Energy Sector – Overweight

News Update

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Recession fears rising again

- **Large US crude inventory build**
- **Oil price took a hit given still weak demand**
- **A different physical oil market relative to 2008**
- **Marginal OSP hike**

Crude oil markets took another hit following weak demand data coming out of this week's Energy Information Administration inventory report which shows a big crude inventory build.

Large US crude inventory build

- US commercial crude oil inventory shows a large build of 4.467m bbls w-w against 0.6m bbls draw expected by the market and 4.5m bbls draw last week.
- Gasoline inventories shows a higher-than-expected build of 0.16m bbls while distillate inventories show a large draw of 2.4m bbls which surprise market expectation.
- US crude oil production remain flat at 12.1m bd

Recession fear outweigh small output hike by OPEC +

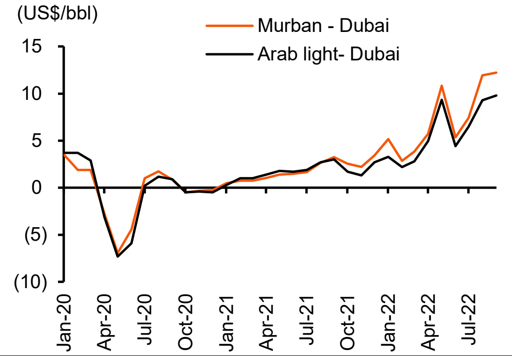
- **Symbolic move in OPEC output target hike**. The OPEC+ group gave the go-ahead to lift their oil production targets for September by 100,000 bpd as recommended by the Joint Ministerial Monitoring Committee (JMMC). However, with production close to member ceilings, the additional output hike target is unlikely to be achieved, in our view. The group is now 2.7m bpd lagging its target in May 2022.
- **Still weak gasoline demand but bottoming out**. Despite lower price, gasoline demand remains weak and dropped to 8.52 m bpd from 9.25 m bpd the previously. However, it has recovered from low level from 8m bdp in the previous month. US Jet demand also dropped to 1.48m bpd this week from 1.7m bpd. However, it's only 15% below pre-covid level in 2019.
- **A different physical oil market relative to 2008**. The oil market suffered a brutal selloff this week, prompting concern about a repetition of the 2008 cycle. However, nearby oil contracts continue to trade at a premium to contracts for later delivery and time spread is now at US$1.6/bbl. This is called a backwardation which imply tight physical crude market. Back in July 2008, the oil time-spreads were in the opposite condition: a contango, with spot barrels at a discount to forward contracts, a sign of an oversupplied market. We think the economic slowdown would have to prove far steeper to push Brent below $80 to $90 a barrel sustainably. The lower oil price is simply softening the negative impact of weak demand, in our view.

Ex 1: US Weekly data

(m bbls)	Weekly change	Consensus	Last week
Crude Oil	4.467	-0.629	-4.523
Gasoline	0.163	-1.614	-3.304
Distillates	-2.400	1.038	-0.784
(kbpd)	**Weekly change**	**% Change**	**Current number**
Production	0	0.0%	12,100
Refinery Runs	-175	-1.1%	15,853

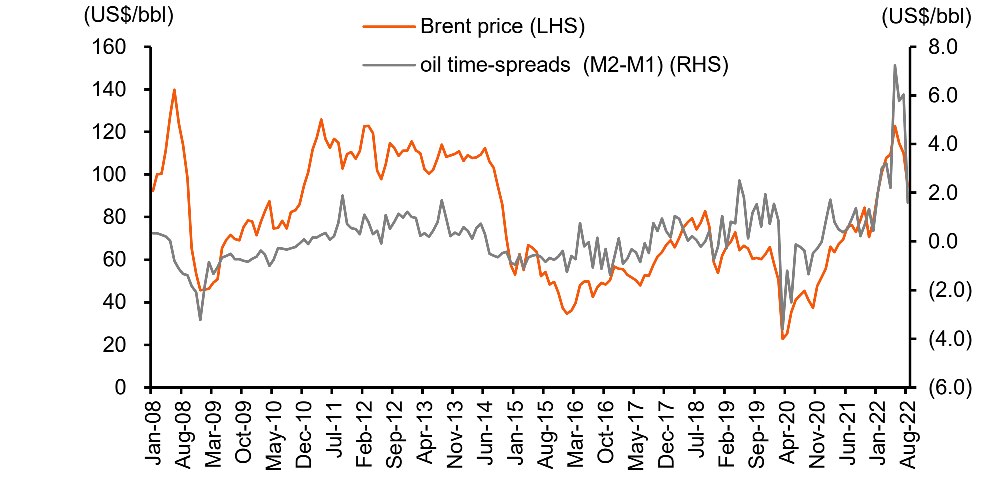
Source: EIA

Ex 2: Middle East Crude Premium



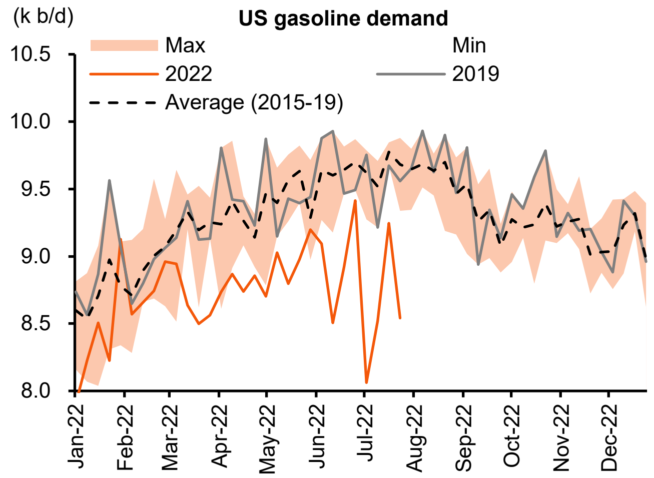
Source: Company data

Ex 3: Time spread vs Brent



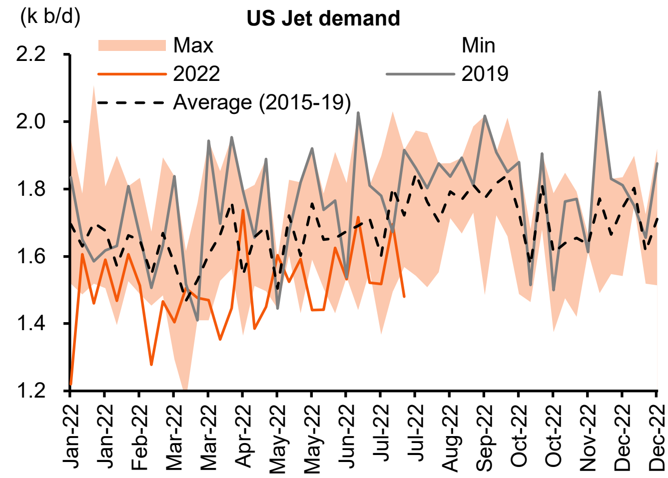
Source: Bloomberg

Ex 4: US Gasoline demand



Source: EIA

Ex 5: US Jet demand



Source: EIA

Marginal OSP hike

- **OSP hike is in expectation.** Saudi Arabia raised the price of all of its crude grades to its prized market, Asia, for September. Saudi Arabia raised the September price of Arab Light to the Far East by $0.50 per barrel to $9.80 over the Oman/Dubai benchmark. This is in-line with our and market expectation.
- **High premium reflects market tightness**. The pricing adjustment paints a more complete picture of the direction the market could be headed. We see that OPEC raised its production quota, indicating that there was an increased need for production beyond its August target.
- **Expect margin rebound in 4Q22**. With falling GRM 3QTD and still high crude premium, we expect 3Q22 profit to be weak. However, we expect middle distillate margin to rebound in 4Q supporting by potential demand from gas-to-oil switching.

Ex 6: Prices And Spreads

(US$/bbl)	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	May-22	Jun-22	MTD	Last week	This week
Upstream											
Dubai	66	71	77	97	108	107	109	115	108	102	105
Brent	69	73	79	98	112	105	112	117	106	105	100
Henry hub (US$/mmbtu)	2.7	3.4	3.9	4.5	7.5	7.2	8.2	7.6	7.0	8.6	8.3
NEX coal price (US$/t)	106	165	185	266	364	407	391	396	407	410	405
Crack spreads over Dubai											
Gasoline	9.9	11.6	15.5	17.8	35.0	18.6	38.8	41.9	18.6	10.2	12.8
Jet fuel	4.5	5.3	10.2	16.2	39.2	31.8	34.5	51.1	31.8	28.2	27.1
Diesel	(5.8)	(3.3)	(6.9)	(8.3)	12.5	12.5	37.4	55.3	34.0	28.2	27.4
High-sulfur fuel oil	(1.0)	1.6	3.2	(2.1)	(8.7)	(8.7)	(3.7)	(13.7)	(23.7)	(25.3)	(25.1)
Singapore complex GRM	**2.3**	**4.0**	**6.4**	**8.4**	**18.6**	**8.1**	**21.6**	**24.7**	**8.1**	**3.6**	**3.8**
(US$/tonne)											
Aromatics spreads											
PX-naphtha	241	240	134	192	364	335	341	499	327	308	363
BZ-naphtha	360	317	196	196	353	313	317	523	305	296	306
Olefin spreads											
HDPE-naphtha	575	462	509	413	444	395	430	403	409	398	338
LDPE-naphtha	915	740	890	731	781	703	776	735	709	718	678
PP-naphtha	694	548	558	419	431	365	408	408	386	338	278
Others											
Integrated PET	231	185	345	297	302	314	284	270	314	306	305
ABS-naphtha	1,932	1,712	1,565	1,108	1,088	937	1,080	1,058	949	878	888
Phenol-BZ	252	255	333	421	193	153	180	117	153	132	132
BPA -Phenol	2,008	2,074	1,198	843	625	356	693	446	356	310	310

Sources: TOP, Bloomberg

Ex 7: 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	12.80	17.00	*32.8*	2,435	132.1	(17.3)	4.0	4.9	3.2	3.0	8.4	7.2
BCP	BUY	29.00	39.00	*34.5*	1,122	116.4	(34.9)	4.0	6.2	3.0	4.5	6.2	4.1
ESSO	BUY	10.20	16.00	*56.9*	992	na	(9.9)	5.6	6.2	4.0	4.9	9.8	4.8
IRPC	BUY	3.32	4.40	*32.5*	1,907	(70.7)	489.1	59.2	10.1	12.6	7.3	4.6	5.0
IVL	BUY	43.00	62.00	*44.2*	6,787	96.4	(18.9)	6.0	7.4	6.3	6.9	4.7	3.5
OR	SELL	27.00	21.00	*(22.2)*	9,108	19.1	7.0	24.7	23.1	13.5	12.3	1.1	1.2
PTG	BUY	15.40	20.00	*29.9*	723	50.7	19.3	17.0	14.2	7.5	6.4	2.9	3.5
PTT	BUY	35.50	42.00	*18.3*	28,504	(5.0)	4.4	12.0	11.5	4.5	4.3	5.6	5.6
PTTEP	HOLD	151.00	161.00	*6.6*	16,851	79.9	(9.8)	7.6	8.4	2.8	2.8	4.0	4.6
PTTGC	BUY	45.25	58.00	*28.2*	5,735	(19.4)	5.4	8.9	8.5	7.2	6.8	5.5	5.3
SPRC	BUY	10.90	15.50	*42.2*	1,329	na	(39.5)	4.2	6.9	2.5	3.6	11.0	4.3
SUSCO	BUY	3.56	6.20	*74.2*	110	46.5	11.9	10.7	9.5	5.7	4.9	5.6	6.3
TOP	HOLD	51.00	57.00	*11.8*	2,925	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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