

6 January 2020

Energy | Regional Oil & Gas

## Regional Oil & Gas

## Overweight (Maintained)

### US Drone Kills Iran's Top Commander

Stocks Covered 21  
 Ratings (Buy/Neutral/Sell): 14 / 5 / 2  
 Last 12m Earnings Revision Trend: Negative

- **Maintain OVERWEIGHT; Top Picks include TOP, Keppel, Yinson.** Iran's most powerful military commander, General Qasem Suleimani, was killed by a US drone strike in Iraq. Many fret that the US-Iran situation could escalate into a war in the Middle East. However, we believe Iran may retaliate by further attacks on critical facilities in the region, while US diplomats/military may be threatened. Crude oil price forecasts are maintained at USD64/bbl and USD60/bbl for 2020 and the longer term.

- **What happened?** Iran's most powerful military commander, General Qasem Suleimani, was killed by a US drone strike in Iraq. This military move has roiled global markets, hitting the stock markets and energy prices as Middle East geopolitical tensions escalate.

The tensions between the US and Iran have been simmering since 2018 when the US pulled out of the nuclear deal and re-imposed sanctions on Iran. According to the *Wall Street Journal*, the redline may have been crossed when a rocket attack carried out by the Iranian-backed Kataib Hezbollah militia killed an American contractor at a base near Krikuk, Iraq.

- **What happens now?** Many fret the US-Iran situation could escalate into a war in the Middle East. However, we take the view that Iran may not want to enter into an open confrontation that it has a high chance of losing. Its military force may be of no match against the US military. It is more likely to rely on tactics that General Qasem has perfected over the years. Vulnerable to attacks should be critical oil infrastructures around the region. US diplomats and military personnel in Iraq (and elsewhere) could be under the threat of kidnapping or assassination – which the Islamic Revolutionary Guard Corps (IRGC) has done in the past. Americans have already been urged to leave Iraq. We cannot rule out the risk of uncontrolled, unpredictable retaliation and its escalation thereof, by both Iran and the US.

- **Uncertainty on both the intensity and duration of the escalated tensions** between the US and Iran should result in elevated crude oil prices – Brent closed at USD68.60/bbl (+USD2.35/bbl on Friday). In the case of any attacks on oil infrastructure, and depending on the circumstances, replacing the millions of barrels lost could come from various sources:

- OPEC and its alliance (OPEC+) are currently restraining 1.7mbpd-2.1mbpd. This could readily come into the world market when required;
- Shale oil production could increase with a higher crude oil price, although this could take months to ramp up;
- OECD's stock totalling 4,489m bbls, of which government-controlled stock totals 1,546m bbls.

- **Maintain OVERWEIGHT on the sector.** Crude oil price forecasts are maintained for the moment at USD64/bbl in 1Q20F, with a peak of USD66/bbl in 4Q20. 2020F is expected at USD64/bbl. Our regional Top Picks are PTT Exploration & Production, Thai Oil, Star Petroleum Refining, Keppel, Yinson, and Serba Dinamik.

#### Top Picks

Thai Oil (TOP TB) – BUY  
 Keppel Corp (KEP SP) – BUY  
 Yinson (YNS MK) – BUY

#### Target Price

THB84.00  
 SGD7.80  
 MYR8.22

#### Analysts

Kannika Siamwalla, CFA  
 +66 2088 9744  
[kannika.si@rhbgroup.com](mailto:kannika.si@rhbgroup.com)



Leng Seng Choon, CFA, PBM  
 +65 6232 3890  
[leng.seng.choon@rhbgroup.com](mailto:leng.seng.choon@rhbgroup.com)



Sean Lim Ooi Leong  
 +603 9280 8867  
[sean.lim@rhbgroup.com](mailto:sean.lim@rhbgroup.com)



#### Iran's most powerful military commander, General Qasem killed by US air strike in Iraq



Source: WSJ

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Company	Rating	TP	% Upside (Downside)	P/E (x) Dec-20F	P/B (x) Dec-20F	Yield (%) Dec-20F
PTTEP	BUY	THB150	15.38	11.99	1.16	3.34
TOP	BUY	THB84	16.67	12.63	1.11	3.47
SPRC	BUY	THB12.7	11.40	9.50	1.08	5.26
YNS	BUY	MYR8.22	27.44	18.17	1.84	0.62
SDH	BUY	MYR2.58	6.61	14.07	2.66	2.15
KEP	BUY	SGD7.8	14.87	11.37	1.01	4.40

Source: Company data, RHB

## US-Iran Tensions Set To Escalate

### What happened?

On 3 Jan, General Qasem Suleimani stepped off a plane at the Baghdad International Airport and climbed into a waiting convoy. Minutes later he was dead, as the vehicle was blasted by a US drone. The strike killed the second most powerful leader in Iran and seven others, including Abu Mahdi al-Muhandis, the founder of Kataib Hezbollah and the head of an umbrella group of pro-Iranian militias.

### Who was General Qasem Suleimani?

General Qasem led the Quds Force, a branch of the IRGC that operates outside of Iran. He was considered to be the second most powerful leader in Iran, after only supreme leader Ayatollah Ali Khamenei. According to the *Economist*, his death is far more significant than that of Osama bin Laden or Abu Bakr al-Baghdadi – the leader of al-Qaeda and IS. By the time of their death, these men were at the helm of a diminished organisation. General Qasem was killed in his prime.

The Quds Force runs the logistics, ideological guidance and military affairs of numerous Iranian proxy groups across the region. General Qasem is credited for turning the war in Syria in Syrian President Bashar Hafez al-Assad's favour and directing the 14 Sep drone and missile attack on Saudi Aramco's oil facilities, among many other operations.

He was also said to be behind dozens of rocket attacks in Iraqi bases, including the strike that killed an American contractor. It is believed that he was plotting future attacks on Americans in Lebanon, Syria and Iraq – having recently visited those places recently. He has been replaced by his deputy General Esmail Ghaani, who is known for his competence, experience and hardline anti-Israel views. Iran's leader Ayatollah has announced "continuity" in the Revolutionary Guard Corps' strategy.

### What happens now?

Many fret that the US-Iran situation may escalate into a war in the Middle East. However, we take the view that Iran will not want to enter into an open confrontation that it has a high chance of losing. Its military force may be of no match against the US military force. It is more likely to rely on tactics that General Qasem has perfected over the years. Vulnerable to attacks should be critical oil infrastructures around the region, while US diplomats and military personnel in Iraq (and elsewhere) could be under the threat of kidnapping or assassination – which IRGC has done in the past (Americans have been urged to leave Iraq already).

The risk of uncontrolled, unpredictable retaliation and its escalation thereof, by both Iran and the US, cannot be ruled out.

**President Donald Trump said that the US does not seek regime change**, but is ready and prepared to take whatever action is necessary if Iran threatens American lives. "We took actions to stop a war...not to start a war", he said. Any de-escalation of tension should require sophisticated diplomacy and fine-touch strategy – something that neither side seem to have at the moment.

### Keep an eye on Iraq:

The US troops in Iraq have been training the Iraqi army and keeping tabs on the jihadists of the Islamic State (IS). If the US troops leave Iraq (by order of the Iraqi Government or by its own calculation for its troops' safety), it could mean an end to its troop deployment in Syria – which relies on Iraq for logistics. This could allow for IS to regroup, and result in further instability in the Middle East.

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**Figure 1: US-Iran tensions have been simmering since 2018**


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- 18 May 2018:** The US pulls out of an international nuclear deal and reimposes sanctions on Iran.
- 8 Apr 2019:** The Trump administration lists the Islamic Revolutionary Guard as a terrorist organisation.
- 22 Apr 2019:** The US cancels waivers for Iran's remaining oil customers, further curbing the country's oil revenues.
- 13 Jun 2019:** The US blames Iran for an attack on oil tankers off the Iranian southern coast. Tehran denies responsibility.
- 20 Jun 2019:** Iran shoots down a US drone which it says was on a spy mission over its territory. The US said the drone was in international air space.
- 28 Jul 2019:** The US shoots down an Iranian drone it says was flying too close to a US warship in the Strait of Hormuz.
- 14 Sep 2019:** Missile and drone strikes on Saudi oil facilities briefly knock out about 50% of the country's oil production. The US blames Iran.
- 9 Dec 2019:** A rocket attack in Baghdad wounds members of Iraq's Counterterrorism Service, trained by the US. The US blames Iran.
- 13 Dec 2019:** US Secretary of State Mike Pompeo warns that any rocket attacks carried out by Iran or its proxies in Iraq that harm Americans "will be answered by a decisive US response."
- 27 Dec 2019:** Over 30 rockets are fired at an Iraqi base that hosts US forces, killing an American contractor. The US blames Iranian-backed Iraqi militia Kataib Hezbollah.
- 29 Dec 2019:** The US carries out airstrikes against five Kataib Hezbollah sites in Iraq and Syria, killing 27 people.
- 31 Dec 2019:** Supporters and members of Kataib Hezbollah, as well as others, attempt to storm the US embassy in Baghdad

Source: WSJ

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## Key Oil Infrastructures At Risk

Two key oil infrastructures that could be at risk to any retaliatory actions by Iran.

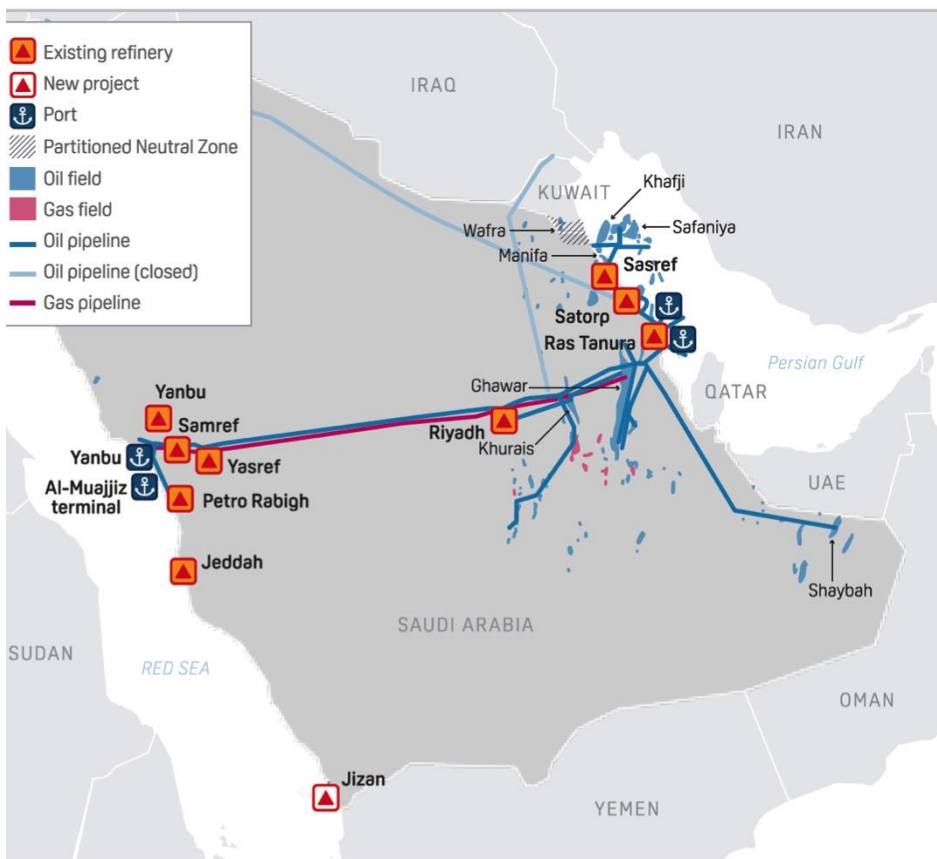
- i. **The Straits of Hormuz:** This is a narrow strip of water that links the Persian Gulf with the Arabian Sea and the Gulf of Oman – it is only 33km to 95km wide throughout the length. It is a strategically important chokepoint, and the main artery for transportation of oil from the Middle East, 20% of total global oil supplies travel through this chokepoint to get to the global markets. Iran and Oman are the countries nearest to the Strait of Hormuz and share territorial rights over the waters. Iran has threatened to close the Strait of Hormuz several times in recent history;
- ii. **Saudi Arabia's key oil & gas infrastructures** will also be at risk should Iran aim to create further chaos in the global markets. The attack on Saudi Arabia's oil facilities on 14 Sep 2019 created a short spike in crude oil price, while Saudi Arabia utilised its crude oil inventory to supply its customers. In the event the Straits of Hormuz is closed off for any reason, Saudi Arabia still has a 1,200km pipeline. This runs from the east (where oil is produced) to the Red Sea (where it can be exported). Its current export capacity is 5mbpd, with plans to increase capacity to 7mbpd in the future.

Figure 2: World's most important oil artery



Source: bne intellinews, Bloomberg

Figure 3: Saudi Arabia's key oil & gas infrastructure



Source: S&P Global Platts, EIA

## Our Crude Oil Market Price Outlook

With the current demand and supply, we can expect to see 0.4mbpd shortfall for 2020F. We expect the crude oil market to be in a balanced position in 1Q20F, with the expectation that OPEC+ will comply with the production cut agreement. We assume OPEC production will be at 29.1mbpd for 2020F. This ought to result in a slight oversupply again in 2Q20, as non-OPEC production is likely to increase by c.0.3mbpd from 1Q20F. However, as demand is expected to be boosted in 2H20F, the markets are likely to be in shortfall by 1.3mbpd and 0.7mbpd for 3Q-4Q20F.

Our crude oil price forecasts are maintained at USD64 per bbl for 2020F and USD60 per bbl for the longer term.

**Figure 4: OPEC's latest demand and supply, RHB crude oil price forecasts and market balance**

	1Q19	2Q19	3Q19	4Q19F	2019F	1Q20F	2Q20F	3Q20F	4Q20F	2020F	2019 (YoY)	2020 (YoY)
RHB ave. crude oil price (Brent, USD/bbl)	63.1	68.8	61.9	62.5	64.0	64.0	62.0	64.0	66.0	64.0	-7.20	0.00
<b>OPEC December report (mbpd)</b>												
<b>World demand (a)</b>	<b>98.8</b>	<b>98.8</b>	<b>100.7</b>	<b>101.0</b>	<b>99.8</b>	<b>99.8</b>	<b>99.8</b>	<b>101.8</b>	<b>102.1</b>	<b>100.9</b>	0.98	1.08
<b>Total non-OPEC supply (b)</b>	<b>63.8</b>	<b>63.8</b>	<b>64.3</b>	<b>65.3</b>	<b>64.3</b>	<b>65.8</b>	<b>66.1</b>	<b>66.5</b>	<b>67.5</b>	<b>66.5</b>	1.83	2.16
OPEC NGLs (c)	4.8	4.8	4.7	4.9	4.8	4.8	4.8	4.8	4.8	4.8	0.04	0.03
OPEC crude oil production	30.5	30.0	29.4									
Total supply	<b>99.1</b>	<b>98.6</b>	<b>98.4</b>									
Balance	0.32	-0.16	-2.34									
<b>Market balance (RHB)</b>												
Call on OPEC (a) - (b) - (c)	30.2	30.1	31.7	30.8	30.7	29.1	28.9	30.5	29.8	29.6	-0.89	-1.11
OPEC production	30.5	30.0	29.4	*29.4	29.8	29.1	29.1	29.1	29.1	29.1	-2.04	-0.67
<b>Oversupply/shortfall</b>	<b>0.3</b>	<b>-0.1</b>	<b>-2.3</b>	<b>-1.4</b>	<b>-0.9</b>	<b>0.0</b>	<b>0.3</b>	<b>-1.3</b>	<b>-0.7</b>	<b>-0.4</b>		

\*Note: RHB calculations. 1Q20F is the expected OPEC production after the December meeting agreement

Source: OPEC, RHB

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## KUALA LUMPUR

**RHB Investment Bank Bhd**  
Level 3A, Tower One, RHB Centre  
Jalan Tun Razak  
Kuala Lumpur 50400  
Malaysia  
Tel : +603 9280 8888  
Fax : +603 9200 2216

## JAKARTA

**PT RHB Sekuritas Indonesia**  
Revenue Tower 11th Floor, District 8 - SCBD  
Jl. Jendral Sudirman Kav 52-53  
Jakarta 12190  
Indonesia  
Tel : +6221 509 39 888  
Fax : +6221 509 39 777

## HONG KONG

**RHB Securities Hong Kong Ltd.**  
12<sup>th</sup> Floor, World-Wide House  
19 Des Voeux Road  
Central  
Hong Kong  
Tel : +852 2525 1118  
Fax : +852 2810 0908

## BANGKOK






**RHB Securities (Thailand) PCL**  
10th Floor, Sathorn Square Office Tower  
98, North Sathorn Road, Silom  
Bangrak, Bangkok 10500  
Thailand  
Tel: +66 2088 9999  
Fax :+66 2088 9799

## SINGAPORE

**RHB Securities Singapore  
Pte Ltd.**  
10 Collyer Quay  
#09-08 Ocean Financial Centre  
Singapore 049315  
Tel : +65 6533 1818  
Fax : +65 6532 6211





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70 - 79		ดี	Good
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ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี (ประเทศไทย) จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความครบถ้วนและถูกต้องของผลสำรวจดังกล่าวแต่อย่างใด

ข้อมูล Anti-Corruption Progress Indicator 2560

ประกาศเจตนารมณ์ CAC

A	ASK	CHG	FC	GREEN	JUTHA	MATCH	NINE	PIMO	RWI	SPPT	TFI	TU	VNT
AI	AU	CHOTI	FER	GSTEL	KASET	MATI	NMG	PK	SANKO	SPRC	THE	TVD	WAVE
AIE	BCH	CHOW	FPI	GUNKUL	KBS	MBAX	NNCL	PL	SAUCE	SR	TICON	TVO	WHA
AIRA	BJC	CIG	FSMART	HARN	KCAR	MC	NTV	PLANB	SC	SRICHA	TIP	TVT	WICE
AJ	BJCHI	COL	GEL	IFS	KTECH	MFEC	NUSA	POST	SCCC	SST	TKN	TWPC	WIJK
ALUCON	BLAND	COM7	GFPT	ILINK	KWC	MIDA	NWR	PRINC	SCN	STA	TLUXE	U	TRUE
AMATAV	BR	CPALL	GGC	INET	KYE	MILL	OGC	PRO	SEAOIL	SUPER	TMILL	UPA	
AOT	BROCK	CPF	GIFT	IRC	L&E	ML	PACE	PSTC	SE-ED	SUSCO	TMT	UREKA	
APCO	BRR	CPR	GJS	J	LEE	MTLS	PAF	PYLON	SENA	SWC	TNP	UWC	
AQUA	CEN	CSC	GLOBAL	JMART	LIT	NBC	PAP	QTC	SIRI	SYMC	TPA	VGI	
ARROW	CGH	EKH	GOLD	JMT	LVT	NCL	PATO	ROH	SMART	TAKUNI	TSE	VIBHA	
ASIA	CHEWA	EPCO	GPSC	JUBILE	MAKRO	NEP	PCSGH	ROJNA	SPACK	TBSP	TTI	VIH	

ได้รับการรับรอง CAC

ADVANC	BKI	CPN	FE	INTUCH	LANNA	MSC	PLAT	PTT	SAT	SNP	TCMC	TMD	UOBKH
AKP	BLA	CSL	FNS	IRPC	LHBANK	MTI	PM	PTTEP	SCB	SORKON	TFG	TNITY	WACOAL
AMANAH	BROOK	DCC	FSS	IVL	LHK	NKI	PPP	PTTGC	SCC	SPC	TGCI	TNL	
AP	BTS	DEMCO	GBX	K	LPN	NSI	PPS	Q-CON	SCG	SPI	THANI	TOG	
ASP	BWG	DIMET	GCAP	KBANK	MBK	OCC	PRANDA	QH	SGP	SSF	THCOM	TOP	
AYUD	CENTEL	DRT	GLOW	KCE	MBKET	OCEAN	PREB	QLT	SINGER	SSI	THRE	TPCORP	
BAFS	CFRESH	DTAC	HANA	KGI	MCOT	PB	PRG	RATCH	SIS	SSSC	THREL	TRU	
BANPU	CIMBT	DTC	HMPRO	KKP	MFC	PDI	PSH	RML	SITHAI	SVI	TIPCO	TSC	
BAY	CM	EASTW	HTC	KSL	MINT	PE	PSL	ROBINS	SMIT	SYNTEC	TISCO	TSSTH	
BBL	CNS	ECL	ICC	KTB	MONO	PG	PT	S & J	SMPC	TAE	TKT	TTCL	
BCP	CPI	EGCO	IFEC	KTC	MOONG	PHOL	PTG	SABINA	SNC	TCAP	TMB	TVI	

N/A

2S	ARIP	BSM	CSS	FMT	INOX	LTX	NPK	RCL	SFP	SUC	TITLE	TSR	VPO
AAV	AS	BTC	CTW	FN	INSURE	M	NPP	RICH	SGF	SUN	TIW	TSTE	VTE
ABICO	ASAP	BTNC	CWT	FOCUS	IRCP	MACO	NVD	RICHY	SHANG	SUTHA	TK	TTA	WG
ACAP	ASEFA	BTW	D	FORTH	IT	MAJOR	NYT	RJH	SIAM	SVH	TKS	TTL	WHAUP
ACC	ASIAN	BUI	DCON	FTE	ITD	MALEE	OHTL	ROCK	SIMAT	SVOA	TM	TTTM	WIN
ADAM	ASIMAR	CBG	DCORP	FVC	ITEL	MANRIN	OISHI	RP	SKE	SYNEX	TMC	TTW	WINNER
ADB	ASN	CCET	DDD	GC	JAS	MAX	ORI	RPC	SKN	T	TMI	TUCC	WORK
AEC	ATP30	CCP	DELTA	GENCO	JCT	M-CHAI	OTO	RPH	SKR	TACC	TMW	TWP	WORLD
AEONTS	AUCT	CGD	DIGI	GL	JKN	MCS	PAE	RS	SKY	TAPAC	TNDT	TWZ	WP
AF	BA	CHARAN	DNA	GLAND	JSP	MDX	PDG	RSP	SLP	TASCO	TNH	TYCN	WPH
AFC	BAT-3K	CHO	DTCI	GPI	JTS	MEGA	PERM	S	SMK	TC	TNPC	UAC	WR
AGE	BCPG	CHUO	EA	GRAMMY	JWD	METCO	PF	S11	SMM	TCB	TNR	UBIS	XO
AH	BDMS	CI	EARTH	GRAND	KAMART	MGT	PICO	SAFARI	SMT	TCC	TOA	UEC	YCI
AHC	BEAUTY	CITY	EASON	GTB	KC	MJD	PJW	SALEE	SOLAR	TCCC	TOPP	UKEM	YNP
AIT	BEC	CK	ECF	GULF	KCM	MK	PLANET	SAM	SPA	TCJ	TPAC	UMI	YUASA
AJA	BEM	CKP	EE	GYT	KDH	MM	PLE	SAMART	SPALI	TCOAT	TPBI	UMS	ZIGA
AKR	BFIT	CMO	EFORL	HFT	KIAT	MODERN	PMTA	SAMCO	SPCG	TEAM	TPCH	UNIQU	ZMICO
ALLA	BGRIM	CMR	EIC	HOTPOT	KKC	MPG	POLAR	SAMTEL	SPG	TFD	TIPL	UP	
ALT	BGT	CNT	EMC	HPT	KOOL	MPIC	POMPUI	SAPPE	SPORT	TFMAMA	TIPIP	UPF	
AMA	BH	COLOR	EPG	HTECH	KTIS	NC	PORT	SAWAD	SPVI	TGPRO	TPOLY	UPOIC	
AMARIN	BIG	COMAN	ERW	HUMAN	KWG	NCH	PPM	SAWANG	SQ	TH	TPP	UT	
AMATA	BIZ	CPH	ESSO	HYDRO	LALIN	NDR	PRAKIT	SCI	SSC	THAI	TR	UTP	
AMC	BKD	CPL	ESTAR	ICHI	LDC	NETBAY	PRECHA	SCP	SSP	THANA	TRC	UV	
ANAN	BLISS	CPT	ETE	ICN	LH	NEW	PRIN	SDC	STANLY	THG	TRITN	UVAN	
APCS	BM	CRANE	EVER	IEC	LOXLEY	NEWS	PRM	SE	STAR	THIP	TRT	VARO	
APEX	BOL	CRD	F&D	IHL	LPH	NFC	PTL	SEAFCO	STEC	THL	TRUBB	VCOM	
APURE	BPP	CSP	FANCY	III	LRH	NOBLE	RAM	SELIC	STHAI	THMUI	TSF	VI	
AQ	BSBM	CSR	FLOYD	INGRS	LST	NOK	RCI	SF	STPI	TIC	TSI	VNG	

Source: Thai Institute of Directors

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- ได้รับการรับรอง CAC

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