# Energy Sector – Overweight

News Update

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## Negative sentiment put pressure on oil price

- **US crude inventory build, but products inventory draw**
- **Oil bounced back from recession fear**
- **Saudi Arabia raised OSP premium in Aug**
- **China 2nd batch export quota remains limited**

Oil prices tumbled by nearly 10% on Tuesday and have slide even further the day after. The drop has been attributed to growing recession fears and weakening demand. However, it was able to rebound to nearly US$110/bbl at the end of the week. Fundamentally, there is no big change, and we see that crude oil market remains tight.

### US crude inventory build, but products inventory draw

- US commercial crude oil inventory increased by 8.235m bbl bbls w-w, against -1.043m bbls draw expected by the market and -2.8m bbls draw last week.
- Gasoline and distillate inventories both saw a large draw, reversing from last week trend and larger than consensus estimate.
- US crude oil production was flat w-w at 12.1mbd, still below pre-Covid level.

### Oil bounce back from recession fears

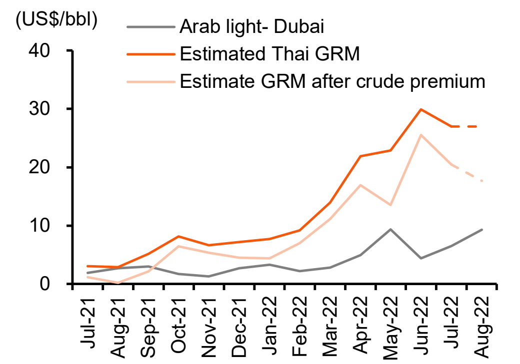
- **Brent drop below US$100/bbl**. Oil prices tumbled by nearly 10% on Tuesday and have slide even further the day after. The drop has been attributed to growing recession fears and weakening demand.
- **But no change to forward curve...**The decline in crude oil price did not trigger any changes along the futures curve, implying that the huge drop was primarily coming from widespread profit-taking.
- **...as well as to fundamental.** Crude oil market remains tight, and demand remain resilient despite higher oil price in June**.** Saudi Arabia raising OSP to Asia refinery reflects strong demand from the refiners, in our view. Additionally, global crude product inventory remains below five-year average. In the latest week, total oil product stockpiles increased by 1.0% w-w to 925.2m bbl, with the stockpile deficit against the three-year seasonal average narrowing from 72.2m bbl to 62.2m bbl.

**Ex 1: US Weekly data**

| (m bbls) | Weekly change | Consensus | Last week |
|---|---|---|---|
| Crude Oil | 8.235 | -1.043 | -2.762 |
| Gasoline | -2.497 | -0.480 | 2.645 |
| Distillates | -1.266 | 1.133 | 2.559 |
| **(kbpd)** | **Weekly change** | **% Change** | **Current number** |
| Production | +0 | 0.0% | 12,100 |
| Refinery Runs | -227 | -1.4% | 16,438 |

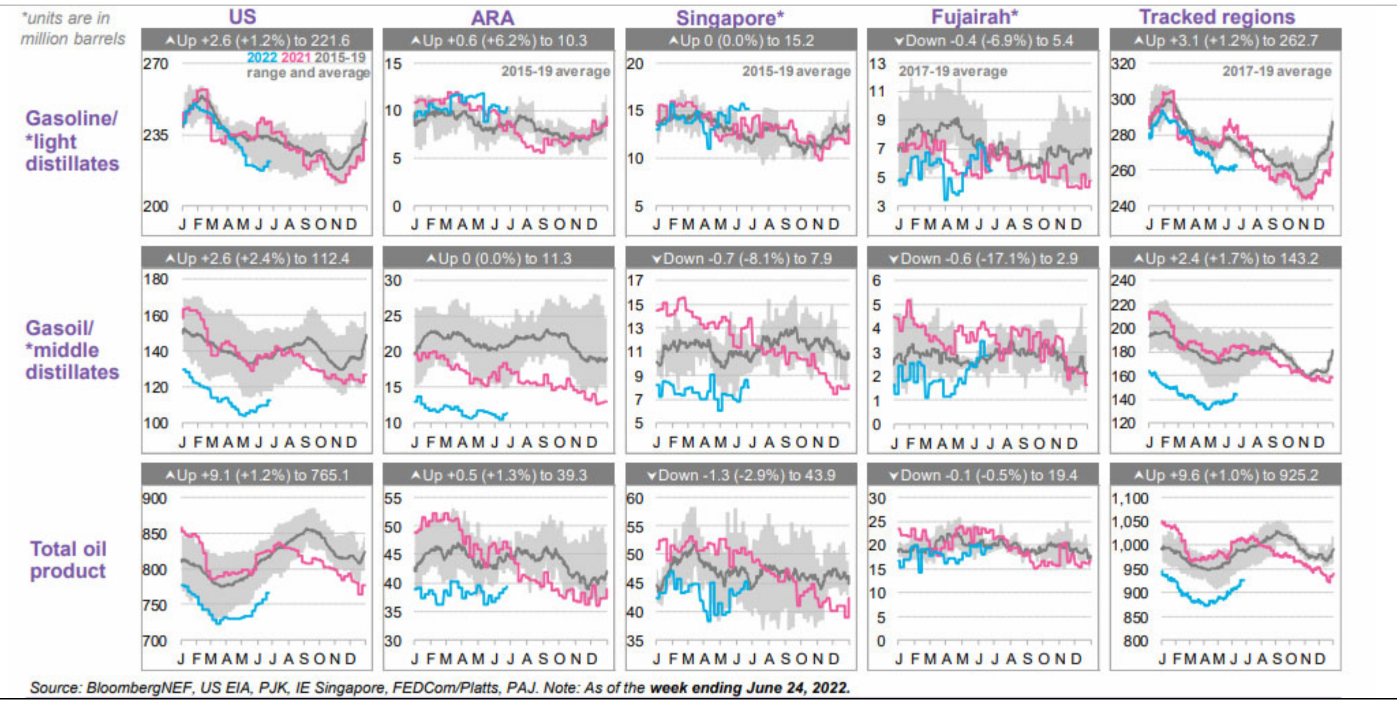
Source: EIA, as of 7 Jul 2022

**Ex 2: Saudi Arabia OSP vs Thai GRM**




Source: Bloomberg

**Ex 3: Global Oil Product Inventory**




Sources: Bloomberg

**Saudi Arabia raised OSP premium in Aug**

- **Higher OSP premium is to be expected.** The official selling price (OSP) for August-loading Arab Light to Asia was raised by US$2.80/bbl from July to US$9.30/bbl over Oman/Dubai quotes, state oil producer Saudi Aramco. This is expected given the prevailing tight refinery market and in-line with consensus expectation according to Reuter news.
- **Refinery margin remains strong**. The higher crude premium doesn't lead to a big drop in refinery margin, in our view. We estimate that Thai refinery margin after crude premium to remain near US$20/bbl in August if the crack spread maintain at current level. This is comparing to normal GRM range of US$6-8/bbl.

**China 2$^{nd}$ batch export quota remains limited**

- **Additional export quota still limited.** China is likely to issue 5 mt (39.75 million barrels) of quotas in its second batch for exporting gasoline, gasoil and jet fuel in 2022. The new allocation would lift the total quota volume to 22.5 mt thus far for 2022, 39.2% lower than the 37 mt awarded in the first two batches of 2021.
- **China export flow will remain limited**. China's oil product exports collectively fell by 51.9% on the year to 10.35 mt over January-May, according to Bloomberg. With export quota remain low, we think that Chinese export flow will continue to be limited.

### Ex 4: Prices And Spreads

| (US$/bbl) | 1Q21 | 2Q21 | 3Q21 | 4Q21 | 1Q22 | 2Q22 | May-22 | Jun-22 | MTD | Last week | This week |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Upstream** | | | | | | | | | | | |
| Dubai | 60 | 66 | 71 | 77 | 97 | 108 | 109 | 115 | 115 | 110 | 115 |
| Brent | 61 | 69 | 73 | 79 | 98 | 112 | 112 | 117 | 107 | 115 | 114 |
| Henry hub (US$/mmbtu) | 2.5 | 2.7 | 3.4 | 3.9 | 4.5 | 7.6 | 8.2 | 7.6 | 6.6 | 6.5 | 6.6 |
| NEX coal price (US$/t) | 87 | 106 | 165 | 185 | 266 | 364 | 391 | 396 | 394 | 392 | 396 |
| | | | | | | | | | | | |
| **Crack spreads over Dubai** | | | | | | | | | | | |
| Gasoline | 7.0 | 9.9 | 11.6 | 15.5 | 17.8 | 35.0 | 38.8 | 41.9 | 39.3 | 46.8 | 41.0 |
| Jet fuel | 3.3 | 4.5 | 5.3 | 10.2 | 16.2 | 39.6 | 34.5 | 51.1 | 46.0 | 58.7 | 44.8 |
| Diesel | (3.4) | (5.8) | (3.3) | (6.9) | (8.3) | 12.5 | 37.4 | 55.3 | 51.6 | 64.0 | 50.2 |
| High-sulfur fuel oil | 0.8 | (1.0) | 1.6 | 3.2 | (2.1) | (8.7) | (3.7) | (13.7) | (17.2) | (13.2) | (16.6) |
| **Singapore complex GRM** | **2.1** | **2.3** | **4.0** | **6.4** | **8.4** | **22.1** | **21.6** | **24.7** | **21.6** | **29.6** | **21.6** |
| | | | | | | | | | | | |
| **(US$/tonne)** | | | | | | | | | | | |
| **Aromatics spreads** | | | | | | | | | | | |
| PX-naphtha | 190 | 241 | 240 | 134 | 192 | 364 | 341 | 499 | 376 | 433 | 376 |
| BZ-naphtha | 190 | 360 | 317 | 196 | 196 | 353 | 317 | 523 | 407 | 411 | 407 |
| **Olefin spreads** | | | | | | | | | | | |
| HDPE-naphtha | 577 | 575 | 462 | 509 | 413 | 444 | 430 | 403 | 406 | 413 | 406 |
| LDPE-naphtha | 962 | 915 | 740 | 890 | 731 | 781 | 776 | 735 | 686 | 713 | 686 |
| PP-naphtha | 748 | 694 | 548 | 558 | 419 | 431 | 408 | 408 | 396 | 423 | 396 |
| **Others** | | | | | | | | | | | |
| Integrated PET | 230 | 231 | 185 | 345 | 297 | 290 | 284 | 270 | 328 | 299 | 328 |
| ABS-naphtha | 1,811 | 1,932 | 1,712 | 1,565 | 1,108 | 1,088 | 1,080 | 1,058 | 1,016 | 1,063 | 1,016 |
| Phenol-BZ | 213 | 252 | 255 | 333 | 421 | 193 | 180 | 117 | 144 | 232 | 144 |
| BPA -Phenol | 1,565 | 2,008 | 2,074 | 1,198 | 843 | 625 | 693 | 446 | 475 | 390 | 475 |

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 | 12.60 | 17.00 | *34.9* | 2,367 | 132.1 | (17.3) | 4.0 | 4.8 | 3.2 | 3.0 | 8.5 | 7.3 |
| BCP | BUY | 30.75 | 39.00 | *26.8* | 1,176 | 116.4 | (34.9) | 4.3 | 6.5 | 3.1 | 4.6 | 5.9 | 3.9 |
| ESSO | BUY | 11.20 | 16.00 | *42.9* | 1,076 | na | (9.9) | 6.2 | 6.8 | 4.3 | 5.2 | 8.9 | 4.4 |
| IRPC | BUY | 3.20 | 4.40 | *37.5* | 1,815 | (70.7) | 489.1 | 57.1 | 9.7 | 12.3 | 7.1 | 4.7 | 5.2 |
| IVL | BUY | 46.25 | 62.00 | *34.1* | 7,210 | 96.4 | (18.9) | 6.5 | 8.0 | 6.5 | 7.1 | 4.3 | 3.2 |
| PTG | BUY | 13.80 | 20.00 | *44.9* | 640 | 50.7 | 19.3 | 15.2 | 12.7 | 7.1 | 6.0 | 3.3 | 3.9 |
| PTT | BUY | 34.50 | 42.00 | *21.7* | 27,359 | (5.0) | 4.4 | 11.7 | 11.2 | 4.4 | 4.2 | 5.8 | 5.8 |
| PTTEP | HOLD | 159.00 | 161.00 | *1.3* | 17,525 | 79.9 | (9.8) | 8.0 | 8.8 | 3.0 | 3.0 | 3.8 | 4.4 |
| PTTGC | BUY | 45.50 | 58.00 | *27.5* | 5,696 | (19.4) | 5.4 | 9.0 | 8.5 | 7.2 | 6.8 | 5.5 | 5.3 |
| SPRC | BUY | 11.70 | 15.50 | *32.5* | 1,408 | na | (39.5) | 4.5 | 7.4 | 2.7 | 4.0 | 10.3 | 4.0 |
| SUSCO | BUY | 3.46 | 6.20 | *79.2* | 106 | 46.5 | 11.9 | 10.4 | 9.3 | 5.6 | 4.8 | 5.8 | 6.5 |
| TOP | HOLD | 51.25 | 57.00 | *11.2* | 2,903 | 194.9 | (25.7) | 6.3 | 8.5 | 8.9 | 12.1 | 5.9 | 3.8 |

Sources: Company data, Thanachart estimates

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