Energy Sector – Overweight

News Update

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Another bearish week for refineries

- **Mixed movement in US inventory data**
- **Gasoline demands show a sign of weakness**
- **Nord stream 1 gas pipeline only resume partial of capacity**
- **EU reject to cut gas usage**

Refinery margins shows another week of decline, leading by weaker gasoline margin weigh by slower gasoline demand. Diesel and jet fuel crack spreads also dropped from peak to US$27/bbl from US$35/bbl last week but remains more than double the five-year average. Brent crude oil price was steady w-w.

Mixed movement in US inventory data

- US commercial crude oil inventory shows a modest draw of 0.45m bbls w-w, against 1.4m bbls build expected by the market and 3.2m bbls build last week.
- Gasoline inventories shows a higher-than-expected build of 3.5m bbls while distillate inventories reversed to a draw of 1.3m bbls which surprise market expectation.
- US crude oil production decreased 100k bpd w-w to 12.0m bd

Gasoline demands show a sign of weakness

Given its relatively high price elasticity of demand compared to diesel, gasoline sales in US started softening. However, lower crude price may lead to consumption recovery in summer and trigger gasoline margin to rebound. Additionally, US hurricane season is coming in late August and will be the next key event.

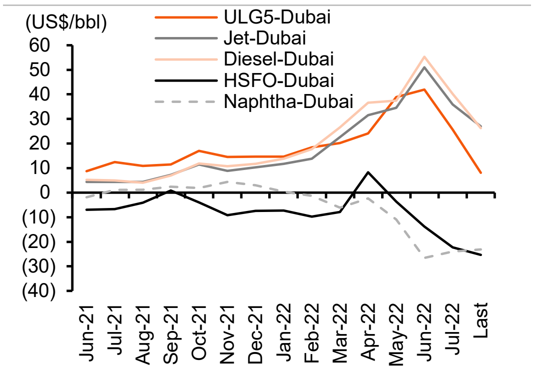
- **Softer gasoline demand in the US...** As mentioned, US gasoline stocks builds extended for a second week counter seasonal strong demand. The builds come as implied demand remains well below normal. Total product supplied for gasoline was 9% behind the five-year average in the week to July 15, despite climbing 460,000 b/d from the week prior to 8.52 m b/d.
- **...as well as in Asia**. Asia's gasoline demand is expected to soften as demand from Indonesia was heard decreasing post Eid festivities. Indonesia, one of Asia's largest buyers of gasoline, was expected to import 9 m barrels of the motor fuel in July, down from an estimated 13 m barrels in June, according to SP Platts.
- **Refinery supply remains limited, in our view**. US refinery capacity has been on a declining trend given more closure plans and the absence of greenfield investment since 1977. Chinese export is also limited despite capacity addition and more export quota.

Ex 1: US Weekly data

(m bbls)	Weekly change	Consensus	Last week
Crude Oil	-0.446	1.357	+3.252
Gasoline	+3.498	0.071	+5.825
Distillates	-1.295	1.169	+2.667
(kbpd)	**Weekly change**	**% Change**	**Current number**
Production	-100	-0.8%	11,900
Refinery Runs	-321	-1.9 %	16,318

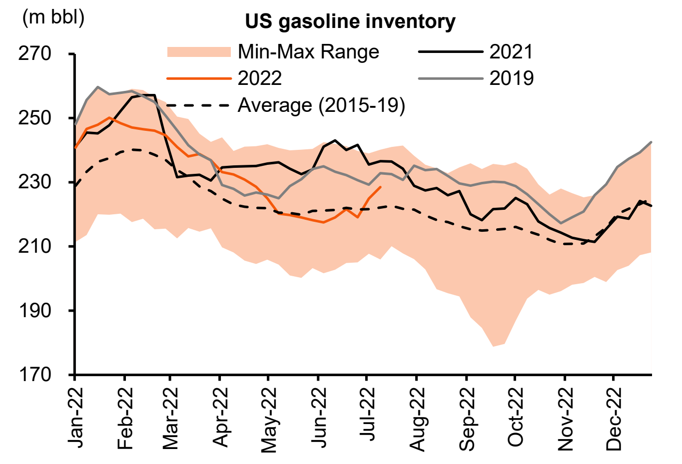
Source: EIA, as of 27 July 2022

Ex 2: Refined product spreads



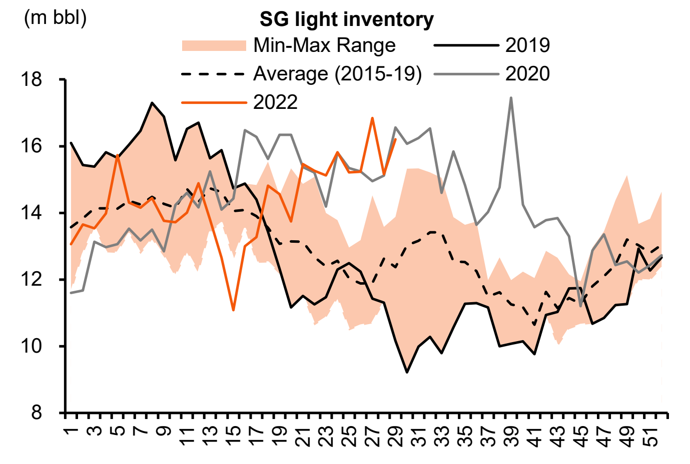
Source: Company data

Ex 3: US Gasoline Inventory



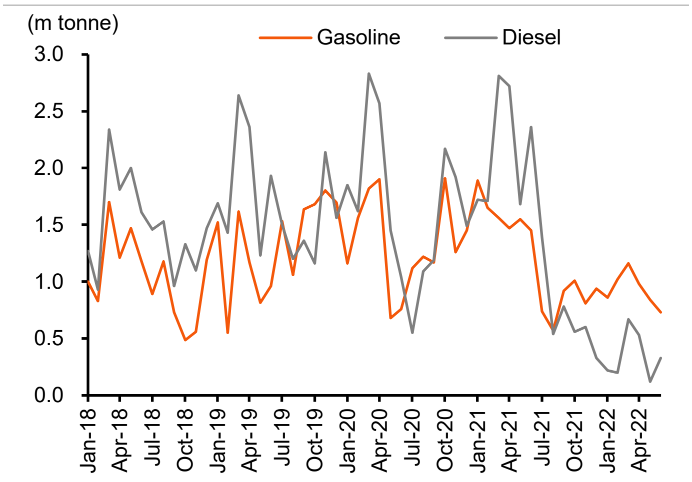
Source: EIA

Ex 4: Singapore Gasoline Inventory



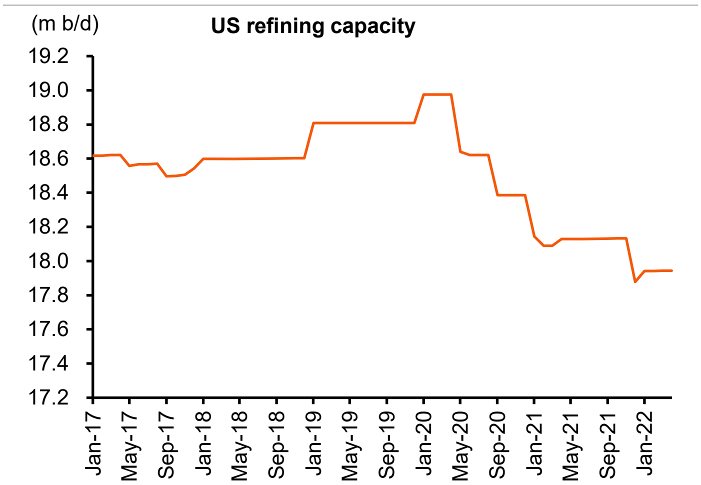
Source: Bloomberg

Ex 5: China Export Lower Despite More Quota



Source: Bloomberg

Ex 6: US Refining Capacity Decline



Source: EIA

Not out of the wood yet for European gas crisis

Dutch TTF gas dropped 15% from peak to EUR156/mwh (US$52/mmbtu) following news on Russia resuming gas flow. However, we don't think that we are out of the wood yet for gas supply risk from Russia.

- **Russian gas flows via the Nord Stream pipeline resumed.** Orders for gas will resume at around 40% of Nord Stream's capacity, the level from before the maintenance after Russia slashed flows in the middle of June. However, the flow could be disrupted again if another gas turbine doesn't reach on schedule for maintenance on July 26

- **EU plans to cut gas usage**. The European Commission announced proposals July 20 to reduce natural gas use in Europe by 15% until next spring to counter the threat of a drastic reduction in Russian gas supplies this winter. The 15% target was equivalent to 45 Bcm of gas and this is compared with countries' average consumption between 1 August and 31 March during the past five years.

- **Several countries rejected to mandatory cut gas consumptions**. Spain, Portugal and Greece rejecting the rejects plan to reduce natural gas consumption by 15% between this August and next Spring. According to both Spain and Portugal, mandatory reductions are unfair, particularly considering that both countries use far less Russian gas than other European Union member states.

Ex 7: Prices And Spreads

(US$/bbl)	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	May-22	Jun-22	MTD	Last week	This week
Upstream											
Dubai	66	71	77	97	108	110	109	115	110	108	107
Brent	69	73	79	98	112	105	112	117	105	107	106
Henry hub (US$/mmbtu)	2.7	3.4	3.9	4.6	7.6	6.5	8.2	7.6	6.5	6.4	7.5
NEX coal price (US$/t)	106	165	185	266	364	406	391	396	406	419	396
Crack spreads over Dubai											
Gasoline	9.9	11.6	15.5	17.8	35.0	25.7	38.8	41.9	25.7	16.8	11.5
Jet fuel	4.5	5.3	10.2	16.2	39.2	35.9	34.5	51.1	35.9	35.8	30.0
Diesel	(5.8)	(3.3)	(6.9)	(8.3)	12.5	12.5	37.4	55.3	40.2	37.8	30.3
High-sulfur fuel oil	(1.0)	1.6	3.2	(2.1)	(8.7)	(8.7)	(3.7)	(13.7)	(22.2)	(24.3)	(24.5)
Singapore complex GRM	**2.3**	**4.0**	**6.4**	**8.4**	**18.6**	**12.5**	**21.6**	**24.7**	**12.5**	**8.8**	**4.8**
(US$/tonne)											
Aromatics spreads											
PX-naphtha	241	240	134	192	364	334	341	499	334	382	245
BZ-naphtha	360	317	196	196	353	328	317	523	328	318	262
Olefin spreads											
HDPE-naphtha	575	462	509	413	444	412	430	403	412	402	430
LDPE-naphtha	915	740	890	731	781	706	776	735	706	702	730
PP-naphtha	694	548	558	419	431	402	408	408	402	412	400
Others											
Integrated PET	231	185	345	297	302	302	284	270	302	277	382
ABS-naphtha	1,932	1,712	1,565	1,108	1,088	972	1,080	1,058	972	962	940
Phenol-BZ	252	255	333	421	193	156	180	117	156	194	128
BPA -Phenol	2,008	2,074	1,198	843	625	373	693	446	373	280	415

Sources: TOP, Bloomberg

Ex 8: 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	12.90	17.00	*31.8*	2,378	132.1	(17.3)	4.1	4.9	3.2	3.1	8.3	7.1
BCP	BUY	29.00	39.00	*34.5*	1,088	116.4	(34.9)	4.0	6.2	3.0	4.5	6.2	4.1
ESSO	BUY	10.30	16.00	*55.3*	971	na	(9.9)	5.7	6.3	4.0	4.9	9.7	4.8
IRPC	BUY	3.18	4.40	*38.4*	1,771	(70.7)	489.1	56.7	9.6	12.3	7.1	4.8	5.2
IVL	BUY	45.75	62.00	*35.5*	6,999	96.4	(18.9)	6.4	7.9	6.5	7.1	4.4	3.3
OR	SELL	25.75	21.00	*(18.4)*	8,420	19.1	7.0	23.6	22.0	12.7	11.7	1.2	1.3
PTG	BUY	14.30	20.00	*39.9*	651	50.7	19.3	15.7	13.2	7.2	6.1	3.2	3.8
PTT	BUY	34.50	42.00	*21.7*	26,851	(5.0)	4.4	11.7	11.2	4.4	4.2	5.8	5.8
PTTEP	HOLD	160.00	161.00	*0.6*	17,308	79.9	(9.8)	8.0	8.9	3.0	3.0	3.8	4.4
PTTGC	BUY	44.25	58.00	*31.1*	5,436	(19.4)	5.4	8.7	8.3	7.1	6.7	5.6	5.4
SPRC	BUY	11.10	15.50	*39.6*	1,311	na	(39.5)	4.2	7.0	2.5	3.7	10.8	4.2
SUSCO	BUY	3.42	6.20	*81.3*	103	46.5	11.9	10.2	9.2	5.5	4.7	5.9	6.6
TOP	HOLD	50.00	57.00	*14.0*	2,779	194.9	(25.7)	6.2	8.3	8.8	12.0	6.0	3.8

Sources: Company data, Thanachart estimates

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