Oil & Gas

The Peak Is Over: The Great Rebalancing Begins

MARKET WEIGHT
(Maintained)

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Highlights

- GRM is expected to rebalance and gradually normalise in 2H26, but is likely to remain above pre-war levels.
- Production disruptions at olefins facilities in the Middle East are expected to limit downside risk to polyolefins spreads during 2H26.
- Maintain MARKET WEIGHT. Our top picks are IVL, PTTGC and SCC.

Analysis

- **Crude oil prices should rebound in the near term.** Dubai crude prices remained highly volatile in 1H26, briefly surging to as high as US$170/bbl before falling to the current level of US$65/bbl. This is due to the MOU signed by the US and Iran, which provides for a 60-day negotiation window, leading to a rise in the number of vessels transiting the Strait of Hormuz. Nevertheless, PTT Group expects Dubai prices to recover to about US$70/bbl.

  Continued declines in global crude inventories are expected to provide a floor for oil prices and limit downside risks. Total global crude inventories, including the strategic petroleum reserve (SPR), have fallen steadily from 5,009 million barrels (MB) in March to 4,854 MB in May 26, reinforcing our view that inventory tightening will help support crude prices in 2H26. Our global oil balance suggests demand will exceed supply by approximately 3.8m barrels per day (MBD) in 2026, particularly during 2H26.

- **2026 marks the beginning of the "Great Rebalancing" in the global oil market.** We believe the market has entered a structural rebalancing phase, with downside risks extending into 2027 as weaker macroeconomic conditions weigh on demand. Slower global economic growth, elevated US inflation at 4.2%, and a higher-for-longer Fed policy rate at 3.50-3.75% have prompted both the International Energy Agency (IEA) and US Energy Information Administration (EIA) to revise their 2026 global oil demand forecasts lower from a contraction of 0.4 MBD to -1.1 MBD, compared with demand growth of 2.1 MBD in 2025. Although global oil demand is expected to recover in 2027, with forecasts of 2.46 MBD (EIA), 2.0 MBD (IEA), and 1.73 MBD (OPEC), we expect supply growth to continue outpacing demand, implying a bearish outlook for next year.

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)
Indorama Ventures	IVL TB	BUY	21.90	27.00
PTT Global Chemical	PTTGC TB	BUY	32.25	46.00
Siam Cement	SCC TB	BUY	244.00	290.00

Source: Bloomberg, UOB Kay Hian

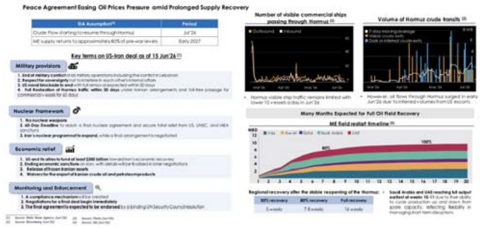
Peer Comparison

Company	Rec	Price 29 June 26 (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US$m)	Net Profit 2026F (Btm)	Net Profit 2027F (Bt m)	PE 2026F (x)	PE 2027F (x)	Net EPS Growth 2026F(%)	P/B 2026F (x)	Yield 2026F (%)	ROE 2026F (%)
BCP TB	BUY	33.00	40.00	21.2	1,455	11,083	11,899	4.4	4.1	259.5	0.6	4.5	11.3
IRPC TB	HOLD	1.85	1.65	(10.8)	1,132	3,870	3,421	9.8	11.1	208.4	0.6	1.1	5.9
IVL TB	BUY	21.80	27.00	23.9	3,665	7,713	7,925	15.9	15.4	205.0	1.0	3.2	5.9
OR TB	HOLD	12.30	11.50	(6.5)	4,419	8,100	11,694	18.2	12.6	(28.3)	0.6	2.4	3.4
PTT TB	BUY	35.25	43.00	22.0	30,145	110,029	124,816	9.2	8.1	22.0	0.8	6.2	9.2
PTTEP TB	BUY	132.00	185.00	40.2	15,690	73,371	64,926	7.1	8.1	21.8	0.9	7.6	13.0
PTTGC TB	BUY	33.75	46.00	36.3	4,556	9,201	9,552	16.5	15.9	163.0	0.4	1.5	2.7
SCC TB	BUY	246.00	290.00	17.9	8,838	13,126	8,390	22.5	35.2	(6.7)	0.8	2.0	3.4
SPRC TB	BUY	7.60	8.50	11.8	987	5,419	3,817	6.1	8.6	124.3	0.7	5.7	13.0
TOP TB	HOLD	48.00	50.00	4.2	3,210	32,163	14,158	3.3	7.6	120.5	0.5	7.1	17.2
Avg					**74,097**	**274,075**	**260,599**	**9.0**	**9.5**	**61.1**	**0.8**	**5.3**	**8.8**

Source: UOB Kay Hian

- **Expect oil supply to fully recover within four months.** According to Platts (Jun 26), Middle East oil supply is expected to recover to around 80% of normal capacity by early-27. Production from the five key producers – Iran, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates (UAE) – is projected to recover by 50% in five weeks and fully normalise at 11.0 MBD in four months after the Strait of Hormuz reopens. Looking ahead, supply-side factors are expected to remain the key headwind for crude prices, driven by: a) the weaker production discipline of OPEC+ following the UAE's withdrawal from the production quota system; b) OPEC+'s spare capacity of 11.6 MBD (equivalent to 11.5% of global oil demand) that is expected to normalise to 3.7 MBD by end-26; and c) additional supply growth from non-OPEC producers, particularly Guyana, Canada, Angola, and the US, during 2H26.
- **GRM exceptionally strong in 1H26.** Geopolitical disruptions during 1H26 had a significant impact on global refining operations. The Middle East lost approximately 3.45 MBD of refining capacity, equivalent to 29.3% of the region's total capacity, with major outages concentrated in Kuwait and the UAE. As around 90% of Asia's crude imports transit the Strait of Hormuz, the disruption also reduced Asian refining capacity by 2.67 MBD (or 6.4% of regional capacity). Major refiners were affected, including Zhejiang Petrochemical in China, which cut throughput by 25%, while several large refineries in South Korea and Malaysia were temporarily shut down.
- **GRM expected to normalise in 2H26 but remain above pre-war level.** We expect the market to transition from a supply-driven environment to a demand-driven one through 2H26 and into 2027, with gross refinery margin (GRM) gradually easing but remaining higher than the pre-war level of US$5-7/bbl. We forecast GRM to average US$7-9/bbl in 2H26. Crack spreads by product are as follows: a) Gasoil: Global demand is expected to decline 0.4% yoy in 2026 amid weaker economic activity, although near-term cracks should remain supported by the temporary loss of about 300 KBD of Russian refining capacity following drone attacks in May, b) Jet/Kerosene: Global demand growth is projected to remain modest at 0.2% yoy (around 20 KBD), in line with a 1% yoy decline in ytd commercial flight activity as airlines continue rerouting flights to avoid conflict zones, and c) Gasoline: Global demand is expected to contract 0.4% yoy (about 98 KBD), while additional gasoline supplies from Dangote Refinery in Nigeria and Olmeca Refinery in Mexico are likely to further pressure gasoline cracks if both refineries run smoothly.
- **Aromatics spreads expected to remain stable or weaken slightly.** The Strait of Hormuz disruption temporarily affected around 6% of global aromatics supply, with production outages of about 2.4 m tonnes per annum (mtpa) of paraxylene (PX) and 4.2 mtpa of benzene (BZ). As a result, Asian production losses in Jun 26 reached roughly 11% for PX and 3% for BZ. Looking ahead to 2H26-2027, we expect the PX and BZ markets to remain broadly stable or become slightly weaker. Refiners are increasingly prioritising transportation fuels over petrochemical feedstocks, reducing PX operating rates to 76% in China and 66% across Asia. Although benzene operating rates in China have recovered to around 80%, the market continues to face pressure from weak downstream demand, particularly styrene monomer (SM) and polystyrene (PS), alongside about 1.3 mtpa of delayed benzene capacity additions and new PX capacity expansions from Dalian and Sinopec Jinling.
- **Polyolefins remain oversupplied amid China's capacity expansion and exports.** We expect polyolefin spreads to soften in 2H26 from the elevated levels seen in 2Q26, as weaker global demand coincides with substantial new capacity additions. New projects scheduled to start up include approximately 2.5 mtpa of high-density polyethylene (HDPE) capacity in China, 1.0 mtpa in the US, 2.0 mtpa of polypropylene (PP) capacity in China, and 0.5 mtpa in Nigeria. At the same time, sluggish domestic demand and elevated inventories in China – reaching about 0.98m tonnes as of Jun 26 – are driving aggressive exports. China's HDPE and PP exports have surged 450% yoy and 123% yoy respectively, intensifying competition in global markets.
- Consequently, TOP expects HDPE and PP spreads to ease to around US$340/tonne and US$260/tonne respectively in 2H26, although both remain above pre-war levels. Importantly, war-related disruptions to polyolefin

Peace Deal Pushing Crude Price Lower Amid Uncertainty



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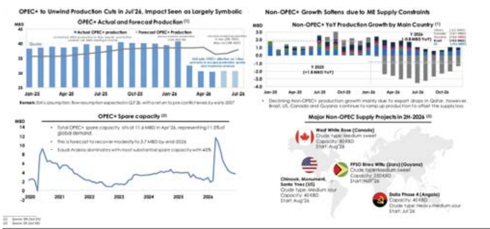
Declining OPEC+ Control Over Crude Markets Amid Rising Non-OPEC Influence



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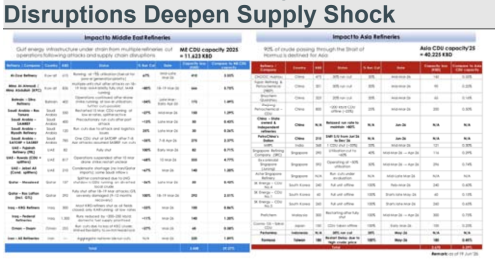
Asia & ME Slash Refinery Runs As Hormuz Disruptions Deepen Supply Shock



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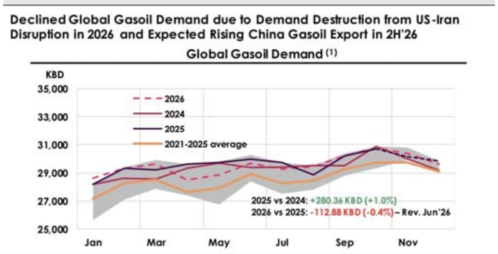
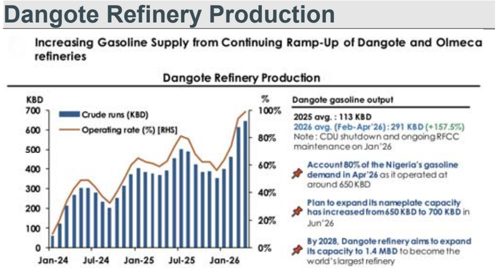
Global Gasoil Demand



Source: TOP

Dangote Refinery Production



Source: TOP

production - particularly in the Middle East, where around 6.1 mtpa of HDPE and 6.5 mtpa of PP capacity have been affected (equivalent to 16% and 9% of global capacity, respectively) - should help limit downside risk to polyolefin spreads over the medium term.

Valuation/Recommendation

- **Maintain MARKET WEIGHT.** In the oil and gas sector, we prefer Indorama Ventures (IVL TB/BUY/Target: Bt27.00) PTT Global Chemical (PTTGCTB/BUY/Target Bt46.00), Siam Cement (SCC TB/BUY/Target: Bt290.00) and SCG Packaging (SCGP TB/BUY/Target: Bt31.00).

Indorama Ventures (IVL TB/BUY/Target: Bt27.00)

- **Expect strong 2Q26 earnings with sustained PET spread recovery.** We expect IVL to post a strong core profit growth in 2Q26, supported by strong integrated PET spreads of US$285/tonne and strong production volume. We also expect integrated PET spreads can remain above the US$220–250/tonne range throughout 3Q26, which would reinforce the view that the petrochemical cycle had bottomed in 2025 and drive further earnings upgrades.
- **Visible deleveraging through stronger cash flow.** We believe investors are likely to focus more on cash flow generation and leverage reduction than headline earnings. with strong growth in earnings in 2Q26-3Q26. We expect to see improving working capital and lower net debt/EBITDA, which would result in a healthier balance sheet.

PTT Global Chemical (PTTGC TB/BUY/Target: Bt41.00)

- **2Q26 earnings are expected to recover strongly qoq and yoy.** We expect core profit to improve significantly, driven by: a) stronger polyolefins earnings as both HDPE prices and spreads have increased by 36% qoq and 64% qoq, respectively, b) higher refining profitability, supported by a Singapore GRM of US$26.75/bbl, reflecting stronger cracks for gasoline, gasoil, and jet fuel, and c) the absence of the Bt3.30b one-off loss recorded in 1Q26.
- **PTTGC and SCGC sign a non-binding MOU to establish a polyolefins JV.** We view this as the most significant strategic development for the sector. The proposed JV between PTTGC and SCG Chemicals (SCGC), a subsidiary of Siam Cement (SCC), would create the world's 10th-largest polyolefins producer and strengthen Thailand's position as a globally competitive integrated petrochemical hub. Key issues to monitor include: a) the asset contributions from each company, b) the magnitude of potential synergy benefits, c) the final shareholding structure - we expect PTTGC to hold the larger stake given its feedstock advantage, and d) the regulatory approval process, which is likely to take at least six months following shareholder approval, expected in mid-4Q26. Based on comparable global petrochemical JV transactions, we estimate the proposed partnership could generate at least a 20% increase in EBITDA through operational and commercial synergies.

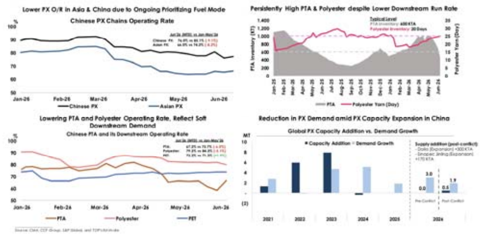
Siam Cement (SCC TB/BUY/Target: Bt290.00)

- **Balance sheet strengthens following CAP stake divestment.** SCC recently announced the sale of its stake in PT Chandra Asri Pacific (CAP) for Bt24.9b, reducing SCGC's ownership in CAP to 15.7%. The proceeds will be used to repay debt and support the Long Son Petrochemicals (LSP) project in Vietnam. We estimate the transaction will reduce SCC's net debt-to-EBITDA from 4.7x to 4.4x-4.5x, while lowering annual interest expenses by around Bt200m–230m. In 1Q26, SCC reported a net debt of Bt277.5b.

Sector Catalyst/Risk

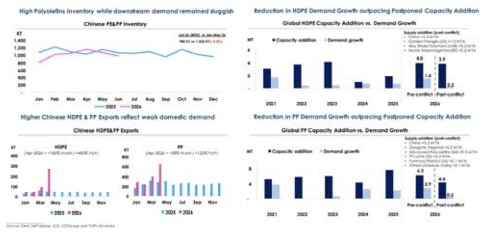
- Global economic slowdown.
- Fluctuations in crude oil prices.
- Petrochemical demand is recovering slowly, but new petrochemical production capacity continues to increase.

Paraxylene Market In 2H26



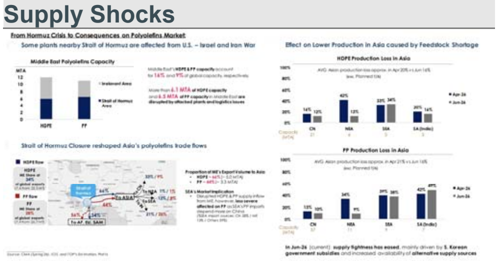
Source: TOP

Polyolefins Market In 2H26



Source: TOP

Hormuz Disruptions Drive Short-Term Supply Shocks



Source: TOP

46m Tonnes Of Global Ethylene Capacity Are Non-Operational

Production	Region/ Country	Effect/ impact
a) Refinery		
1. Naphtha	Mainly Kuwait and Qatar	Production loss (integrated to crackers)
2. LPG	Mainly Iran, Qatar, Saudi Arabia	
b) Petrochemicals		**46 MT, 20% of Global C2 Capacity**
1. Force Majeure/shutdown	• **M/E** (Qatar, Iran, UAE, Saudi Arabia) • **Asia** (Thailand, Singapore, Korea, Taiwan, Malaysia, China, India) • **Europe** (Germany, France)	Approx. 45-50% of 46 MT
2. Commercial/ maintenance shutdown	• **Asia** (Korea, Taiwan, Vietnam)	Approx. 40% of 46 MT
3. War damage	Mainly Qatar and Iran	Approx. 15-20% of 46 MT Approx. 3% of 230 MT (global C2 capacity) (to be reassessed)
c) Port and Utilities		
	Mainly Qatar and Iran	Power plant facilities

Source: SCC

Key Statistics

	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	---- 2Q26 ---- qoq %Chg.	yoy %Chg.
Crude oil and GRM (US$/bbl)								
Dubai (US$/bbl, Avg. quarter)	76.9	66.9	70.1	63.8	86.3	96.7	12%	45%
Singapore GRM	3.2	5.6	4.0	6.5	9.2	26.8	190%	377%
Freight rate	1.46	1.48	1.60	2.66	3.66	4.66	27%	215%
Petroleum spread (US$/bbl)								
Jet-DB	13.2	14.2	16.1	24.6	36.3	63.0	74%	343%
GO-DB (10ppm)	14.3	15.8	18.7	24.5	35.4	63.2	78%	300%
Aromatics spread (US$/tonne)								
Condensate Erawan (US$/tonne)	632	566	589	553	707	855	21%	51%
PX Contract FECP	848	808	835	828	1,004	1,168	16%	44%
BZ Spot Korea	862	727	726	666	842	1,028	22%	41%
PX FECP-Cond	216	242	251	276	299	308	3%	27%
BZ-Cond Spot KR	230	161	137	113	135	173	28%	7%
Olefins spread (US$/tonne)								
Naphtha MOPJ (US$/tonne)	658	576	588	564	720	888	23%	54%
HDPE (FILM) SEA	978	937	920	871	1,044	1,419	36%	51%
HDPE - MOPJ	320	361	332	307	324	531	64%	47%
LLDPE - MOPJ	362	384	352	301	307	470	53%	22%
LDPE - MOPJ	536	550	526	484	478	745	56%	35%
PP - MOPJ	365	380	336	304	330	511	55%	34%

Source: TOP, PTTGC and IRPC