THAILAND REFINERY

Tighter refinery supply to support high GRM in 4Q25-1Q26

- Tighter-for-longer global refinery supply will sustain GRM USD10/bbl in 4Q25-1Q26
- Shrinking Thailand's oil fund loss to curb government's intervention risks
- SPRC and TOP are top picks in Thai refinery sector

Thailand's oil fund loss continued to shrink

As of 7 Dec-5, Thailand's oil fund has reduced its negative status to only THB11.5b, down from the peak at THB111.7b in Jun-24 and THB132.7b in Nov-22 when the global crude oil price hit USD116/bbl in Feb-22 and averaged USD90+/bbl in 2022 due to the sudden risk of supply as Russia invaded Ukraine. As crude oil price is now hovering in the lower range of USD60-70/bbl due to global weak demand and OPEC+'s aggressive productions. We think the average Brent crude oil price in 2025 will be USD67/bbl and is still trending down to USD60-61/bbl.

Tight refinery supply to continue, particularly for diesel

Global gross refinery margin (GRM) has stayed high above USD10/bbl, catalyzed by the high diesel-crude margin that has widened wince late October following the refinery outages in Russia and in Middle East and the new sanctions on Russia's crude oil, leading to tighter refinery supply. In October, EU tightened restrictions on major Russia oil companies Rosneft, Lukoil, and Gazprom Neft that included import bans on refined oil products from Russia's refineries. The latest move also embraces the sanctions on Russian crudes sold to refineries in Türkiye and India, which have been processing discounted Russian crude oil and exporting refined products to the EU.

Softer GRM at USD10+/bbl on softer diesel-crude margin (USD20+/bbl)

Sustained international demand amid constraints on international supply have contributed to increased demand for products from those refiners that remain operational. These refiners include refiners on the U.S. Gulf Coast, which supply most U.S. petroleum product exports. While U.S. gasoline exports have hit their highest levels, distillate fuel oil exports (diesel and jet fuel), have returned to high levels again in November, relative to 2020-24 average, leading to softening yet still high diesel-crude margin and hence GRM.

LSFO-crude margin continued to diminish after IMO 2020

When the International Maritime Organization's lower marine sulfur limit from 3.5% to 0.5% by weight (IMO 2020) took effect in Jan-2020, commercial shippers pivoted sharply to fueling their vessels with low-sulfur fuel oil (LSFO). Yet, high-sulfur fuel oil has reclaimed some market share, as a growing number of commercial vessels install sulfur scrubbers that allow operators to use the heavier, cheaper fuel oils while complying with the new sulfur emission limits. The stagnant adoption of LSFO, which jumped from 11% in 2019 to 63% of total bunker fuel sales in Singapore has continued to decline to only 50%, along with distillate bunker fuel sales at 8% of fuel sales.

Thai refinery sector to enjoy high GRMs on high distillate margins

We believe the dynamics of 1) sub USD70/bbl crude oil price; 2) USD20+/bbl distillate-crude margins; and 3) lower margin on LSFO-crude; should bode well for SPRC and TOP as our two top picks in Thai refinery sector, given their proven capabilities of running high refinery rates (>95%), low cash cost structure (<USD2.0/bbl), and limited impact of lower LSFO margin.

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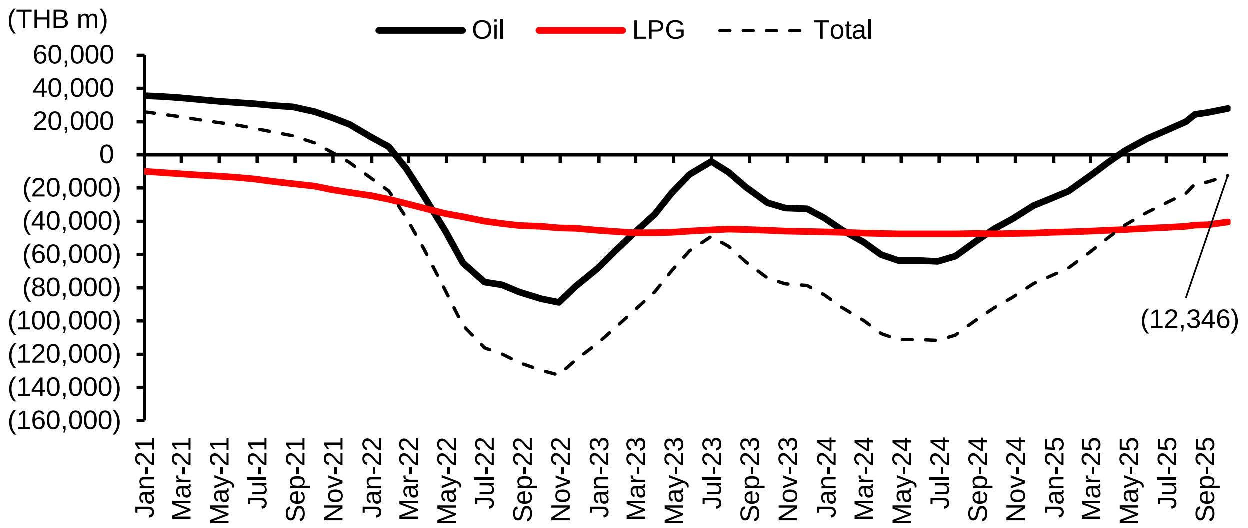
Exhibit 1: Thailand's oil fund status



Sources: EPPO

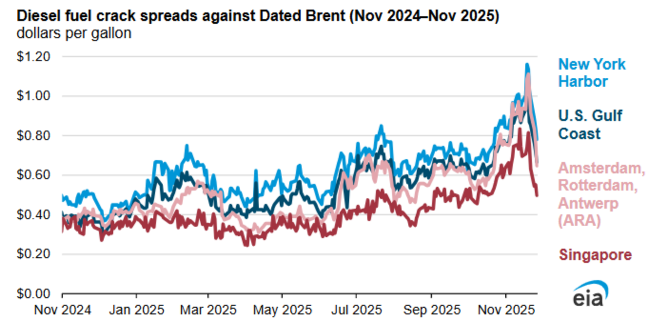
Exhibit 2: Dubai crude oil swap Dec25 (JDCZ25)

Sources: Barchart.com

Exhibit 3: Brent crude oil (USD/bbl)

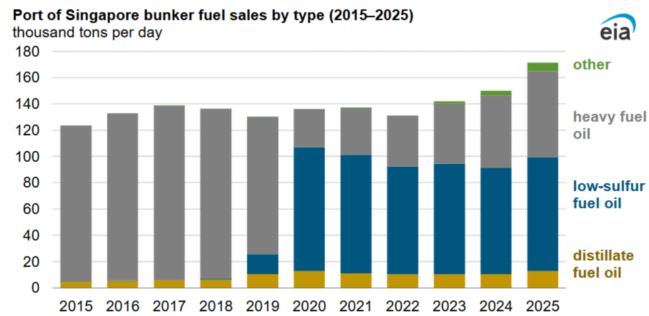
Sources: Trading Economics

Exhibit 4: Geopolitical developments led to higher diesel prices



Sources: EIA

Exhibit 5: Low-sulfur bunker fuel sales have decreased since 2020



Sources: EIA

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RECOMMENDATION STRUCTURE

Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / current price.

BUY: Expected return of 10% or more over the next 12 months.
HOLD: Expected return between -10% and 10% over the next 12 months.
REDUCE: Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.
* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Sector Recommendations

Overweight: The industry is expected to outperform the relevant primary market index over the next 12 months.
Neutral: The industry is expected to perform in line with the relevant primary market index over the next 12 months.
Underweight: The industry is expected to underperform the relevant primary market index over the next 12 months.

Country (Strategy) Recommendations

Overweight: Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral: Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight: Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.