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KEY HIGHLIGHTS

Sector

Oil & Gas

Expect strong 3Q23 net profit for the refinery business.

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KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,540.94	(6.23)	(0.40)
SET50	941.90	(4.10)	(0.43)
Value (Btm) - SET	38,651		
Top 5 Sector			
BANK	403.36	(1.40)	(0.35)
PETRO	732.30	(9.99)	(1.35)
PROP	244.25	(1.27)	(0.52)
ENERG	21,710.61	(228.37)	(1.04)
ICT	159.56	0.77	0.48

Source: Bloomberg

TOP VOLUME

Symbol	Price (Bt)	Chg (%)	Volume ('000)
SCB	116.00	0.00	12,011.3
PSP	10.60	(16.54)	109,795.5
AOT	71.00	(1.05)	17,385.3
PTTEP	167.50	0.30	6,900.3
BANPU	8.25	(2.37)	118,815.9

TOP GAINERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
K	1.40	28.44	41,938.6
GENCO	0.64	14.29	28,072.7
NATION	0.09	12.50	5,709.1
CHOW	1.70	11.84	25,656.2
JKN	1.17	11.43	155,776.9

TOP LOSERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
PSP	10.60	(16.54)	109,795.5
TH	1.52	(12.64)	38,954.9
7UP	0.52	(8.77)	124,344.5
MIT	1.24	(6.77)	268.0
TRITN	0.15	(6.25)	6,397.1

KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	90.6	5.2	26.9	10.4
Dubai crude*	92.4	5.5	22.7	17.5
Baltic Dry Index	1,186.0	5.0	12.3	(21.7)
Gold Spot***	1,921.5	0.4	(1.9)	5.3

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

FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
(73.3)	(264.1)	(4,175.2)	(9,019.0)

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 35.54

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

Thai Lending Rate (%)* - MLR = 6.85

SECTOR UPDATE

Oil & Gas – Thailand

Expect Strong 3Q23 Net Profit For The Refinery Business.

There are positive factors in the crude oil market, with both crude oil prices and GRM rebounding. As a result, we expect the refinery business to see a substantial increase in net profit in 3Q23, totalling Bt38.4b, surging both qoq and yoy. In the oil & gas sector, we prefer PTTEP, Thai Oil, and PTT Oil and Retail. Maintain MARKET WEIGHT.

WHAT'S NEW

- **World economy has started to recover.** The economic outlook is showing signs of improvement due to two main factors: a) China's economic stimulus measures are starting to yield positive results. In August, China reported PMI score of 51pt. This is the highest PMI level since Feb 23, indicating the effectiveness of China's economic stimulus policies. These policies are now positively impacting the Chinese economy, particularly through increased domestic purchasing power; and b) there is a shift in the direction of US monetary policy, which is beginning to lean towards relaxation. Specifically, there is an expectation that the Fed will reduce interest rates by 100-125bp to a range of 4.25-4.50% by the end of 2024. Additionally, it is anticipated that US GDP will continue to expand by 3.1% qoq in 3Q23.

- **Tight supply is also a factor supporting crude oil prices.** In 3Q23, crude oil (Dubai) prices reached Us\$84.50/bbl, increasing 8.7% qoq. Several key factors contributing to this significant rise in crude oil prices are: a) concerns about supply constraints — the tight supply conditions played a pivotal role in driving crude oil prices to their highest level in nine months. Notably, issues related to Saudi Arabia and Russia further escalated this situation, as they extended their production cuts by 1.0 and 0.3 million barrels per day (MBD), respectively, until the end of Dec 23; b) surging demand — crude oil demand surged to record highs in 3Q23, with expectations of continued growth.

Forecasts suggest that crude oil demand will reach a new peak of 105.32 MBD in 4Q24 (data from OPEC's Oil Market Report in Aug 23); and c) low US crude oil reserves – the US experienced dwindling crude oil reserves, dropping by over 6.3 MB to 417 MB. Additionally, there is a renewed interest in purchasing more crude oil from the US to bolster the Strategic Petroleum Reserve (SPR).

- **Seasonal demand supports GRM.** Singapore gross refining margin (GRM) during 3Q23 stood at US\$10.8/bbl, up 170% qoq and 52% yoy. The GRM for the primary products, namely gasoline, diesel, and jet fuel, recorded jumps of 25%, 90%, and 95% respectively. The rebound in GRM was attributed to several factors: a) seasonal gasoline demand, b) heightened economic activities and increased international travel, and c) decreasing inventory of refined products.

ACTION

- **Maintain MARKET WEIGHT.** We maintain an optimistic stance on the prospects of crude oil prices and GRM, driven by the restricted supply and a resurgence in demand for the rest of the year. However, our apprehensions persist regarding the petrochemical sector, given the potential repercussions of heightened new supply in 2H23 and throughout 2024. In the oil & gas sector, we prefer PTTEP (PTTEP TB/ Target: Bt182.00), Thai Oil (TOP TB/Target: Bt68.00) and PTT Oil and Retail (OR TB/Target: Bt29.00).

PEER COMPARISON

Company	Rec	Last Price (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US\$m)	Net Profit 2023F (Btm)	Net Profit 2024F (Bt m)	PE 2023F (x)	PE 2024F (x)	Net EPS Growth 2023F(%)	P/B 2023F (x)	Yield 2023F (%)	ROE 2023F (%)
BCP TB	U.R.	38.00	44.00	15.8	1,482	8,043	8,331	6.5	6.3	(36.9)	0.8	3.2	9.3
ESSO TB	BUY	9.85	15.00	52.3	966	4,324	4,579	7.9	7.4	(54.5)	1.2	8.1	15.3
IRPC TB	HOLD	2.28	2.50	9.6	1,320	1,860	3,221	25.1	14.5	142.6	0.6	4.4	2.3
PTTGC TB	HOLD	36.00	41.00	13.9	4,598	6,663	9,730	24.4	16.7	176.1	0.5	5.6	2.0
SPRC TB	HOLD	9.10	9.00	(1.1)	1,118	2,757	4,122	14.3	9.6	(64.1)	1.2	4.4	7.8
TOP TB	BUY	48.75	68.00	39.5	2,817	16,380	13,989	6.6	7.8	(49.9)	0.6	5.1	10.0
Refinery					12,301	40,026	43,972	10.8	9.9	(18.8)	0.7	5.1	6.3

Source: UOB Kay Hian

MARKET WEIGHT (Maintained)

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SECTOR CATALYSTS

- Increased GRM bolstering net profit recovery in 3Q23.** We expect the profit from the refinery business in 3Q23 will be around Bt38.4b, showing a significant growth on both qoq and yoy bases. This positive trend is attributed to the increased crude oil prices and GRM. However, profits from the petrochemical business are influenced by factors that negatively impact the spread of product prices, leading to a qoq reduction. This dynamic results in companies with EBITDA primarily from the refinery business, such as TOP, SPRC, BCP, and ESSO, experiencing a notable net profit growth in 3Q23.

3Q23 EARNINGS PREVIEW: REFINERY AND PETROCHEMICAL

	3Q22	2Q23	3Q23F	9M22	9M23F	yoy % chg.
BCP	2,470	458	13,720	12,103	16,919	40%
ESSO	-3,127	-1,294	2,715	11,072	2,245	-80%
IRPC	-2,549	-2,246	4,300	2,785	2,355	-15%
PTTGC	-13,384	-5,591	3,570	-9,410	-1,939	n.a.
SPRC	-5,027	-2,105	2,928	7,414	2,042	-72%
TOP	12	1,117	11,170	32,521	16,841	-48%
Total	-21,605	-9,661	38,403	56,484	38,464	-32%

Source: Bloomberg and UOB Kay Hian

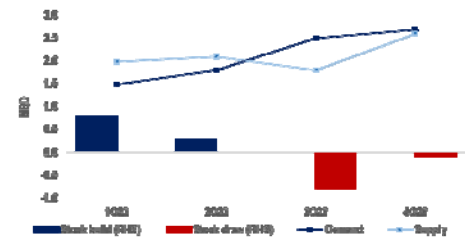
ESSENTIALS

- PTTEP (BUY/Target: Bt182.00).** The rise in crude oil prices is alleviating worries on 3Q23's operating performance. We expect product ASPs to remain consistent in 3Q23 compared with the previous quarter. The trending increase in production costs is expected to be offset by the rising sales volume, especially from the Erawan project, which has added production capacity of 400 million cubic feet per day (MMSCFD) since Jun 23. We assess PTTEP as a financially robust entity with substantial cash on hand amounting to Bt146b. The net debt-to-equity stands low at 0.25x. Additionally, the projected average EBITDA of Bt200b between 2024 and 2026, after accounting for annual capital expenditures, leaves PTTEP with a free cash flow of no less than Bt100b. This bolsters PTTEP's potential to expand investments or consider enhanced dividend payouts.
- TOP (BUY/Target: Bt68.00).** The increased GRM and crude oil prices will serve as factors boosting core profits and driving a heightened perception of stock gains in 3Q23. Meanwhile, the utilisation rate is anticipated to remain at a high level of around 113%, closely resembling the preceding 1H23. This leads us to project that TOP's net profit in 3Q23 will be around Bt11.0b, exhibiting a significant increase on both qoq and yoy bases. TOP has announced an interim dividend at Bt0.65/share, with the ex-dividend date (XD) on 7 September and the dividend payment date on 22 September.
- OR (BUY/Target: Bt29.00).** We anticipate that the core profit for 3Q23 will decrease qoq due to seasonal effects. However, it is expected to increase yoy due to higher oil sales volume in line with the expansion plans of the oil station and marketing margin recovery. This also includes increased revenue and EBITDA margin in the non-oil businesses, driven by the growth of Café Amazon's sales that align with the expansion of branches and cost controls as per the plan. We believe that core profit will rebound in 4Q23 due to increased oil sales and market value as the tourism sector enters its high season, starting from September onwards. This will act as a driving factor for heightened demand for gasoline, diesel, and jet fuel. OR has announced an interim dividend of Bt0.25/share, with the XD set on 7 September and the dividend payment date on 22 September.

RISKS

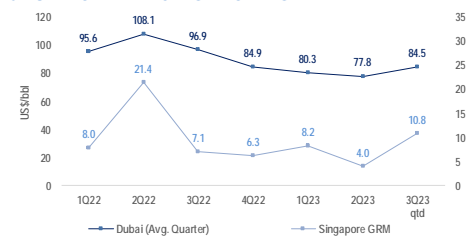
- US monetary policy easing.
- China's economic stimulus policies boosting demand for petroleum and petrochemical products in 2H23.
- Increased crude oil prices and GRM.
- Hurricane season in the US.

GLOBAL OIL DEMAND AND PRODUCTION



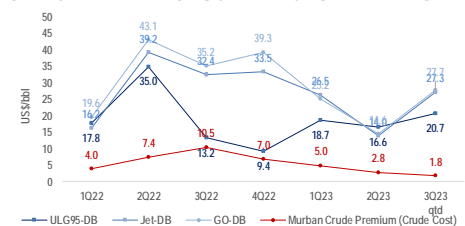
Source: Bloomberg, UOB Kay Hian

CRUDE OIL AND SINGAPORE GRM



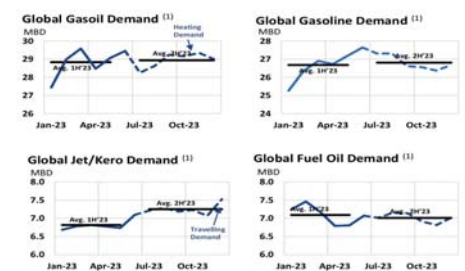
Source: Bloomberg, UOB Kay Hian

GRM'S REFINE PRODUCT AND CRUDE PREMIUM



Source: Bloomberg and UOB Kay Hian

HIGHER DEMAND GROWTH LED BY PRODUCT



Source: Bloomberg, UOB Kay Hian

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