

7 October 2019

Energy | Oil & Gas

Regional Oil & Gas

Neutral (Maintained)

Oil Market Remains Volatile And Weak

Stocks Covered 9
Ratings (Buy/Neutral/Sell): 4 / 3 / 2
Last 12m Earnings Revision Trend: Negative

• **Sector NEUTRAL; Top Picks: PTTEP, TOP, KEP, SMM.** After the attacks on Saudi Arabia's oil facilities, geopolitical risks remain elevated. The current weak oil price indicates market concerns are on the global economic slowdown/oil demand. Our concerns are not so much for 2019F, but for 2020F where the call on OPEC is expected at 28-29mbpd. September total OPEC production averaged 28.32mbpd (-1.4mbpd MoM), compliance was at 291%. Our crude oil price forecasts are maintained at USD66/bbl for 2019-2020, and USD60/bbl for the long term.

• **High production cut compliance.** For September, total OPEC production averaged 28.32mbpd (-1.4mbpd MoM). Production cuts for OPEC's participating members (OPEC-11) were at 2.3mbpd, ie 291% compliant. The 14 Sep attacks on Saudi Arabia's critical oil facilities knocked out 5.7mbpd of global supplies for the month. This single event was the major reason for OPEC's and Saudi Arabia's total fall in production for the month.

• **Update on Saudi Arabia's critical crude oil facilities.** Saudi Arabia has indicated that it has already restored its oil output, and its production capacity is now at 11.3mbpd. Full 12mbpd production capacity is expected by November, if not earlier. The country is now producing 9.8-9.9mbpd, a level prior to the attacks.

• **Russia's production for September was 11.54mbpd,** down 200kbpd from the October baseline (87%-compliant). Russia has indicated that it will comply with production cuts in October (note: it also said the same thing for September).

• **The demand and supply situation, as it currently stands:**

Taking into consideration IEA's demand and supply numbers, with our estimated 3Q19 OPEC production average of 29.2mbpd, there should be a supply shortfall of c.1.58mbpd already in 3Q19. The 4Q19 call on OPEC is expected to rise to 30.3mbpd (+1.1mbpd QoQ), with the International Energy Agency's (IEA) expected demand at 1.8mbpd (Figure 1).

Even if additional demand is 1mbpd in 4Q19F, the additional call on OPEC would be 29.5mbpd (+0.3mbpd QoQ). As such, we are not overly concerned of the market balance situation for the rest of this year. However, we believe that OPEC+ will need to start thinking about 2020, when demand for OPEC crude oil may fall to the 28-29mbpd range. At such range, and with faltering global economy/oil demand, compliance amongst members could further deteriorate.

• **OPEC and its alliance remain committed** to the OPEC+ production cut agreement. Even if demand for 3Q19/4Q19 is not as strong as the agencies are currently expecting (+1.2mbpd/+1.8mbpd), we believe that OPEC+ has room to adjust its production within the scope of the production cut agreement, to result in a balanced market.

• **Finally, Ecuador has announced that it will leave OPEC in Jan 2020.** Ecuador produces 530kbpd and has breached production limits every month this year. Its departure indicates that it would like to pursue higher oil production than current levels.

Top Picks

Target Price

PTT Exploration & Production (PTTEP TB) – BUY	THB156.00
Thai Oil (TOP TB) – BUY	THB80.00
Keppel Corp (KEP SP-BUY)	SGD7.30
Sembcorp Marine (SMM SP-BUY)	SGD1.63

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Damaged site of Saudi Aramco's Abqaiq facility



Source: BusinessDay

Company	Rating	TP	% Upside (Downside)	P/E (x) Dec-19F	P/BV (x) Dec-19F	Yield (%) Dec-19F
PTTEP	Buy	THB156.00	33.91	9.47	1.10	4.24
TOP	Buy	THB80.00	18.52	19.29	1.08	3.50
KEP	Buy	SGD7.30	25.65	11.90	0.90	4.20
SMM	Buy	SGD1.63	38.14	(36.85)	1.10	0.00
PTTGC	Sell	THB46.00	(10.68)	13.21	0.75	3.77

Source: Company data, RHB

Figure 1: 3Q19 supply shortfall could be c. 1.5mbpd; concerns are for 2020 where further cuts will be required

(mbpd)	1Q19	2Q19	3Q19	4Q19F	2019F	YoY	1Q20F	2Q20F	3Q20F	4Q20F	2020F	YoY
Demand	99	99.6	101.3	101.4	100.5	1.1	100	101.1	103	102.6	101.8	1.3
YoY change	0.3	0.8	1.2	1.8	1.1		1	1.5	1.7	1.2	1.3	
Supply												
Non-OPEC	63.8	64.6	65	65.6	64.7	1.8	66.1	67	67.5	67.7	67.2	2.5
YoY change	2.6	2.3	1.5	1.3	1.8		2.3	2.4	2.5	2.1	2.5	
NGLs	5.6	5.6	5.5	5.5	5.6	0.1	5.6	5.6	5.6	5.6	5.6	0
Call on OPEC	29.6	29.4	30.8	30.3	30.2	-1.7	28.3	28.5	29.9	29.3	29.00	-1.20
YoY change	-2.1	-2.2	-2.78	-2.5	-1.7		-1.3	-0.9	0.2	-0.4	-1.2	
Total supply	99	99.6	101.3	101.4	100.5	0.2	100	101.1	103	102.6	101.8	1.3
YoY change	0.6	0.2	-1.3	-1.2	-0.37		1	1.5	2.8	1.8	1.3	
Supply from OPEC	30.6	30	29.2	30.3	30.0	-1.9	28.3	28.5	29.9	29.3	29	(1.0)
Oversupply/shortfall	1	0.6	(1.6)	-	(0.2)		0	0	0	0	0	c

Source: IEA (data as of Aug 2019), RHB

Figure 2: Saudi oil capacity to return to normal by end-November

(mbpd)	Total capacity	Changes
Normal capacity	12.0	
Saturday (14 Sep)	6.3	(5.7)
Tuesday (17 Sep)	8.3	2.0
End September	11.0	2.7
End November	12.0	1.0

Source: ArabNews, RHB

September Production Cuts

September production cuts for OPEC participating members (OPEC-11) was 2.3mbpd, or 291%-compliant. Russia's production for the month was 11.54mbpd, down 200kbpd from the October baseline, and it was 87%-compliant.

For September, attacks on Saudi Arabia's critical oil facilities knocked out 5.7mbpd of global supplies. This single event was the major reason for OPEC's and Saudi Arabia's total fall in production for the month.

- Saudi Arabia's Oct 2018 production has averaged 8.3mbpd, marking a cut of 2.2mbpd from the October baseline and it was 706%-compliant. The country is now producing 9.8-9.9mbpd, ie a level prior to the attacks;
- Four other countries complied with or exceeded their production cut agreements for September – Angola, Equatorial Guinea, Kuwait and the United Arab Emirates;
- Algeria and Congo production cuts were 84%- and 50%-compliant respectively;
- Ecuador, Gabon, Iraq and Nigeria were producing at above their agreed production levels. Iraq's production was stable MoM at 4.7mbpd, while Nigeria's production fell slightly to 1.93mbpd (-20kbpd MoM, +130kbpd YoY).

Finally, Russia intends to fulfil the terms of the deal in October and reduce production by 228kbpd from Oct 2018 levels.

Figure 3: A high rate of compliance for production cut agreements

(kbpd)	October 18 baseline production	Voluntary adjustment	% of adjustment	Voluntary production level	1H19	3Q19	Sep-19	Sept cut from baseline	Aug Compliance	YTD ave production	YTD ave production cut	YTD compliance
OPEC/IEA OPEC/EA/BB Bloomberg												
OPEC 11, participating members												
Algeria	1,057	-32	-3.0%	1,025	1,021	1,024	1,030	-27	84%	1,022	-35	109%
Angola	1,528	-47	-3.1%	1,481	1,439	1,383	1,360	-168	357%	1,420	-108	229%
Congo	325	-10	-3.1%	315	329	321	320	-5	50%	327	2	-16%
Ecuador	524	-16	-3.1%	508	525	532	540	16	-100%	528	4	-22%
Eq. Guinea	127	-4	-3.1%	123	117	120	120	-7	175%	118	-9	233%
Gabon	187	-6	-3.2%	181	205	199	190	3	-50%	203	16	-261%
Iraq	4,653	-141	-3.0%	4,512	4,660	4,771	4,780	127	-90%	4,697	44	-31%
Kuwait	2,809	-85	-3.0%	2,724	2,707	2,674	2,690	-119	140%	2,696	-113	133%
Nigeria	1,738	-53	-3.0%	1,685	1,769	1,861	1,930	192	-362%	1,799	61	-116%
Saudi Arabia	10,633	-322	-3.0%	10,311	9,886	9,288	8,360	-2,273	706%	9,687	-946	294%
UAE	3,168	-96	-3.0%	3,072	3,068	3,075	3,070	-98	102%	3,070	-98	102%
OPEC 11	26,749	-812	-3.0%	25,937	25,725	25,248	24,390	-2,359	291%	25,566	-1,183	146%
Non-participating OPEC members												
Iran	3,296			3,296	2,560	2,179	2,130	-1,166		2,433	-863	
Venezuela	1,171			1,171	814	711	680	-491		780	-391	
Libya	1,114			1,114	1,102	1,085	1,120	6		1,096	-18	
Non-part. OPEC members	5,581			5,581	4,476	3,975	3,930	-1,651		4,309	-1,272	
Total OPEC 14	32,330	-812	-2.5%	31,518	30,200	29,223	28,320	-4,010	494%	29,874	-2,456	302%
Non-OPEC participating members												
Azerbaijan	797	-20	-2.5%	777	770		N/A					
Bahrain	217	-5	-2.3%	212	210		N/A					
Brunei	115	-3	-2.6%	112	120		N/A					
Kazakhstan	2,028	-40	-2.0%	1,988	1,925		N/A					
Malaysia	698	-15	-2.1%	683	698		N/A					
Mexico	1,993	-40	-2.0%	1,953	1,928		N/A					
Oman	1,003	-25	-2.5%	978	980		N/A					
Russia	11,747	-230	-2.0%	11,517	11,585	11,552	11,547	-200	87%	11,578	-170	74%
Sudan	124	-3	-2.4%	121	103		N/A					
South Sudan	74	-2	-2.7%	72	113		N/A					
Others							N/A					
Total Non-OPEC alliance	18,796	-383	-2.0%	18,413	18,433	11,552	11,547	-200	52%	18,408	-389	101%
Total compliance												
OPEC-11 and Russia/alliance	45,545	-1195	-2.6%	44,350	44,158	36,800	35,937	-2559	214%	43,973	-1572	132%
OPEC-14 and Russia/alliance	51,126	-1195	-2.3%	49,931	48,633	40,775	39,867	-4210	352%	48,282	-2844	238%

Note: Russia's production is quoted in tonnes and, therefore, discrepancies in conversion are possible

Source: OPEC, IEA, Bloomberg, Russia's Ministry of Energy, RHB

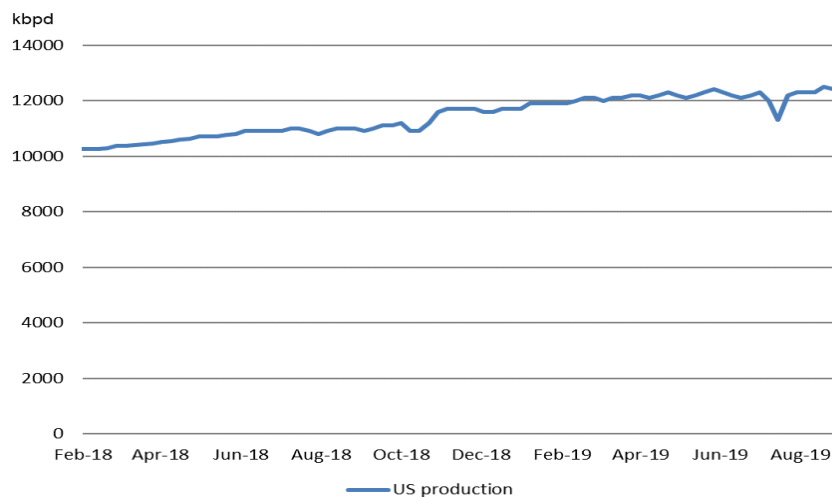
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Global Crude Oil Production Data

The charts below provide the latest preliminary production data as per Bloomberg data, unless otherwise stated. Official production numbers will be provided by OPEC mid-month, every month.

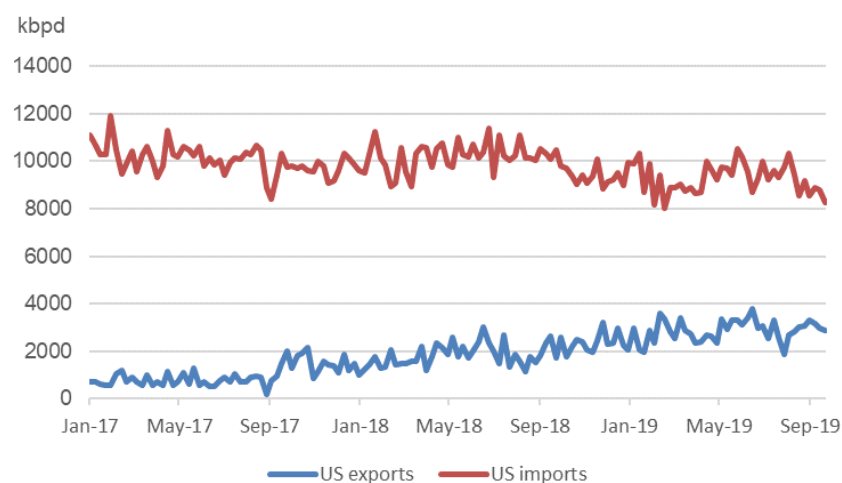
Figure 4: US crude oil production



Source: EIA, RHB

- ◆ US average production increased MoM to 12.42mbpd (+65kbpd MoM, +1.4mbpd YoY)
- ◆ YTD September average production was at 12.15mbpd (+1.5mbpd YoY)
- ◆ Note: EIA expects monthly growth in Lower 48 onshore production to slow down to average 50kbpd per month, from 4Q19F through end-2020F – down from an average of 110kbpd per month achieved during Aug 2018 through Jul 2019

Figure 5 : US sees exports improve while imports continue to fall YTD

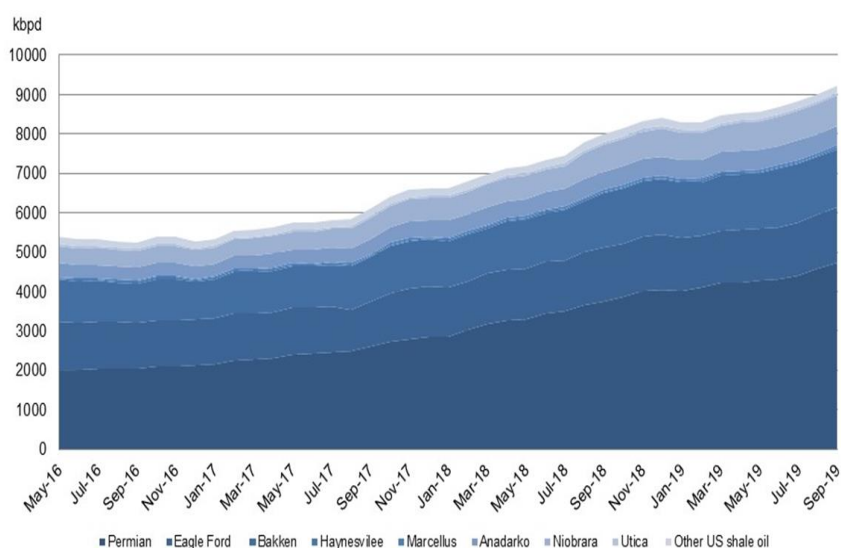


Source: IEA, RHB

- ◆ US crude oil export averaged 3.08mbpd (+393.8kbpd MoM, +940.5kbpd YoY) for September
- ◆ YTD average US crude oil export was 2.8mbpd (+1.03mbpd YoY), as at September
- ◆ US crude oil import averaged 8.6mbpd (-832kbpd MoM, -1.7mbpd YoY)
- ◆ YTD average crude imports was 9.2mbpd (-914.9kbpd YoY).

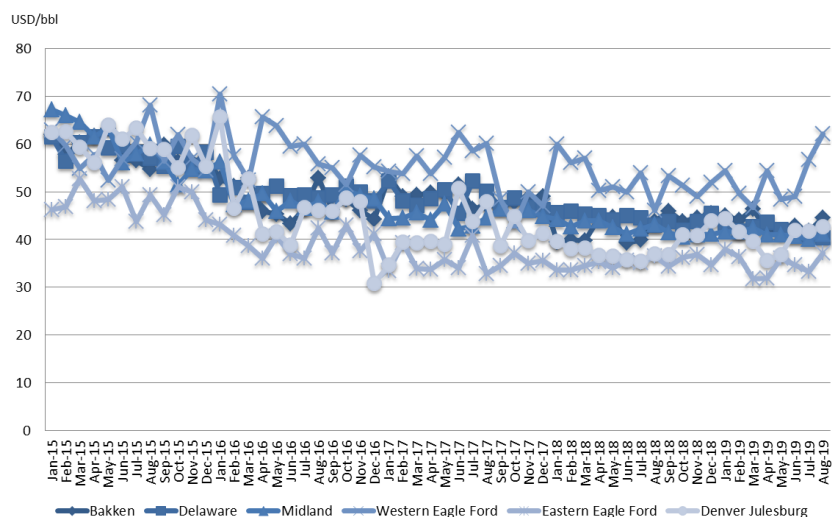
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Figure 6: US shale production inched higher MoM

Source: Bloomberg, RHB

- ◆ US shale oil production in September averaged 9.2mbpd (+208kbpd MoM, +1.2mbpd YoY)
- ◆ YTD-September US shale oil production averaged 8.5mbpd (+1.27mbpd YoY)
- ◆ US shale production is increasing at a decelerating rate as it seems that producers may be reaching limits on accelerating output and minimising costs. Shale oil producers are now focusing on cash flows and capital discipline

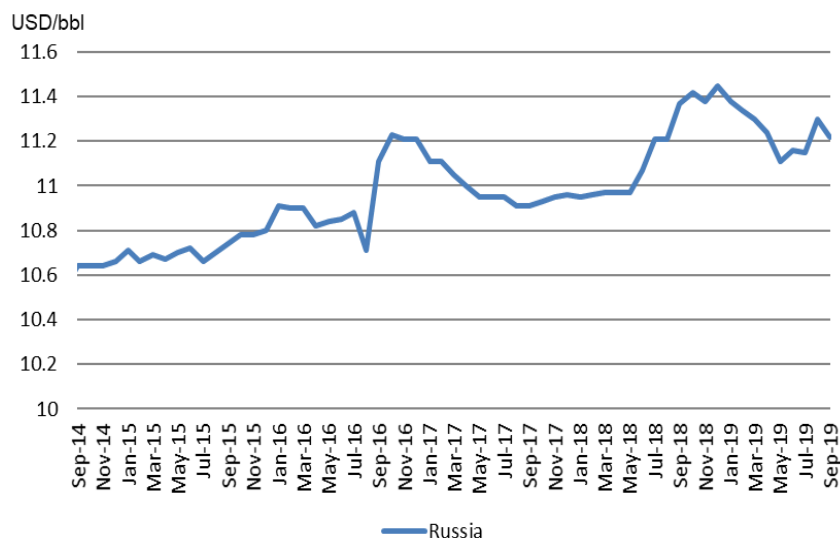
Figure 7: US shale oil producers broke even inches higher at USD44.68/bbl

Source: Bloomberg, RHB

- ◆ The US' average shale breakeven point averaged at USD44.68/bbl (+USD2.25/bbl MoM, +USD3.10/bbl YoY)
- ◆ The inching up of costs from last year's lows are within our expectations, as demand increases for raw materials and wages spiral upwards

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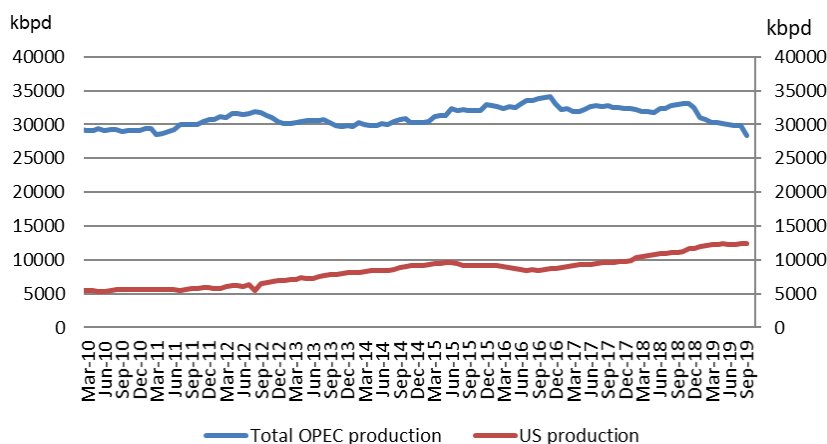
Figure 8: Russia's crude oil production climbed to 11.29mbpd

- ◆ Russia's crude oil production averaged 11.22mbpd (-0.08mbpd MoM, -0.15mbpd YoY) for September. Russia was 87%-compliant
- ◆ Russia reduced oil production by 200kbpd from the Oct 2018 production baseline, where its quota was 228kbpd.
- ◆ Russia intends to fulfill the terms of the deal in October, and reduce production by 228kbpd from Oct 2018 production levels

Source: Bloomberg, CDU TEK, RHB

Russia's Energy Minister Alexander Novak, according to TASS, said that:

- "Black swans" affect the oil market more than fundamental factors. The pressure of geopolitical factors is increasing, which makes forecasting more difficult;
- Global economic growth of 3% has affected oil demand. The slowdown in the US's, EU's and China's growth is due to trade wars and the mutual introduction of duties on imported goods;
- Russia expects oil demand growth to be 1-1.1mbpd for 2019, vs 1.5mbpd in 2018. For 2020, oil demand is expected to increase by 1.4mbpd.

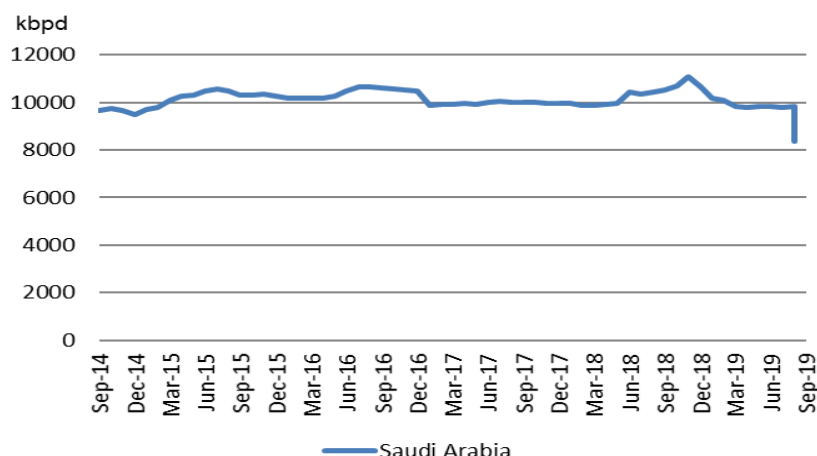
Figure 9: Total OPEC production vs US production

- ◆ Total OPEC crude oil production averaged 28.32mbpd (-1.59mbpd MoM, -4.58mbpd YoY), as at September. The much lower production from OPEC was a result of attacks on Saudi Arabia's critical oil facilities on 14 Sep
- ◆ This is compared to the US' average production, which increased MoM to 12.42mbpd (+65kbpd MoM, +1.4mbpd YoY)
- ◆ For OPEC-11, total production was at 24.39mbpd, 2.3mbpd lower than the Oct 2018's baseline, or 219%-compliant

Source: Bloomberg, RHB

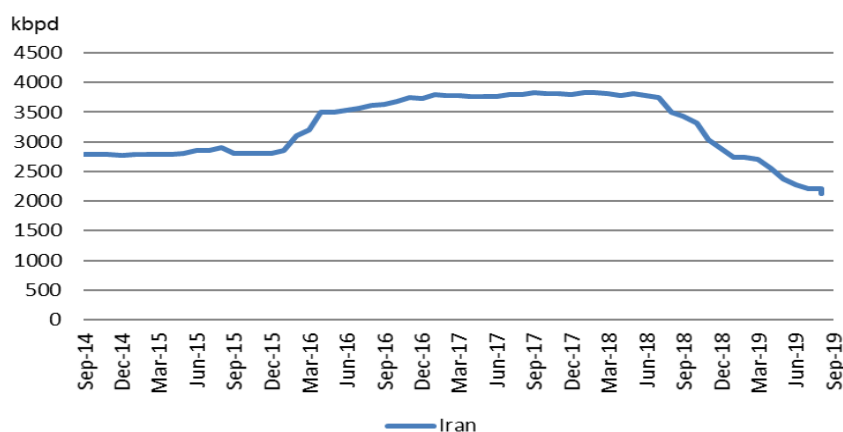
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Figure 10: Saudi Arabia's production fell to 8.36mbpd (-1.47mbpd MoM)

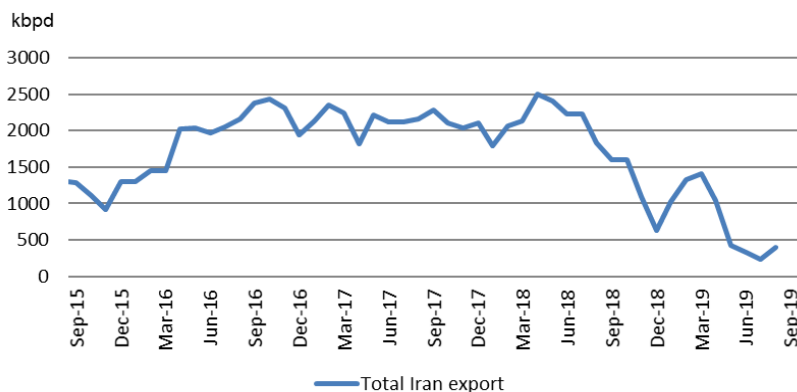
- ◆ Saudi Arabia's production averaged 8.36mbpd (-1.47mbpd MoM, -2.17mbpd YoY), as at September. The much lower production from OPEC was a result of attacks on Saudi Arabia's critical oil facilities on 14 Sep
- ◆ Saudi Arabia's production was 2.27mbpd less than its Oct 2018 baseline, indicating 706% compliance

Source: Bloomberg, RHB

Figure 11: Iran's crude oil production fell slightly MoM

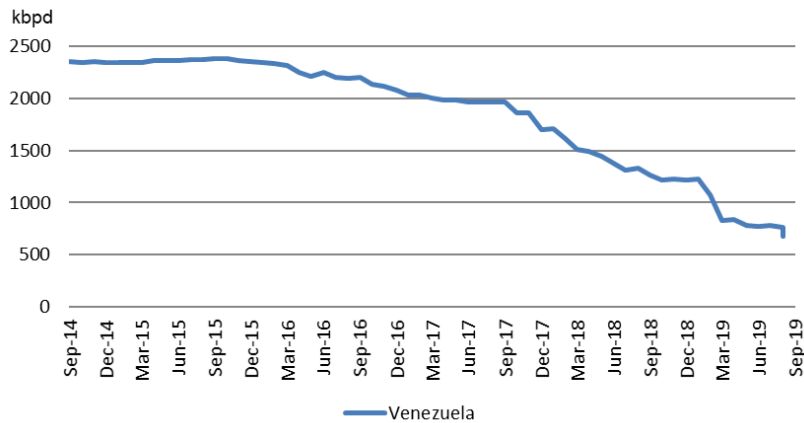
- ◆ Iran's crude oil production was stable MoM averaging 2.1mbpd (-80kbpd MoM, -1.3mbpd YoY), as at September
- ◆ It was down 1.1mbpd from its Oct 2018 level – Iran has been exempted from the voluntary production cuts

Source: Bloomberg, RHB

Figure 12: Iran's total crude oil exports slipped to average 171kbpd

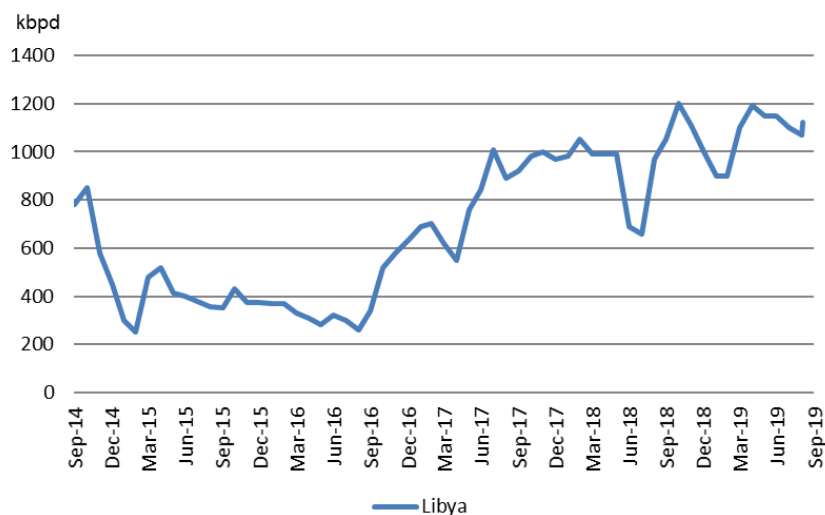
- ◆ Iran's crude oil exports were at 171kbpd (+220kbpd MoM, -1.4mbpd YoY)
- ◆ Its exports to China were 137.6kbpd (-27.8kbpd MoM, -395.6kbpd YoY). There were no reported exports to India or the EU

Source: Bloomberg, RHB

Figure 13: Venezuela's oil production fell further to average 680kbpd

- ◆ Venezuela's crude oil production was at 680kbpd (+80kbpd MoM, -580kbpd YoY).
- ◆ Production was 491kbpd lower from Oct 2018's level. Venezuela is exempted from the voluntary production cut agreement

Source: Bloomberg, RHB

Figure 14: Libya's oil production increased slightly to 1.12mbpd

- ◆ Libya's oil production was at 1.12mbpd (+50kbpd MoM, +70kbpd YoY).
- ◆ It was 6kbpd higher than Oct 2018's level. Libya has been exempted from the voluntary production cuts

Source: Bloomberg, RHB

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