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### KEY HIGHLIGHTS

Sector

#### Oil & Gas

Implementation of fuel subsidy should not hurt PTTEP, SPRC and ESSO.

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### KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,561.10	(32.44)	(2.04)
SET50	944.90	(21.01)	(2.18)
Value (Btm) - SET	90,416		
<b>Top 5 Sector</b>			
BANK	369.48	(6.39)	(1.70)
PETRO	1,083.48	(20.72)	(1.88)
PROP	229.69	(4.52)	(1.93)
ENERG	24,079.00	(584.90)	(2.37)
ICT	178.96	(5.21)	(2.83)

Source: Bloomberg

### TOP VOLUME

Symbol	Price (Bt)	Chg (%)	Volume ('000)
PTT	34.75	(3.47)	181,631.2
KBANK	148.00	(1.33)	31,681.6
BANPU	12.90	(3.01)	242,555.4
BBL	135.00	(1.10)	23,239.4
ADVANC	199.50	(3.16)	14,878.8

### TOP GAINERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
SUTHA	6.10	20.79	110,774.6
ROH	4.40	14.58	38,009.4
L&E	2.86	12.60	158,169.9
MGT	5.05	11.23	81,226.6
BGT	3.42	9.62	18,409.4

### TOP LOSERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
NEWS	0.03	(25.00)	165,121.2
CPH	31.00	(22.50)	8,427.2
STOWER	0.04	(20.00)	12,559.4
TRU	5.50	(14.06)	5,009.4
TRITN	0.19	(13.64)	265,254.3

### KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	119.0	8.3	20.4	57.9
Dubai crude*	117.6	10.7	12.7	53.8
Baltic Dry Index	2,387.0	(22.9)	(7.8)	7.7
Gold Spot***	1,847.4	1.8	(4.9)	1.0

\*(US\$/bb), \*\*\* (US\$/toz)

### FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
(165.8)	(575.7)	3,706.7	8,258.4

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 35.08

Interest Rate (%) - TH 1-day RP = 1.50

Thai Lending Rate (%)\* - MLR = 5.25

### SECTOR UPDATE

## Oil & Gas – Thailand

Implementation Of Fuel Subsidy Should Not Hurt PTTEP, SPRC And ESSO

**We do not believe SPRC and ESSO will face intervention by the government as they should be protected by International Trade Law and Free Trade Competition Law. We expect only a small donation to the government in the form of CSR. We also believe PTTEP should be protected by Concessions and Production Sharing Contracts. We prefer IVL, OR and SPRC as our top picks. Maintain OVERWEIGHT.**

### WHAT'S NEW

- Skyrocketing Singapore GRM.** The Singapore gross refinery margin (SG GRM), which is the Asian benchmark GRM, has remained strong at US\$22.00/bbl in Jun 22 on the back of strong demand for refined products (gasoline, diesel and jet fuel) globally with the tight supply. Average SG GRM qtd has jumped 1.5x to US\$20.30/bbl from US\$8.00/bbl in 1Q22. Based on our channel check, refiners expect SG GRM in 2Q22 to have peaked for the year and expect it to soften in 2H22. However, they still expect SG GRM to be above US\$15.00/bbl in 2H22 due to strong recovery on road transportation, international flights and industrial production, in line with global economic activity coupled with a shortage of refining capacity. The impressive GRM would benefit all Thai refiners' earnings outlook beyond 2Q22.
- Fuel subsidy up to Bt8.5b per month?** Amid skyrocketing oil prices and strong GRM, the Ministry of Energy (MoE) has asked all refineries for a fuel subsidy of up to Bt8.5b per month for a three-month period starting Jul 22. This is to ensure that consumers get relief from high fuel prices and that the balance sheet of the State Oil Fund (SOF) is improved, which is currently subsidising the oil retail price with a total fund of almost Bt100.0b. The monthly maximum Bt8.5b fuel subsidy will comprise: a) all refiners will inject a combined Bt5b-6b gain from selling diesel into the SOF, b) all refiners will deliver a combined Bt1b gain from selling gasoline, which implies gasoline prices at pump being cut by Bt1/litre, and c) Bt1.5b subsidy from PTT's gas separation plant (GSP) to be injected into SOF.
- Historical evidence.** In 2008, the refineries under PTT group (Bangchak Corporation (BCP), IRPC, PTT Global Chemical (PTTGC) and Thai Oil (TOP)) were asked by the government to provide fuel price subsidies for a six-month period in the form of donations totalling Bt2.2b. The donation amount was calculated based on diesel volumes to support the low-income people and allocated to each refinery under PTT Group based on its refining capacity. Non-PTT refineries (ESSO and Star Petroleum Refining (SPRC)) did not participate in this subsidy programme as they were protected by International Trade Law and Free Trade Competition Law.

### PEER COMPARISON

Company	Ticker	Rec.	Last Price (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US\$m)	PE 2021 (x)	PE 2022F (x)	PE 2023F (x)	EPS CAGR 2021-23F (%)	PEG 2022F (x)	P/B 2022F (x)	Yield 2022F (%)	ROE 2022F (%)
Bangchak Petroleum	BCP TB	HOLD	32.75	37.00	13.0	1,334	5.8	9.3	13.1	(33.3)	(0.2)	0.8	3.4	6.6
Esso (Thailand)	ESSO TB	HOLD	12.10	8.50	(29.8)	1,239	9.4	5.8	9.7	(1.3)	0.1	1.8	2.5	34.7
IRPC	IRPC TB	HOLD	3.40	3.50	2.9	2,056	4.8	111.4	10.9	(33.8)	(1.2)	0.8	2.9	0.7
Indorama Ventures	IVL TB	BUY	51.00	65.00	27.5	8,472	10.9	9.6	9.2	9.0	0.7	1.6	2.4	16.3
PTT Oil&Retail Business	OR TB	BUY	26.25	33.00	25.7	9,320	27.5	23.0	21.6	12.8	1.2	2.9	2.0	13.1
PTG Energy*	PTG TB	BUY	14.00	22.00	57.1	692	16.1	11.4	9.0	33.5	0.3	2.4	4.6	21.7
PTT	PTT TB	BUY	36.00	56.00	55.6	30,422	9.5	10.8	10.7	(5.8)	(0.9)	1.0	5.6	8.5
PTTEP	PTTEP TB	HOLD	169.00	165.00	(2.4)	19,850	17.3	10.2	10.0	31.6	0.1	1.4	4.9	14.9
PTTGC	PTTGC TB	HOLD	46.25	57.00	23.2	6,170	4.6	8.2	7.4	(21.5)	(0.2)	0.6	6.1	7.5
Siam Cement	SCC TB	HOLD	358.00	412.00	15.1	12,710	9.1	9.7	9.3	(0.9)	(1.6)	1.2	4.8	10.1
Star Petroleum Refining	SPRC TB	BUY	12.70	15.00	18.1	1,629	11.6	5.8	14.0	(9.0)	0.1	1.5	7.9	26.5
Thai Oil	TOP TB	HOLD	54.75	61.00	11.4	3,304	8.9	2.7	13.0	(17.3)	0.0	0.9	10.3	36.6
<b>Sector</b>						<b>97,197</b>	<b>12.5</b>	<b>13.1</b>	<b>11.2</b>			<b>1.3</b>	<b>4.8</b>	<b>12.6</b>

Source: Bloomberg, UOB Kay Hian, \*Coverage on our retail platform

## OVERWEIGHT

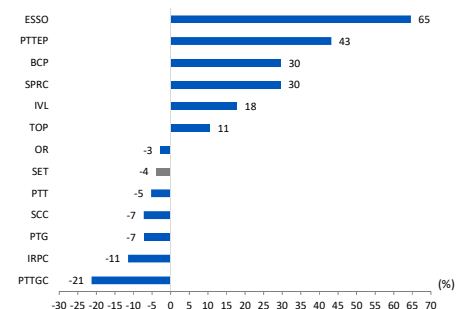
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### STOCK PICKS

Company	Rec	Share Price (Bt)	Target Price (Bt)
IVL	BUY	51.00	65.00
OR	BUY	26.25	33.00
SPRC	BUY	12.70	15.00

Source: UOB Kay Hian

### SHARE PRICE PERFORMANCE (% YTD)



Source: Bloomberg, UOB Kay Hian

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### ACTION

- Negative impact on Thai oil refineries if fuel subsidy is implemented.** According to our channel check, refiners will discuss with the MoE on the mechanism to derive the amount of the fuel subsidy. Each refiner will then evaluate the impact and decide if it should accept/compromise on/deny the government's request, as each refiner has a different capital structure and has to bear its own investment. We believe SPRC Thailand and ESSO Thailand will not be able to make any decision on this subsidy as they will have to consult with their parent companies – Chevron for SPRC and Exxon for ESSO – which could take time. If all refiners need to inject the fuel subsidies, we have preliminarily estimated the impact of the fuel subsidies (allocated based on refining capacity) on each refiner's earnings performance.
- No impact on PTTEP.** It is difficult for the government to amend PTTEP's existing Concessions and Production Sharing Contracts on its petroleum agreements as any costs related to the fields have been indicated in the contracts during the bidding process. The only thing that PTTEP can do to help the country is to pay higher dividends to PTT like in 2008.
- Negative impact on PTT.** The government is ordering PTT to extend the Natural Gas Vehicles (NGV) subsidies by another three months (16 Jun 22 to 15 Sep 22). We expect PTT's core earnings to be negatively impacted by another Bt2.0b. From the start of this year to 15 Sep 22, PTT needs to subsidise Bt6.0b to relieve the cost of living for the people amid the skyrocketing oil prices. We need to add an additional Bt2.7b NGV subsidy in our model, accounting for 2.8% of our 2022 net profit forecast. Together with the unexpected Bt1.5b fuel subsidy per month for three months, this will lower our 2022 net profit forecast by 7.6%.

### ASSUMPTION CHANGES

- None.

### ESSENTIALS

- Maintain OVERWEIGHT on O&G.** We do not believe ESSO and SPRC will face intervention by the government as they should be protected by International Trade Law and Free Trade Competition Law. We expect only a small donation to the government in form of CSR. We also believe PTTEP should be protected by Concessions and Production Sharing Contracts.
- Our sector top picks** are Indorama Ventures (IVL TB/BUY/Target: Bt65.00), PTT Oil & Retail Business (OR TB/BUY/Target: Bt33.00) and Star Petroleum Refining (SPRC TB/BUY/Target: Bt15.00) as they will see positive earnings momentum in the next couple of quarters.

### RISKS

- Government implementing fuel subsidy of up to Bt8.5b a month for a three-month period.

### REFINERY DONATION DURING 2008

(Btm)	Donation amount	% share
BCP	261	11.9%
IRPC	415	18.9%
PTTGC	600	27.3%
TOP	920	41.9%
Total	2,196	

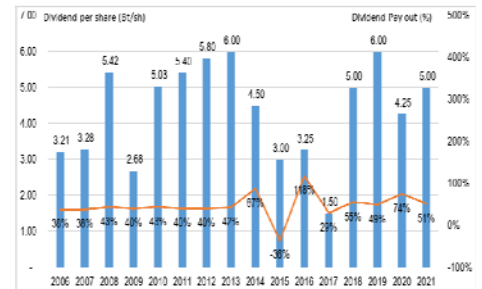
Source: TOP, UOB Kay Hian

### PRELIMINARY IMPACT OF THE SUBSIDIES

(Btm)			Refinery Capacity	Core profit
	Impact	% impact	Mkt share (%)	2022F
IRPC	(3,644)	-584.0%	17%	624
BCP	(2,034)	-42.7%	10%	4,766
ESSO	(2,949)	-40.6%	14%	7,260
SPRC	(2,966)	-31.1%	14%	9,534
PTTGC	(4,746)	-18.8%	23%	25,566
TOP	(4,661)	-14.8%	22%	31,573
Total	(21,000)	-26.5%	100%	79,323

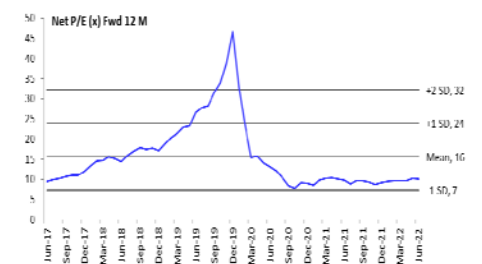
Source: UOB Kay Hian, note that: total Thai refinery capacity is 1.24m barrels per day

### PTTEP DPS AND PAYOUT



Source: PTTEP, UOB Kay Hian

### O&G NET PE BAND



Source: UOB Kay Hian

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