

8 June 2020

Energy & Petrochemicals | Regional Oil & Gas

Regional Oil & Gas

Buy/Neutral/Sell

OPEC+ To Either Comply Or Compensate

- Top Picks: PTT Exploration & Production (PTTEP), MISC and Keppel (KEP).** OPEC+ has agreed to extend its 9.7mbpd production cut until July, while stipulating that participating countries that have not complied during May-Jun will have to compensate for this, in Jul-Sep. We note that Libya is now poised to restart production in June/July, making the production cut compliance all the more crucial in this fragile market. Our 2020F crude oil price is now at USD43.00/bbl (from USD40.00/bbl), due to the deeper supply cut from OPEC+.
- OPEC, Russia and allies agreed** on Saturday to extend record oil production cuts of 9.7mbpd until July, as expected – prolonging the deal that helped crude oil prices double in the past two months. OPEC+ also demanded countries that exceeded their production quotas in May and June to compensate for this in Jul-Sep. Note that, under the original agreement, the 9.7mbpd production cut was for May-Jun, after which it will fall to 7.7mbpd for Jul-Dec and 5.8mbpd for 1 Jan 2021-30 April 2022. The next meeting is next scheduled for Nov 30-1 Dec, while the joint ministerial monitoring committee will meet each month to review the market.
- Both Iraq and Nigeria have agreed to compensate** for their excessive output for May and June. Iraq's agreed production cut is 1mbpd, but in May, the country cut 443kbpd. This means that it has to pare down production by 1.5mbpd in July, to compensate for the May production that it did not cut. It remains to be seen how these countries will comply and compensate.
- Libya is poised to restart production of 375kbpd in June/July.** Negotiations are going well between the National Oil Corporation (NOC) and tribal groups which control the c.375kbpd oil fields. Libya's two key pipelines, export terminal and refinery have recently been reopened. Libya is exempt from the OPEC+ agreement. Last year, its peak production was at 1.2mbpd, but it is now producing at 90kbpd. It is, therefore, quite important for all participating members to fully comply with the agreement to alleviate the potential flood of supply entering the market from Libya – and possibly from US shale oil, as the price rebounds.
- The market is moving within our expectations,** with oil demand returning as the world eases out of lockdowns. We expect demand to exceed supply in 3Q20-4Q20 by 2.9mbpd and 6.2mpbd. However, there was a build of around 1bn bbls of excess oil inventories accumulated in 2Q20 that will have to be cleared. We expect global inventories to fall to 3bn bbls by 4Q20F (vs 2.9bn bbls in 4Q19), from c.3.9bn bbls in 2Q20. This will result in a much stronger oil market as we enter 2021F, where our crude oil price forecast is USD55.00/bbl.
- Our crude oil price for 2020F** is adjusted to USD43.00/bbl on the deeper supply cut from OPEC+. Our crude oil prices for 2Q20F and 2H20F are now at USD31.00 and USD45.00 per barrel. Prices of stocks under our coverage in Thailand have rebounded strongly, and the counters are now trading close to our TPs – these stocks are under review. Top Picks: PTTEP, Star Petroleum Refining, Thai Oil, MISC, Serba Dinamik, and KEP.

Thailand (OVERWEIGHT)	4 / 3 / 0
Malaysia (NEUTRAL)	5 / 1 / 3
Singapore (OVERWEIGHT):	3 / 0 / 0

Top Picks

Top Picks	Target Price
PTT Exploration & Production – BUY	THB108.00
MISC (MISC MK)-BUY	MYR9.28
Keppel Corp (KEP SP)-BUY	SGD7.30

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Last Saturday, Prince ABS told OPEC+ ministers, "We are not out of the woods yet, challenges ahead remain"



Source: Twitter

Company Name	Rating	Target Price	% Upside (Downside)	P/E (x) Dec-20F	P/B (x) Dec-20F	Yield (%) Dec-20F
Keppel Corp	BUY	SGD7.30	15.9	16.6	1.0	2.8
MISC	BUY	MYR9.28	11.8	18.0	1.0	3.6
PTT Exploration & Production	BUY	THB108.00	9.4	15.5	1.1	2.6
PTT Global Chemical	BUY	THB50.98	(0.0)	na	0.8	1.8
Serba Dinamik	BUY	MYR2.55	45.9	11.7	1.8	2.6
Star Petroleum Refining	BUY	THB8.40	9.1	na	1.0	1.7
Thai Oil	BUY	THB54.00	6.9	na	0.9	2.8

Source: Company data, RHB

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Figure 1: OPEC+ production cuts for May 2020 through Apr 2022, with 9.7mbpd extended to July

(kbpd)	1 May-30 July 2020				1 Aug -31 Dec 2020			1 Jan 2021-30 Apr 2022		
	Oct 18 baseline production	Adjust.	Adjust (%)	Voluntary production	Adjust.	Adjust (%)	Voluntary production	Adjust	Adjust (%)	Voluntary production
OPEC 10, participating members										
Algeria	1,057	-234	-22%	823	-186	-18%	871	-140	-13%	917
Angola	1,528	-338	-22%	1,190	-268	-18%	1,260	-202	-13%	1,326
Congo	325	-72	-22%	253	-57	-18%	268	-43	-13%	282
Eq. Guinea	127	-28	-22%	99	-22	-18%	105	-17	-13%	110
Gabon	187	-41	-22%	146	-33	-18%	154	-25	-13%	162
Iraq	4,653	-1029	-22%	3,624	-817	-18%	3,836	-615	-13%	4,038
Kuwait	2,809	-621	-22%	2,188	-493	-18%	2,316	-372	-13%	2,437
Nigeria	1,829	-405	-22%	1,424	-321	-18%	1,508	-242	-13%	1,587
Saudi Arabia	11,000	-2433	-22%	8,567	-1931	-18%	9,069	-1455	-13%	9,545
UAE	3,168	-701	-22%	2,467	-556	-18%	2,612	-419	-13%	2,749
OPEC 10	26,683	-5902	-22%	20,781	-4685	-18%	21,998	-3529	-13%	23,154
Non-OPEC participating members										
Azerbaijan	718	-159	-22%	559	-126	-18%	592	-95	-13%	623
Bahrain	205	-45	-22%	160	-36	-18%	169	-27	-13%	178
Brunei	102	-23	-22%	79	-18	-18%	84	-13	-13%	89
Kazakhstan	1,709	-378	-22%	1,331	-300	-18%	1,409	-226	-13%	1,483
Malaysia	595	-132	-22%	463	-104	-18%	491	-79	-13%	516
Mexico	1,753	-388	-22%	1,365	-308	-18%	1,445	-232	-13%	1,521
Oman	883	-195	-22%	688	-155	-18%	728	-117	-13%	766
Russia	11,000	-2433	-22%	8,567	-1931	-18%	9,069	-1455	-13%	9,545
Sudan	75	-17	-22%	58	-13	-18%	62	-10	-13%	65
South Sudan	130	-29	-22%	101	-23	-18%	107	-17	-13%	113
Total Non-OPEC alliance	17,170	-3798	-22%	13,372	-3015	-18%	14,155	-2271	-13%	14,899
OPEC 10	26,683	-5,902	-22%	20,781	-4,685	-18%	21,998	-3,529	-13%	23,154
Non-OPEC	17,170	-3,798	-22%	13,372	-3,015	-18%	14,155	-2,271	-13%	14,899
OPEC+	43,853	-9,700	-22%	34,153	-7,700	-18%	36,153	-5,800	-13%	38,053

Source: OPEC, RHB

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Figure 2: Preliminary production for May, according to Bloomberg – OPEC's production cut compliance was at 79%, while Russia seemed to have upped its compliance to 99% for May

(kbpd)	OPEC+ Declaration of Cooperation				Production	May-20		2020 YTD Production
	Oct 18 baseline production (Revised)	Adjust.	Adjust (%)	Voluntary production		Cut from baseline	Compliance	
OPEC 10, participating members								
Algeria	1,057	-234	-22%	823	820	-237	101%	976
Angola	1,528	-338	-22%	1,190	1,270	-258	76%	1,349
Congo	325	-72	-22%	253	290	-35	49%	292
Eq. Guinea	127	-28	-22%	99	100	-27	96%	119
Gabon	187	-41	-22%	146	190	3	-7%	194
Iraq	4,653	-1,029	-22%	3,624	4,210	-443	43%	4,481
Kuwait	2,809	-621	-22%	2,188	2,290	-519	84%	2,725
Nigeria	1,829	-405	-22%	1,424	1,690	-139	34%	1,772
Saudi Arabia	11,000	-2,433	-22%	8,567	8,700	-2,300	95%	9,937
UAE	3,168	-701	-22%	2,467	2,450	-718	102%	3,178
OPEC 10	26,683	-5,902	-22%	20,781	22,010	-4,673	79%	25,022
Non-participating OPEC members								
Iran	3,296			3,296	1,950	-1,346		2,054
Libya	1,114			1,114	90	-1,024		180
Venezuela	1,171			1,171	550	-621		722
Non-part. OPEC	5,581			5,581	2,590	-2,991		2,957
Total OPEC 13	32,264	-5,902	-18.3%	26,362	24,600	-7,664	130%	27,980
Non-OPEC participating members								
Azerbaijan	718	-159	-22%	559				
Bahrain	205	-45	-22%	160				
Brunei	102	-23	-22%	79				
Kazakhstan	1,709	-378	-22%	1,331				
Malaysia	595	-132	-22%	463				
Mexico	1,753	-388	-22%	1,365				
Oman	883	-195	-22%	688				
Russia	11,000	-2,433	-22%	8,567	8,590	-2,410	99%	10,132
Sudan	75	-17	-22%	58				
South Sudan	130	-29	-22%	101				
Others								
Total Non-OPEC	17,170	-3,798	-22%	13,372	8,590	-2,410	63%	10,132
OPEC 10	26,683	-5,902	-22%	20,781				
Non-OPEC	17,170	-3,798	-22%	13,372				
OPEC+	43,853	-9,700	-22%	34,153				
Total compliance								
OPEC-11 & alliance	43,853	-9,700	-22%	34,153	30,600	-7,083	73%	35,154
OPEC-13 & alliance	49,434	-9,700	-20%	39,734	33,190	-10,074	104%	38,112

Source: OPEC, Bloomberg, Reuters, RHB

Our crude oil price outlook

Demand is expected to fall by c.9mbpd YoY to 90.6mbpd for 2020. This is a result of 40% of global population under lockdown during April and May. As the world eases out of lockdown, we expect ground transportation to resume, while air travel will remain limited as countries remain cautious in opening borders to the world. We envision possible negotiated travel between countries could happen before global travel can resume back to normal – possibly when vaccines become available for the world population.

Supply is expected to be curtailed as a result of OPEC+ agreement as well as higher cost producers shutting down wells that are uneconomical at current price range. Oversupply is expected at 9.4mbpd in 2Q20F while shortfall of 2.9mbpd and 6.2mbpd is expected for 3Q20 and 4Q20 respectively. In all, we expect an oversupply of 1.8mbpd for 2020F.

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Our estimates for world demand and supply are as follows:

- i. Demand for 1Q20 was at 92.4mbpd (-6.4mbpd YoY), while 2Q20 demand is expected at 81.3mbpd (-17.3mbpd YoY). For 2H20F, demand should slowly recover to 92.3mbpd (-8.2mbpd YoY) in 3Q20, then improve further to 96.3mbpd (-4.5mbpd YoY) in 4Q20. Full-year demand is expected at 90.6mbpd (-9.1mbpd YoY);
- ii. For 2020F, non-OPEC production is expected to decline by 3.5mbpd YoY to 61.5mbpd, as higher-cost producers curtail production. We have assumed the OPEC+ production cut to be 9.7mbpd for May-Jul, while Aug-Dec production cut is expected at 7.7mbpd. We have assumed 100% compliance by its members, and that Libya's production will total 400kbpd over July-December.

The market is moving within our expectations, with oil demand returning as the global population eases out of lockdowns. We expect demand to exceed supply in 3Q20-4Q20 by 2.9mbpd and 6.2mbpd. However, there was a build of around 1bn bbls of excess oil inventories accumulated in 2Q20 that will have to be cleared. With production restraints in place and demand returning, we expect global (commercial) inventories to fall to 3bn bbls by 4Q20F (4Q19: 2.9bn bbls) from about 3.9bn bbls in 2Q20. This should result in a much stronger oil market as we enter 2021, where our crude oil price forecast is USD55.00 per bbl.

Crude oil price revisions

Our crude oil price for 2020F is adjusted upwards slightly to USD43.00/bbl, from USD40.00/bbl as a result of deeper supply cuts from OPEC+. For 2Q20F, our crude oil price is revised up to USD31.00/bbl, while that for 2H20F is now at USD45.00/bbl.

Figure 3: OPEC demand/supply and crude oil prices/forecasts

	2017	2018	1Q19	2Q19	3Q19	4Q19	2019	1Q20	2Q20	3Q20	4Q20	2020
Crude oil price (USD/bbl)												
Brent, revised	54.4	71.2	63.1	68.5	61.9	62.5	64.0	50.6	31.0	45.0	45.0	42.9
Brent, old	54.4	71.2	63.1	68.5	61.9	62.5	64.0	50.6	28.0	37.0	45.0	40.2
Change (USD/bbl)								-	3.0	8.0	-	2.7
World demand and supply (mbpd)												
Demand	97.4	98.8	98.8	98.6	100.5	100.8	99.7	92.4	81.3	92.3	96.3	90.6
YoY growth							0.8	(6.4)	(17.3)	(8.2)	(4.5)	(9.1)
Supply												
Non-OPEC	60.0	63.0	64.4	64.4	64.9	66.4	65.0	66.5	59.7	59.6	60.3	61.5
OPEC NGLs	4.6	4.8	4.8	4.8	4.7	4.9	4.8	4.9	4.8	4.8	4.8	4.8
Total non-OPEC	64.6	67.7	69.2	69.3	69.6	71.3	69.8	71.3	64.5	64.4	65.1	66.3
YoY growth							2.1	2.2	(4.7)	(5.2)	(6.2)	(3.5)
OPEC production	31.5	31.3	30.0	29.4	28.9	29.1	29.3	28.3	26.1	25.0	25.0	26.1
Total supply	96.1	99.1	99.1	98.6	98.3	100.3	99.1	99.6	90.7	89.4	90.1	92.4
YoY growth							0.01	0.5	(7.9)	(9.0)	(10.2)	(6.7)
Balance	(1.3)	0.2	0.4	0.0	(2.2)	(0.5)	(0.6)	7.2	9.4	(2.9)	(6.2)	1.8
OECD closing stock levels, mbbbl												
Commercial	2,860	2,873	2,877	2,936	2,946	2,906	2,906	3,002	3,845	3,583	3,025	3,025
Additional barrels									842	(262)	(558)	165
SPR	1,569	1,552	1,557	1,549	1,544	1,535	1,535	1,538	1,535	1,535	1,535	1,535
Total	4,428	4,425	4,434	4,485	4,490	4,441	4,441	4,541	6,222	4,856	4,002	4,725

Source: OPEC, Bloomberg, RHB

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Analyst	Company
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90 - 100		ดีเลิศ	Excellent
80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		ดีพอใช้	Satisfactory
50 - 59		ผ่าน	Pass
ต่ำกว่า 50	No logo give	N/A	N/A

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ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี (ประเทศไทย) จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความครบถ้วนและถูกต้องของผลสำรวจดังกล่าวแต่อย่างใด

ข้อมูล Anti-Corruption Progress Indicator 2560

ประกาศเจตนาธรรม 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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- ได้ประกาศเจตนาธรรมนี้เข้าร่วม CAC
- ได้รับการรับรอง CAC

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