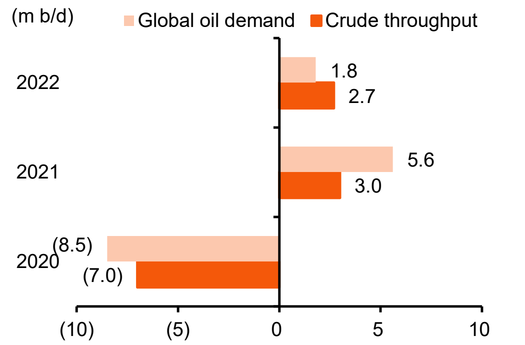
- **Europe gasoline and diesel demand back to pre-covid.** The latest monthly data for France and Italy provides some insight on the situation in continental Europe. Toll road volumes in both countries were higher in May than the equivalent month of 2019, as were gasoline sales. Jet fuel demand was substantially lower than pre-Covid in both countries by about 20%, while diesel was mixed: demand was 1% higher in Italy and 4.5% down in France.

Ex 1: US Weekly data

(m bbls)	Weekly change	Consensus	Last week
Crude Oil	+1.957	(1.314)	+2.025
Gasoline	(0.710)	+1.066	(0.812)
Distillates	+0.725	+0.292	2.592
(kbpd)	**Weekly change**	**% Change**	**Current number**
Production	+100	0.8%	12,000
Refinery Runs	-68	-0.4%	16,319

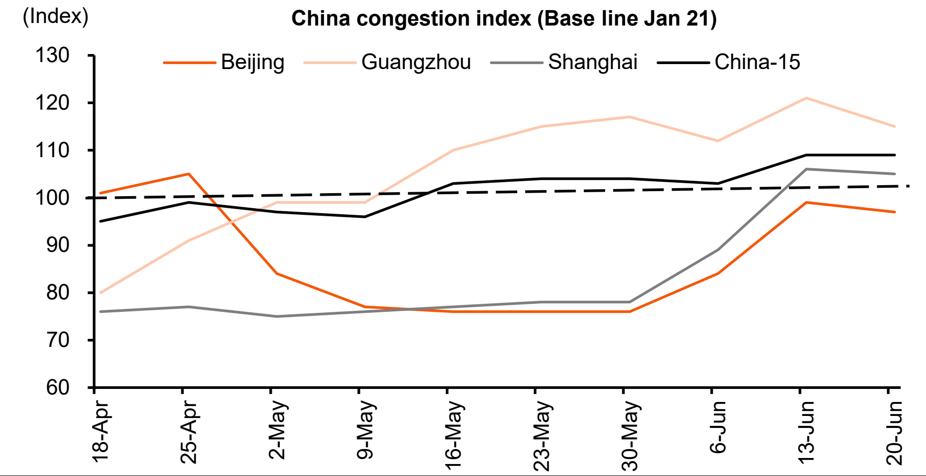
Source: EIA, as of 15th June 2022

Ex 2: Refinery Supply Lagging Demand



Source: Bloomberg

Ex 3: China Congestion Index (Base line = Jan 2021)



Sources: Bloomberg, BNEF calculations based on Baidu congestion data, showing a seven-day moving average indexed against a January 2021 baseline of 100. China-15 is the weighted average of the 15 cities with the highest number of vehicle registrations. m/m comparisons are June 20 vs May 20

Tax waives and subsidies support oil demand

Many countries are providing subsidies or tax cuts to reduce impacts from inflation. However, these are effectively leads to demand preservation, in our view.

- **US government considers fuel tax waive.** US President Joe Biden June 22 called on Congress to waive federal taxes on gasoline and diesel through September to ease the burden of soaring prices. That would mean the government would stop collecting the tax — 18 cents per gallon on gas and 24 cents per gallon on diesel — until the end of September, the peak driving period for people heading out on summer vacations.
- **South Korea to cut fuel taxes further**. South Korea will further slash fuel taxes to shield consumers from broader price pressures after inflation accelerated at the fastest pace in more than 13 years in May. The country will deepen tax cuts on gasoline, diesel and liquefied petroleum gas to 37% from 30% beginning July until end-2022, according to the Ministry of Finance.
- **Thai government is asking refinery to help.** With huge oil fund deficit of nearly Bt100bn, the government is now asking refiners to help support the oil fund to prolong diesel price cap which will likely be concluded by end of June. The Energy Ministry is now capping the retail price of diesel at no more than Bt35 per litre and help subsidize Bt11 per litre.

Ex 4: Prices And Spreads

(US$/bbl)	1Q21	2Q21	3Q21	4Q21	1Q22	QTD	Apr-22	May-22	MTD	Last week	This week
Upstream											
Dubai	60	66	71	77	97	108	101	109	117	120	113
Brent	61	69	73	79	98	112	106	112	118	122	114
Henry hub (US$/mmbtu)	2.5	2.7	3.4	3.9	4.5	7.6	6.8	8.2	7.9	8.6	6.9
NEX coal price (US$/t)	87	106	165	185	266	362	305	391	397	390	393
Crack spreads over Dubai											
Gasoline	7.0	9.9	11.6	15.5	17.8	34.4	24.1	38.4	40.2	40.8	46.8
Jet fuel	3.3	4.5	5.3	10.2	16.2	38.8	31.6	34.5	50.1	53.4	59.2
Diesel	(3.4)	(5.8)	(3.3)	(6.9)	(8.3)	12.5	36.7	36.8	53.6	56.7	63.9
High-sulfur fuel oil	0.8	(1.0)	1.6	3.2	(2.1)	(8.7)	8.3	(2.7)	(14.0)	(12.7)	(13.2)
Singapore complex GRM	**2.1**	**2.3**	**4.0**	**6.4**	**8.4**	**21.7**	**19.8**	**21.5**	**23.6**	**25.2**	**29.3**
(US$/tonne)											
Aromatics spreads											
PX-naphtha	190	241	240	134	192	358	257	341	521	587	496
BZ-naphtha	190	360	317	196	196	360	226	317	557	629	501
Olefin spreads											
HDPE-naphtha	577	575	462	509	413	447	504	430	399	407	431
LDPE-naphtha	962	915	740	890	731	787	834	776	742	747	751
PP-naphtha	748	694	548	558	419	432	484	408	402	407	441
Others											
Integrated PET	230	231	185	345	297	290	310	284	268	298	363
ABS-naphtha	1,811	1,932	1,712	1,565	1,108	1,090	1,129	1,080	1,056	1,057	1,101
Phenol-BZ	213	252	255	333	421	181	282	180	81	36	180
BPA -Phenol	1,565	2,008	2,074	1,198	843	631	736	693	464	462	420

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	12.20	17.00	*39.3*	2,326	132.1	(17.3)	3.9	4.7	3.1	3.0	8.8	7.5
BCP	BUY	31.00	39.00	*25.8*	1,203	116.4	(34.9)	4.3	6.6	3.1	4.7	5.8	3.9
ESSO	BUY	11.10	16.00	*44.1*	1,083	na	(9.9)	6.1	6.8	4.2	5.2	9.0	4.4
IRPC	BUY	3.16	4.40	*39.2*	1,820	(70.7)	489.1	56.4	9.6	12.2	7.1	4.8	5.2
IVL	BUY	47.50	62.00	*30.5*	7,516	96.4	(18.9)	6.6	8.2	6.6	7.2	4.2	3.2
PTG	BUY	13.70	20.00	*46.0*	645	50.7	19.3	15.1	12.6	7.0	6.0	3.3	4.0
PTT	BUY	33.25	42.00	*26.3*	26,766	(5.0)	4.4	11.3	10.8	4.4	4.1	6.0	6.0
PTTEP	HOLD	153.50	161.00	*4.9*	17,175	79.9	(9.8)	7.7	8.5	2.9	2.9	3.9	4.6
PTTGC	BUY	44.75	58.00	*29.6*	5,687	(19.4)	5.4	8.8	8.4	7.2	6.7	5.6	5.4
SPRC	BUY	11.70	15.50	*32.5*	1,430	na	(39.5)	4.5	7.4	2.7	4.0	10.3	4.0
SUSCO	BUY	3.70	6.20	*67.6*	115	46.5	11.9	11.1	9.9	5.9	5.0	5.4	6.1
TOP	HOLD	49.75	57.00	*14.6*	2,860	194.9	(25.7)	6.2	8.3	8.8	12.0	6.0	3.9

Sources: Company data, Thanachart estimates

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