Energy Sector – Overweight

News Update

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Supply concern mounted

- **US commercial crude draw, but oil products build**
- **A symbolic move by OPEC + members**
- **Question raises on "actual" OPEC spare capacity**
- **India aims to curb refined oil products export**

Bullish sentiment is once again building in oil markets as concern on supply disruptions overshadowed fears of a global recession, while OPEC spare capacity is in doubt. Meanwhile, refinery market is now at risk for supply disruption with India government aims to curb export.

US commercial crude draw, but oil products build

- US commercial crude oil inventory decreased by another 2.76m bbls w-w, against -0.57m bbls draw expected by the market and 0.386m bbls draw last week.
- Gasoline and distillate inventories both saw a large build by another to 2.6m bbls each which is more than market expectation.
- US crude oil production increased 100k bpd w-w to 12.1mbd, but still below pre-Covid level.

A symbolic move by OPEC +

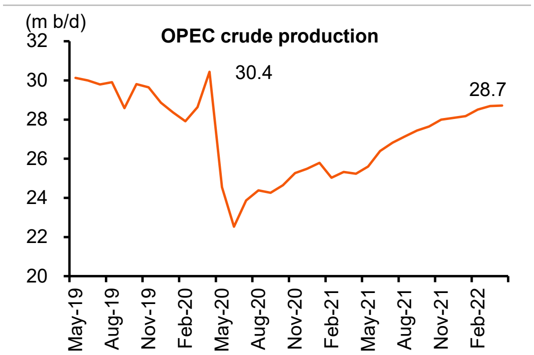
- **OPEC+ agreed to maintain a 648,000 b/d increase in its production target for August**, keeping its commitment unchanged despite increasing evidence that spare capacity within the oil group has thinned to its lowest level in years. Next OPEC+ meeting scheduled for Aug. 3.
- **Libya's state-owned NOC has formally declared force majeure** on operations at the eastern ports of Es Sider and Ras Lanuf and at the El Feel oil field, as protests and blockades continue to curb the country's crude production and exports. The demonstrations have driven Libyan crude exports down to between 365,000 b/d and 409,000 b/d, a decline of 865,000 b/d from "production rates in normal conditions", NOC said on 30 June.
- **Iran nuclear deal negotiations fall apart**. According to US officials, as reported by Reuters, the odds of reviving the Iranian nuclear deal are even lower after the Doha talks held this week than before, describing the negotiations as "treading water"
- **The pledge of additional barrels may prove to be largely symbolic**. With investment constraints preventing most members of OPEC+ from raising production, and some like Angola and Libya suffering from severe losses. They are also likely to mean that OPEC's oil production in June did not increase any further, despite the expansion of supply that had been agreed.

Ex 1: US Weekly data

(m bbls)	Weekly change	Consensus	Last week
Crude Oil	-2.762	-0.569	-0.386
Gasoline	2.646	-0.452	+1.489
Distillates	2.559	-0.190	+0.133
(kbpd)	**Weekly change**	**% Change**	**Current number**
Production	+100	0.8%	12,100
Refinery Runs	+402	+2.5%	16,665

Source: EIA, as of 15th June 2022

Ex 2: OPEC Crude Oil Output

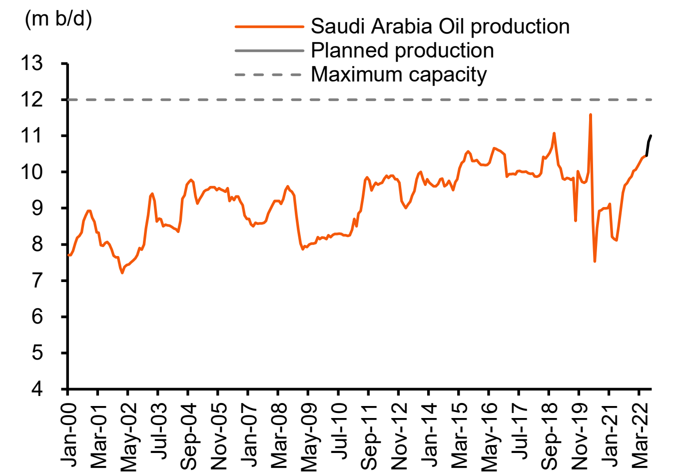


Source: Bloomberg

- **Question raises on "actual" OPEC spare capacity**. According to the International Energy Agency, those Saudi Arabia and the United Arab Emirates together hold about 2.2m b/d of unused capacity, or about 2% of world supply. However, the actual spare capacity is question by the market. According to French President Emmanuel Macron, he had been told by the UAE's president that two top OPEC oil producers can barely increase oil production.

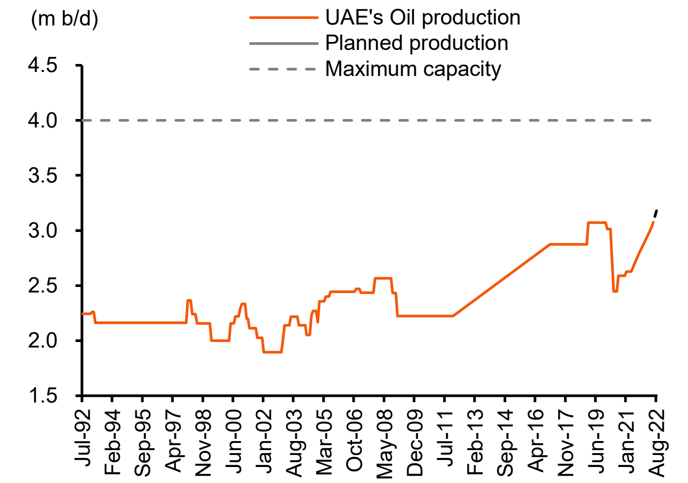
- **Maximum capacity never been tested**. Saudi Arabia is producing 10.5m b/d in June 2022 and has a nameplate capacity of 12.0-12.5 m b/d, which in theory shall allow it to raise production by 2 million. However, the highest output level sustained by Saudi Arabia over the course of a month has been 11.6m b/d in April 2020 and maximum capacity has never been tested. The UAE is producing some 3.1m b/d, has capacity of 3.4 m and has been working on raising it to 4 m b/d which never been tested before either.

Ex 3: Saudi Arabia Oil Production In Doubt…



Source: Bloomberg

Ex 4: …as well as UAE



Source: Bloomberg

India aims to curb refined oil export

- **India aims to fix domestic shortage problem.** India government imposed special additional excise duty on export of petrol and diesel. This is given shortage in the domestic market as private oil marketing companies were exporting petrol and diesel to foreign countries for better margin. India's additional tax will be 6 rupees per liter (US$12/bbl) on gasoline and jet fuel and gasoil exports will be 13 rupees per liter (US$25/bbl). The additional export tax is high relative to gasoline cracker spread of US$43/bbl, jet of US$47, and diesel of US$53. New restrictions also require oil companies exporting gasoline to sell to the domestic market the equivalent of 50% of the amount sold overseas for the fiscal year ending on March 31, 2023. For diesel, they are required to sell domestic buyers the equivalent of at least 30% of the amount that they export.

- **More threat on refined oil product supply**. The new taxes will serve as an incentive to keep more product at home and export less which means that will further tighten international markets for oil and oil products. India is one of major diesel export country and one of a key incremental diesel supply to Europe. India is exporting diesel around 3.1 mt, or 733,000 b/d in May. This is similar level that Russia diesel export to Europe.

Ex 5: Prices And Spreads

(US$/bbl)	1Q21	2Q21	3Q21	4Q21	1Q22	QTD	Apr-22	May-22	MTD	Last week	This week
Upstream											
Dubai	60	66	71	77	97	108	101	109	115	113	110
Brent	61	69	73	79	98	112	106	112	117	114	115
Henry hub (US$/mmbtu)	2.5	2.7	3.4	3.9	4.5	7.6	6.8	8.2	7.6	6.9	6.5
NEX coal price (US$/t)	87	106	165	185	266	364	305	391	396	393	392
Crack spreads over Dubai											
Gasoline	7.0	9.9	11.6	15.5	17.8	35.0	24.1	38.8	42.1	46.8	42.5
Jet fuel	3.3	4.5	5.3	10.2	16.2	39.6	31.6	34.5	52.5	58.7	46.6
Diesel	(3.4)	(5.8)	(3.3)	(6.9)	(8.3)	12.5	36.7	37.4	56.5	64.0	53.0
High-sulfur fuel oil	0.8	(1.0)	1.6	3.2	(2.1)	(8.7)	8.3	(3.7)	(13.7)	(13.2)	(15.0)
Singapore complex GRM	**2.1**	**2.3**	**4.0**	**6.4**	**8.4**	**22.3**	**19.8**	**21.6**	**25.4**	**29.7**	**23.8**
(US$/tonne)											
Aromatics spreads											
PX-naphtha	190	241	240	134	192	364	257	341	499	496	433
BZ-naphtha	190	360	317	196	196	353	226	317	523	501	411
Olefin spreads											
HDPE-naphtha	577	575	462	509	413	444	504	430	403	431	413
LDPE-naphtha	962	915	740	890	731	781	834	776	735	751	713
PP-naphtha	748	694	548	558	419	431	484	408	408	441	423
Others											
Integrated PET	230	231	185	345	297	290	310	284	270	363	299
ABS-naphtha	1,811	1,932	1,712	1,565	1,108	1,088	1,129	1,080	1,058	1,101	1,063
Phenol-BZ	213	252	255	333	421	193	282	180	117	180	232
BPA -Phenol	1,565	2,008	2,074	1,198	843	625	736	693	446	420	390

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	12.40	17.00	*37.1*	2,354	132.1	(17.3)	3.9	4.7	3.1	3.0	8.7	7.4
BCP	BUY	31.25	39.00	*24.8*	1,207	116.4	(34.9)	4.3	6.6	3.1	4.7	5.8	3.8
ESSO	BUY	11.40	16.00	*40.4*	1,107	na	(9.9)	6.3	7.0	4.3	5.3	8.8	4.3
IRPC	BUY	3.22	4.40	*36.6*	1,846	(70.7)	489.1	57.4	9.7	12.4	7.1	4.7	5.1
IVL	BUY	46.00	62.00	*34.8*	7,247	96.4	(18.9)	6.4	7.9	6.5	7.1	4.3	3.3
PTG	BUY	13.60	20.00	*47.1*	637	50.7	19.3	15.0	12.6	7.0	6.0	3.3	4.0
PTT	BUY	34.50	42.00	*21.7*	27,651	(5.0)	4.4	11.7	11.2	4.4	4.2	5.8	5.8
PTTEP	HOLD	159.00	161.00	*1.3*	17,712	79.9	(9.8)	8.0	8.8	3.0	3.0	3.8	4.4
PTTGC	BUY	45.50	58.00	*27.5*	5,757	(19.4)	5.4	9.0	8.5	7.2	6.8	5.5	5.3
SPRC	BUY	12.10	15.50	*28.1*	1,472	na	(39.5)	4.6	7.6	2.8	4.1	9.9	3.9
SUSCO	BUY	3.60	6.20	*72.2*	111	46.5	11.9	10.8	9.6	5.7	4.9	5.6	6.2
TOP	HOLD	52.25	57.00	*9.1*	2,991	194.9	(25.7)	6.5	8.7	8.9	12.2	5.7	3.7

Sources: Company data, Thanachart estimates

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