Oil and Gas

MARKET WEIGHT
(Maintained)

China's Anti-Involution Policy: A Long-Term Game Changer

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Highlights

- Global oil demand forecasts for 2025-26 have been revised upward, as the reciprocal tariffs' impact on global GDP proved to be less severe than expected.
- Rising supply is pressuring crude oil prices, though geopolitical factors are expected to cap the downside.
- Anti-involution will be a long-term game changer for the petrochemical sector, but in the near term, spreads are likely to remain under pressure due to oversupply.
- Maintain MARKET WEIGHT. Our preferred picks are OR, SCGP and IVL.

Analysis

- **Global oil demand forecast revised upwards for 2025-26.** The negative impact of the reciprocal tariff on global GDP proved milder than expected, prompting the International Monetary Fund (IMF) to raise its growth forecasts to 3.0% in 2025 and 3.1% in 2026. The revision was mainly supported by stronger projections for emerging markets, particularly China, whose GDP outlook was lifted to 4.8% in 2025 and 4.2% in 2026, and the US, revised to 1.9% and 2.0% respectively. These upgrades underpin oil demand growth, with global oil demand forecasts raised to 1.0 million barrels per day (MBD) in 2025 (from 0.9 MBD) and 1.1 MBD in 2026 (from 1.0 MBD)
- **OPEC+ continues to increase production capacity.** Nonetheless, the crude market remains oversupplied due to downward pressure from: a) OPEC+'s faster-than-expected rollback of its 1.66 MBD supply cut, beginning with a 137,000 barrels per day (BPD) production increase in Oct 25, following the earlier termination of the 2.2 MBD cut when production rose by 547,000 BPD in Sep 25; and b) additional non-OPEC supply growth of 2.2 MBD. While global oil demand forecasts for 2025 have been revised upward, they are insufficient to absorb the extra supply. As a result, we expect inventories to rise by 1.5-2.0 MBD in 2H25.

Segmental Rating

Segment	Rating
Oil and Gas	MARKET WEIGHT (Maintained)

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (Bt)	Target Price (Bt)
PTT Oil and Retails	OR TB	BUY	14.50	20.00
SCG Packaging	SCGP TB	BUY	19.00	21.00
Indorama Ventral	IVL TB	BUY	23.00	27.00

Source: Bloomberg, UOB Kay Hian

Peer Comparison

Company	Rec	Price 16 Sep 25 (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US$m)	-------- Net Profit -------- 2025F (Btm)	2026F (Bt m)	------------- PE ------------- 2025F (x)	2026F (x)	Net EPS Growth 2025F (%)	P/B 2025F (x)	Yield Company	ROE Rec
BCP TB	BUY	31.25	45.00	44.0	1,324	6,240	11,083	6.9	4.2	185.7	0.6	4.6	6.5
BSRC TB	BUY	4.64	7.00	50.9	494	909	3,903	17.7	4.1	153.8	0.6	5.4	3.5
IRPC TB	BUY	1.28	1.20	(6.3)	805	(3,129)	212	n.a.	123.6	39.7	0.4	2.3	(4.7)
IVL TB	BUY	23.20	27.00	16.4	4,008	4,206	8,554	31.0	15.2	121.8	1.0	3.0	3.0
OR TB	BUY	14.30	20.00	39.9	5,280	11,500	12,000	14.9	14.3	50.4	0.7	3.5	4.9
PTG TB*	HOLD	8.50	6.70	(21.2)	437	900	1,028	15.8	13.8	(11.9)	1.7	3.6	11.3
PTT TB	BUY	32.75	37.00	13.0	28,783	90,590	106,525	10.3	8.8	0.6	0.8	6.4	7.5
PTTEP TB	BUY	115.00	155.00	34.8	14,048	68,494	69,364	6.7	6.6	(13.1)	0.8	8.3	12.8
PTTGC TB	SELL	27.75	20.00	(27.9)	3,850	(10,000)	6,000	n.a.	20.9	66.5	0.4	2.7	(3.3)
SCC TB	BUY	227.00	240.00	5.7	8,382	22,670	17,000	12.0	16.0	257.5	0.7	2.2	5.9
SPRC TB	BUY	5.05	6.50	28.7	674	2,242	3,622	9.8	6.0	0.3	0.5	6.9	5.6
TOP TB	SELL	36.75	30.00	(18.4)	2,526	16,062	10,800	5.1	7.6	61.3	0.5	5.2	9.4
Avg					70,609	210,686	250,090	10.9	9.2	48.0	0.8	5.5	7.2

** Coverage on our retail platform*
Source: UOB Kay Hian

- **Geopolitics to limit downside for crude oil prices.** Concerns over the Middle East conflict have intensified following Israeli airstrikes on Qatar in early September. We expect crude oil prices to react positively to the heightened geopolitical risks, given: a) Qatar's neutral role in Israeli-Iranian peace talks, and b) Israel's strikes on civilians, which violate prior international ceasefire agreements. As a result, we forecast Dubai crude oil price to stabilise in the US$65–75/bbl range in 2H25.
- **GRM expected to recover towards year-end.** Singapore's gross refinery margin (GRM) in 3Q25 decreased to US$4.10/bbl (2Q25: US$5.60/bbl), due to seasonal declines in gasoline demand and high gasoline inventories. However, the middle distillate product still has a strong GRM due to the continued growth of the aviation business, which supports jet fuel demand, coupled with low diesel and jet fuel inventories. We expect Singapore's GRM to recover in 4Q25, driven by heating oil demand for the winter season.
- **Anti-involution will be a long-term game changer.** China's anti-involution policy aims to control excess production capacity, competition and market product prices. The petrochemical sector is expected to be among the most impacted. Ideally, total nameplate capacity for uneconomical petrochemical plants in China should be cut by 15%, resulting an improvement in utilisation rates for petrochemical plants to 92% from 70-80% currently. As part of China's 15th Economic Development Plan (2026-30), the policy underwent public consultation during Aug-Sep 25 and will be finalised in Dec 25. The official announcement of the 15th plan is expected in Mar 26.
- **Remain cautious on the petrochemical business.** The anti-involution policy will accelerate the demand-supply balance in the petrochemical sector, bringing it forward from 2029 to 2028. Nevertheless, substantial global capacity additions for polyethylene (PE) and polypropylene (PP) between 2025-28 will continue to weigh on spreads for at least the next two years, keeping our outlook on the petrochemical business cautious.

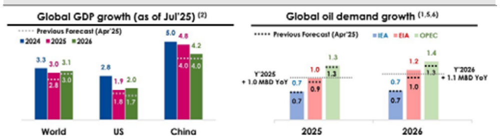
Valuation/Recommendation

- **Maintain MARKET WEIGHT.** We maintain a cautious stance toward investment in the petrochemical sector, as core fundamentals remain under pressure from weakening demand and a surge in new supply, particularly in the olefins segment, where a significant amount of capacity is expected to come online between 2025-27. Nevertheless, due to the sector's attractive valuation, we prefer selective investments in companies that demonstrate strong adaptability in navigating ongoing industry volatility. In the oil & gas sector, our preferred picks are PTT Oil & Retail Business (OR TB/BUY/Target: Bt20.00), SCG Packaging (SCGP TB/BUY/Target: Bt21.00) and Indorama Ventures (IVL TB/BUY/Target: Bt27.0).

PTT Oil & Retail Business (OR TB/BUY/Target: Bt20.00)

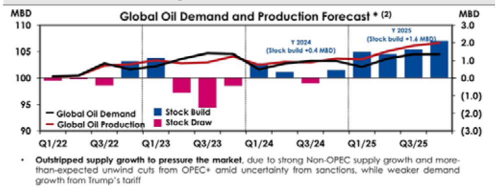
- Concerns regarding the Thai-Cambodian situation have eased. The formation of Thailand's new cabinet has eased border-related issues, which we view as positive for OR. We continue to monitor the situation closely. Based on prior discussions with OR, the impact on total sales volume is estimated at less than 1%, and the risk of asset impairment remains low.
- **M&A expected to be concluded in 4Q25.** The M&A plan for the lifestyle business, intended to replace Texas Chicken, is expected to be finalised in 4Q25. Management sees the lifestyle segment as a key growth driver for OR, targeting an increase in daily visitor traffic from 3.9m currently to 5.0m by 2030.

Global GDP And Oil Demand 2024-26



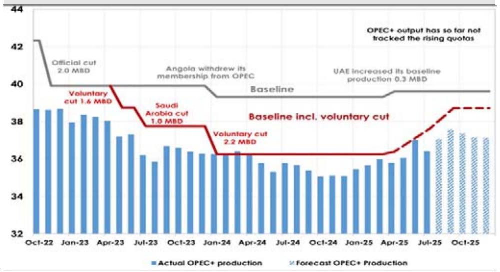
Source: IMF (Jul 25), EIA (Aug 25), IEA (Aug 25) and OPEC (Aug 25)

Global Oil Supply Growth Outpacing Demand Through 2025



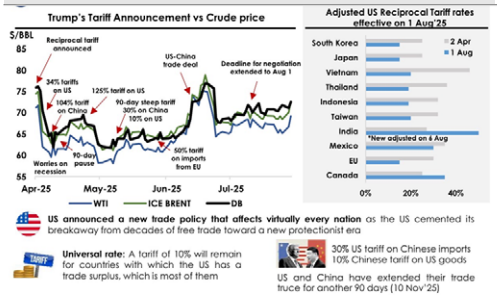
Source: EIA (Aug 25), IEA (Aug 25) and OPEC (Aug 25)

OPEC+ Output



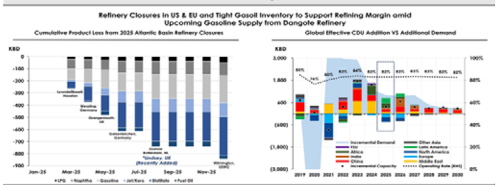
Source: OPEC (Aug 25)

Uncertainty Over Reciprocal Tariffs



Source: Thai Oil (TOP)

New Refineries Capacity Additional Status



Source: Thai Oil (TOP)

- **Net profit for 3Q25 is expected to slow seasonally, but will recover strongly in 4Q25.** We expect 3Q25 net profit to decline qoq due to seasonal sales softness. This will be partially offset by a recovery in marketing margins, supported by: a) stable promotional expenses compared with 2Q25, and b) improved Oil Fund status mitigating government-driven margin pressures. The seasonal impact is expected to be short-lived, with core earnings set to rebound in 4Q25 during the peak tourism season.

SCG Packaging (SCGP TB/BUY/Target: Bt21.00)

- **There is still at least one M&P deal to monitor in 2025.** SCGP expects to complete at least one more merger and partner (M&P) transaction within the year, potentially involving a downstream business in Indonesia. This move aims to generate captive demand for SCGP's upstream operations and support the long-term growth of Fajar.
- **Fajar continues to recover.** We expect Fajar to continue its recovery in 2H25, supported by: a) a Bt450m annual reduction in interest expenses from debts restructuring, b) lower production costs from increased domestic recycled paper (RCP) utilisation – 54% in 1H25 vs 45% in 2024 – with a target of 60% by year-end, and c) a strategic shift to reduce exports to China and boost domestic sales, which offer higher EBITDA. This approach mitigates the risk of Chinese demand fluctuations while strengthening profitability.

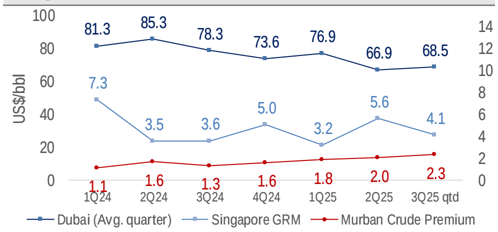
IVL (SPRC TB/BUY/Target: Bt27.0)

- **Integrated global scale and margin resilience.** As a fully integrated producer of products, IVL enjoys structural cost advantages. Integration offers protection in volatile raw material environments. This allows IVL to maintain competitive spreads and protect margins vs its non-integrated peers, particularly during periods of raw material price volatility.
- **Beneficiary of new US tariffs.** PET resins are now subject to US reciprocal tariffs (effective 8 Sep 25), raising import duties from 6.5% to 27-28%. This is highly positive for IVL, one of the largest US PET producers with integrated PTA–MEG–PX supply and ability to scale without added costs. We estimate an EBITDA uplift of around US$50m/year, which implies a 4% and 10% of core profit increase in 2025 and 2026 respectively. Around 40% of IVL's total capacity is in the US.
- **Earnings recovery underway.** We expect net profit to be above Bt2.0b/quarter in 2H25, supported by tariff gains, higher volumes, and Essel Propack's contribution (25% stake acquired May 25). An extraordinary gain of US$40m–50m from land sales will also be recognised in 2H25. The outlook for 2026 remains strong on improved demand-supply balance and the potential asset monetisation of US$60m-70m.

Sector Catalyst/Risk

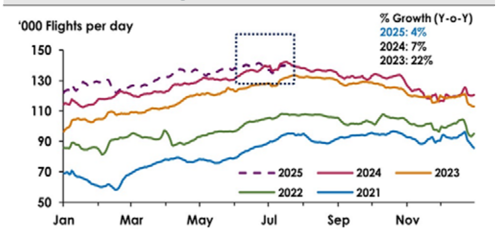
- Global economic slowdown.
- Fluctuations in crude oil prices and refining margins.
- Petrochemical demand is recovering slowly, but new petrochemical production capacity continues to increase.

Singapore GRM And Crude Oil Price



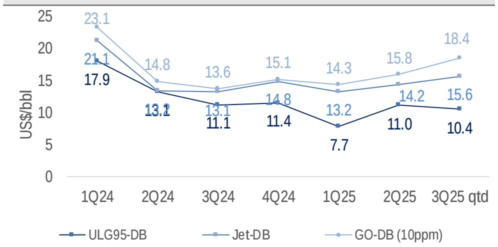
Source: Thai Oil (TOP)

Commercial Flight



Source: Thai Oil (TOP)

Petroleum Product Spread

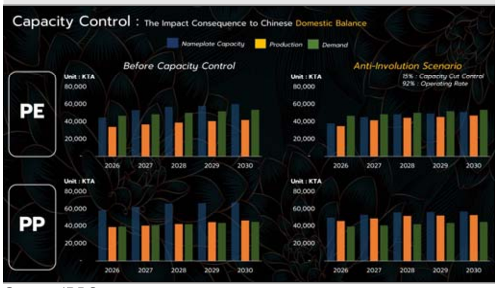


Source: Thai Oil (TOP)

PE And PP Capacity

Source: IRPC

Anti-Involution Scenario



Source: IRPC

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