

SECTOR UPDATE

Oil & Gas – Thailand

Positive On The Upstream Business

We maintain positive on crude oil prices due to the strong demand and geopolitical factors. Despite OPEC's decision at its latest meeting to incrementally increase production capacity in 4Q24, demand remains strong. Consequently, we believe the crude oil market is likely to achieve an equilibrium. Although GRM was weak in 2Q24, but there is a trend of recovery from June onwards, supported by the driving season. We prefer PTTEP, BCP and BSRC. Maintain MARKET WEIGHT.

WHAT'S NEW

- **The economy continues to recover, supporting demand for crude oil.** Data from the International Monetary Fund (IMF) indicates that GDP growth in 2024 is projected to remain steady at 3.2%, due to economic performance in advanced economies, the EU and countries in emerging and developing Asia. Contributing to this growth is the policy adopted by central banks in various countries to lower interest rates to stimulate economic activity. Notably, the US is expected to reduce interest rates by 25-50bp in 2024, and China continues to implement measures to boost its economy. We maintain a positive outlook on oil demand for 2024-25.
- **OPEC expects oil demand in 2024 to continue increasing.** Based on the latest Oil Market Report, the Organization of the Petroleum Exporting Countries (OPEC) expects that crude oil demand will rise by 2.3 million barrels per day (MBD) in 2024 and by 1.8 MBD in 2025. In contrast, supply from non-OPEC countries is projected to increase by 1.4 MBD in 2024 and by 1.1 MBD in 2025. This growth in demand is driven by economic expansion, with China continuing to be a significant oil consumer. Specifically, OPEC forecasts that China's crude oil demand will grow by 0.6 MBD in 2024 and by 0.4 MBD in 2025, representing 26% and 22% of the global increase in oil demand respectively.
- **A neutral tone at the latest OPEC meeting.** We expect that the crude oil market will achieve a balanced state in 4Q24, despite OPEC's plans to increase production capacity by 0.18 MBD per month from Oct 24 onwards, along with an expected increase in non-OPEC production capacity by 0.5 MBD in 4Q24. This will lead to a total supply increase of 1.0 MBD in 4Q24 where crude oil demand is expected to hit a record high of 105.6 MBD, an increase of 0.70 MBD from 3Q24. Consequently, the crude oil market in 4Q24 will experience only a modest supply surplus of 0.2-0.3 MBD. As a result, we hold a neutral view on the outcome of the latest OPEC meeting. Although the gradual increase in production capacity by OPEC will act as a cap on the potential upside in crude oil prices, the adoption of monetary policies in response to decreasing inflation pressures is not expected to impact long-term crude oil demand.

MARKET WEIGHT
(Maintained)

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PEER COMPARISON

Company	Rec	Last Price (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US\$m)	----- Net Profit -----		----- PE -----		Net EPS Growth 2024F (%)	P/B 2024F (x)	Yield 2024F (%)	ROE 2024F (%)
						2024F (Btm)	2025F (Bt m)	2024F (x)	2025F (x)				
BCP TB	BUY	37.00	52.00	40.5	1,414	12,815	16,092	4.0	3.2	(3.2)	0.6	5.7	12.1
BSRC TB	BUY	8.75	15.00	71.4	840	4,579	5,763	6.6	5.3	113.8	1.0	7.4	15.7
IRPC TB	HOLD	1.77	2.10	18.6	1,004	2,381	7,261	15.2	5.0	181.5	0.5	5.6	3.2
IVL TB	HOLD	21.10	22.50	6.6	3,288	8,862	15,657	13.4	7.6	182.1	0.7	4.7	4.9
OR TB	HOLD	17.20	20.00	16.3	5,729	13,333	12,666	15.5	16.3	20.1	0.9	3.5	5.7
PTG TB*	BUY	9.20	10.51	14.2	426	997	1,457	15.4	10.5	5.6	1.9	4.0	12.8
PTT TB	BUY	32.25	39.00	20.9	25,566	81,797	91,167	11.3	10.1	(27.0)	0.8	4.7	6.9
PTTEP TB	BUY	152.50	200.00	31.1	16,803	79,400	84,167	7.6	7.2	3.5	1.2	6.6	15.8
PTTGC TB	HOLD	32.75	38.00	16.0	4,098	9,018	14,182	16.4	10.4	802.5	0.4	1.5	2.7
SCC TB	HOLD	235.00	282.00	20.0	7,827	16,226	18,116	17.4	15.6	(37.4)	0.7	2.0	4.3
SPRC TB	HOLD	8.30	9.50	14.5	999	5,180	5,404	6.9	6.7	521.2	0.9	7.2	13.3
TOP TB	BUY	51.75	68.00	31.4	3,208	13,989	17,698	8.3	6.5	(28.1)	0.7	5.8	8.2
Avg					71,203	248,578	289,630	10.3	8.9	0.4	0.8	4.7	8.6

Source: Bloomberg, UOB KayHian

• **2Q24 GRM is weak...** In 2Q24 qtd, gross refining margin (GRM) was US\$3.47/bbl (vs US\$7.30/bbl in 1Q24 and US\$4.00/bbl in 2Q23). The GRM declined both qoq and yoy, aligning with the seasonal effect in early-1Q24. Additionally, warmer-than-expected weather conditions led to high refined oil inventories, particularly for diesel and jet fuel. This situation was exacerbated by a significant increase in floating storage of Russian diesel fuel, which contributed to a downward pressure on GRM. Furthermore, a rise in crude premium also negatively impacted the refinery business, adding to pressure on its performance in 2Q24.

• **...but there is hope for a recovery.** We expect a surge in gasoline demand in the US from June to July, driven by the ongoing driving season (from 27 May until the first week of September), coupled with a low gasoline inventory. This increased demand is expected to bolster GRM. Notably, average GRM for the first week of June stood at US\$3.60/bbl, up 50% wov.

KEY STATISTICS

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24 qtd	% chg. qoq	% chg. yoy
Crude oil and GRM (US\$/bbl)								
Dubai (Avg. quarter)	80.3	77.8	86.7	83.6	81.3	84.3	3.6%	8.3%
Dubai (Avg. last month in quarter)	77.5	74.6	93.0	76.5	84.7	79.4	-6.2%	6.6%
Murban Crude Premium	5.0	2.8	1.8	3.3	1.1	1.6	46.2%	-41.4%
Singapore GRM	8.2	4.0	9.5	5.5	7.3	3.5	-52.1%	-12.5%
Petroleum Price (US\$/bbl)								
ULG95-DB	18.7	16.6	18.9	12.6	17.9	13.1	-26.9%	-21.1%
Jet-DB	26.5	14.0	26.1	23.6	21.1	12.7	-39.9%	-9.0%
GO-DB (10ppm)	28.6	15.6	28.8	24.5	23.1	14.2	-38.5%	-8.8%
Aromatic Spreads (US\$/ton)								
PX DFR Taiwan - ULG95	193	228	175	198	184	210	13.9%	-8.1%
BZ FOB Korea - ULG95	89	71	1	71	157	227	44.7%	222.2%
LAB - Bz	734	730	528	630	561	664	18.4%	-9.0%
Lube Base Spreads (US\$/ton)								
500SN Ex-tank Sing. - HSFO	640	588	442	521	527	505	-4.1%	-14.1%
Bitumen FOB Sing. - HSFO	89	31	(60)	9	(41)	(100)	n.a.	n.a.
Olefins Spread (US\$/ton)								
Naphtha MOPJ	689	601	648	659	686	693	1.0%	15.3%
HDPE (FILM) SEA	1,085	1,036	1,032	1,022	1,041	1,054	1.3%	1.8%
HDPE - MOPJ	396	435	384	363	355	361	1.7%	-17.0%
LLDPE - MOPJ	385	413	342	316	343	369	7.6%	-10.7%
LDPE - MOPJ	441	435	345	345	399	451	13.0%	3.6%
PP - MOPJ	412	393	327	307	361	358	-0.9%	-8.9%

Source: Bloomberg, Thai oil, PTT Global and Chemical, IRPC, UOB Kay Hian

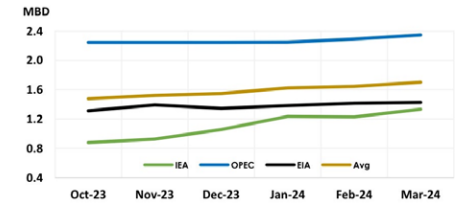
ACTION

- **Maintain MARKET WEIGHT.** We maintain a positive outlook on the upstream business for 2H24, despite OPEC's plans to increase production capacity. We expect that demand will grow towards the year end, keeping crude oil prices high. Conversely, we hold a negative outlook on the petrochemical sector due to concerns about the new supply entering mass production in 2023-24, which is likely to exert downward pressure on spread margins of petrochemical.
- In the oil & gas sector, we prefer PTT Exploration and Production (PTTEP, Target: Bt200.00), Bangchak Corporation (BCP TB, Target: Bt52.00), and Bangchak Sriracha (BSRC TB, Target: Bt15.00).

ESSENTIALS

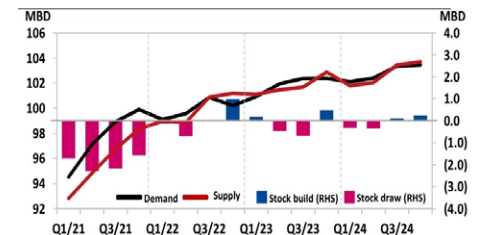
- **PTT Exploration and Production (PTTEP, Target: Bt200.00).** We have a positive outlook on core profit for 2Q24, driven by: a) ASP of at least US\$48.00/bbl, up both qoq and yoy due to a 6.8% qoq rise in Dubai crude oil prices, with stable gas prices qoq at US\$5.90 per million British thermal units (MMBTU), b) petroleum sales volume of 514 thousand barrels per day (KBD), up 8.7% qoq, largely due to the G1/61 project (Erawan field) operating at full capacity of 800 million cubic feet per day (MMSCFD) for the first time

OIL DEMAND GROWTH FORECAST BY PUBLICATION (2024)



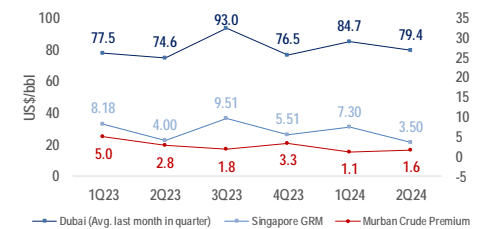
Source: IEA OPEC EIA and UOB Kay Hian

GLOBAL OIL DEMAND AND PRODUCTION



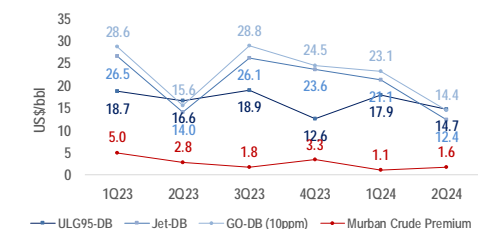
Source: Thai oil and UOB Kay Hian

CRUDE OIL AND SINGAPORE GRM



Source: Bloomberg and UOB Kay Hian

SPREAD OF REFINE PRODUCT AND CRUDE PREMIUM



Source: Bloomberg and UOB Kay Hian

PTTEP'S GUIDANCE

OUTLOOK	Q2 2024	FY 2024
Sales Volume (KBOED)	~514	~509
Gas Price (US\$/MMBTU)	~5.9	~5.9
Unit Cost (US\$/BOC)	~28-29	
Profitability (EBITDA Margin)	70-75%	

Source: PTTEP, Bloomberg and UOB Kay Hian

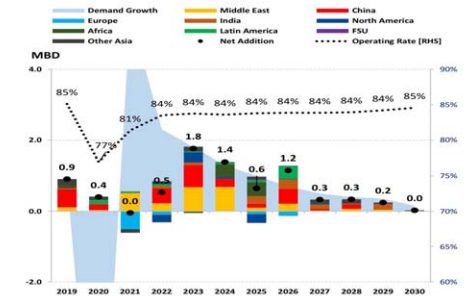
this quarter, and c) stable unit costs qoq (vs 1Q24 at US\$28.96/bbl). We maintain a positive view on crude oil prices, bolstered by growing demand aligning with the broader economic trends and geopolitical tensions in the Middle East, which may disrupt crude oil transportation and supply in the region.

- Additionally, the ongoing situation in Eastern Europe, particularly the Russia-Ukraine conflict, has not yet been resolved. Elevated crude oil prices will support PTTEP's core profits through 2024-25. In terms of sensitivity of crude oil prices to PTTEP's performance, we estimate that each US\$1.00/bbl change in crude oil prices will impact the 2024 core profit estimate by approximately Bt935m, representing about 1.2% of the estimate.
- **Bangchak Corporation (BCP TB, Target: Bt52.00).** BCP's stock has corrected 25% over the past three months due to concerns on GRM outlook and 27 days' scheduled maintenance in 2Q24. However, BCP has already resumed operation in early-June with improving GRM and a stronger demand is expected during the driving season in July; both will be positive catalysts. We expect earnings to rebound sharply in 2H24 on higher utilisation rates, a strong contribution from the renewable energy business in 3Q24 and potential upside from Sustainable Aviation Fuel in 2025. BCP's current share price is trading at only 4.1x of 2024F PE and 0.6 PBV. We recommend investors to accumulate BCP.
- **Bangchak Sriracha (BSRC TB, Target: Bt15.00).** BSRC's stock has corrected 15% over the past two months and the key reason has been concerns on GRM outlook. However, we think the stock has likely priced in weak earnings in 2Q24, while improving GRM in June and expectation of stronger demand during the driving season in July will be positive catalysts. We also expect BSRC to benefit from a higher utilisation rate in 2Q24 to support domestic demand during BCP's Prakanong refinery maintenance. Overall, we still foresee a strong profit growth story in 2024 after merging with BCP. BSRC's current share price is trading at 6.4x of 2024F PE and 1.0 PBV. We recommend investors to accumulate BSRC.

RISK

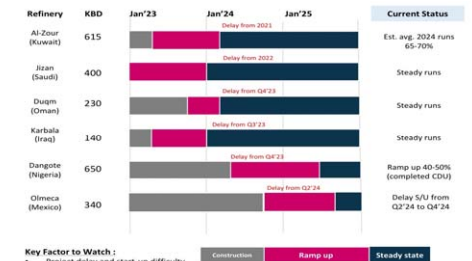
- Uncertainty of the world's economy.
- Fluctuations in crude oil prices and GRM.
- Chinese economic stimulus measures support petroleum and petrochemical demand in 2H24.

GLOBAL EFFECTIVE ADDITIONAL DEMAND AND SUPPLY



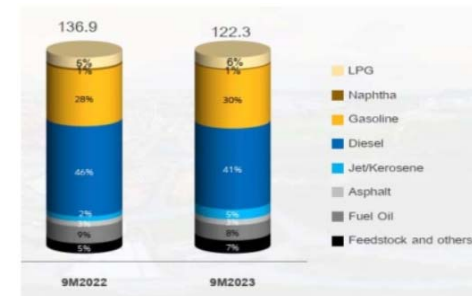
Source: Thai Oil and UOB Kay Hian

NEW REFINERIES CAPACITY ADDITIONAL STATUS



Source: Thai Oil and UOB Kay Hian

BSRC'S PRODUCT YIELD



Source: BSRC and UOB Kay Hian

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