

Crude awakenings

| | BB code | Rec | M/cap (US\$b) | Ccy | Price (LC) | PT (LC) | Up/ Down | PER (x) 2010E 2011E | EPS growth (%) 2010E 2011E | Div Yield (%) 2010E 2011E |
|----------------------|-----------|-----|------------------|------|---------------|------------|-------------|------------------------|-------------------------------|------------------------------|
| PetroChina | 857 HK | OP | 216.24 | HK\$ | 10.60 | 11.50 | -8% | 12.6 10.6 | 30% 13% | 3.6% 4.2% |
| Sinopec | 386 HK | IL | 82.71 | HK\$ | 7.94 | 8.00 | -1% | 8.3 8.7 | 9% 1% | 3.6% 3.5% |
| CNOOC | 883 HK | OP | 105.61 | HK\$ | 17.68 | 22.00 | -20% | 13.1 10.1 | 84% 18% | 2.5% 3.3% |
| PTTEP | PTTEP TB | OP | 18.82 | THB | 182.00 | 200.00 | -9% | 16.5 11.9 | 65% 38% | 2.8% 3.0% |
| Reliance | RIL IN | IL | 70.08 | Rs | 964.25 | 1,100 | -12% | 15.1 13.0 | 28% 16% | 0.7% 0.7% |
| ONGC | ONGC IN | OP | 51.41 | Rs | 270.35 | 380 | -29% | 8.8 8.2 | 36% 7% | 3.4% 13.6% |
| Oil India | OINL IN | OP | 6.61 | Rs | 1236.60 | 1,679 | -26% | 8.9 8.2 | 28% 8% | 3.5% 3.5% |
| Kunlun Energy | 135 HK | OP | 7.34 | HK\$ | 11.56 | 16.50 | -30% | 22.3 16.8 | 93% 33% | 0.9% 1.2% |
| Beijing Ent Holdings | 392 HK | OP | 6.47 | HK\$ | 43.20 | 61.50 | -30% | 19.4 12.6 | 35% 14% | 0.1% 1.8% |
| ENN Energy | 2688 HK | OP | 3.12 | HK\$ | 23.15 | 29.00 | -20% | 24.0 15.2 | 38% 14% | 0.0% 1.4% |
| GAIL | GAIL IN | OP | 12.03 | Rs | 426.55 | 572 | -25% | 14.5 12.8 | 19% 14% | 0.8% 2.1% |
| Bharat Petroleum | BPCL IN | IL | 4.45 | Rs | 553.45 | 787 | -30% | 12.1 10.4 | -3% 16% | 1.5% 2.6% |
| Indian Oil | IOCL IN | OP | 16.13 | Rs | 298.95 | 471 | -37% | 8.8 7.7 | -23% 14% | 1.1% 3.8% |
| Hindustan Petroleum | HPCL IN | OP | 2.41 | Rs | 320.30 | 599 | -47% | 7.2 8.1 | 15% -11% | 1.5% 4.7% |
| S-Oil | 010950 KS | UP | 9.91 | KRW | 107,500 | 52,000 | 107% | 26.5 40.8 | 90% -35% | 2.8% 1.8% |
| GS Holdings | 078930 KS | UP | 5.39 | KRW | 69,500 | 33,000 | 111% | 17.4 15.9 | -25% -25% | 1.8% 2.0% |
| SK Innovation | 096770 KS | IL | 13.48 | KRW | 175,000 | 120,000 | 46% | 14.0 10.2 | 37% 37% | 1.2% 1.2% |
| COSL | 2883 HK | OP | 9.91 | HK\$ | 15.52 | 19.00 | -18% | 17.7 13.9 | 18% 11% | 1.2% 1.4% |
| Keppel Corp | KEP SP | OP | 13.79 | S\$ | 11.26 | 13.00 | -13% | 14.9 12.4 | 12% -15% | 5.4% 3.7% |
| Sembcorp Marine | SMM SP | IL | 8.52 | S\$ | 5.35 | 5.00 | 7% | 17.2 22.1 | 12% -22% | 2.1% 1.9% |
| Ezra Holdings | EZRA SP | OP | 0.75 | S\$ | 1.56 | 1.95 | -20% | 11.7 11.8 | -9% 14% | 1.0% 0.8% |
| Otto Marine | OTML SP | OP | 0.35 | S\$ | 0.24 | 0.42 | -43% | 14.6 9.3 | -46% 50% | 0.4% 0.5% |
| Ezion | EZI SP | OP | 0.34 | S\$ | 0.63 | 0.95 | -34% | 49.2 9.2 | 50% 64% | 0.4% 2.6% |
| KS Energy | KST SP | UP | 0.28 | S\$ | 0.89 | 1.00 | -12% | 11.0 7.3 | -84% 433% | 0.0% 0.0% |
| ASL Marine | ASL SP | IL | 0.21 | S\$ | 0.64 | 1.13 | -43% | 7.2 7.8 | -29% -7% | 6.3% 4.7% |

Note: O/P = OUTPERFORM, UP = UNDERPERFORM, I/L = IN-LINE
 Source: Company, Bloomberg, Standard Chartered Research estimates. Prices as of 28 February close

| Upcoming events | Potential impact | Recent research | |
|-----------------------------|------------------|-----------------------------------|--|
| 22-Mar COSL FY2010 results | | 11-Feb-11 Keppel Corp | 2011 orders may surprise Leong WaiMun |
| 23-Mar CNOOC FY2010 results | | 27-Jan-11 CNOOC | 2011 Strategy Hsi Han Pin |
| | | 21-Jan-11 China Oilfield Services | A good two weeks Hsi Han Pin |

Source: Standard Chartered Research

No CBM revolution yet – Han Pin Hsi, CFA

Revisiting foreign E&P companies in the CBM space

In our earlier note, *Coalbed methane in China* (30 Nov 2010), we outlined the challenges foreign companies faced in the Chinese coalbed methane (CBM) market. Having recently met Enviro Energy (1102 HK; NR), we examine the headway that such companies have made in overcoming the risks highlighted. Despite China's aggressive targets, we believe that several constraints continue to hinder CBM market development.

Chinese government is committed but reality check needed

The Chinese government is committed to developing the CBM market, providing foreign companies such as Enviro with incentives, including favourable tax policies of 13% VAT rebate, a production subsidy of around US\$1.04/mcf and import tax exemptions. Provincial governments are also investing heavily in developing areas with CBM reserves; since 2006, the Shanxi provincial government has invested US\$1.125b to develop CBM reserves and will build three new pipelines over the next two years.

Han Pin Hsi, CFA
 hanpin.hsi@sc.com
 65 6596 8501

Leong Wai Mun, CFA
 waimun.leong@sc.com
 65 6596 8509

Important disclosures can be found in the Disclosures Appendix

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Despite China's ambitious plans, we believe that CBM is far from being another major source of gas supply in the near future. Production is currently only a quarter of China's aggressive target of 5bcm/year by 2010.

Reserve risks are low but production risks remain high

Enviro has a 30% share in a CBM production sharing contract (PSC) in Xinjiang, an area that according to the US Energy Information Administration (EIA) contains gas reserves of c.74 tcf. The company started initial area studies in 2003 before nine exploration wells were drilled from 2006-2009, certifying CBM potential. Subsequent studies established the geological structure of Enviro's block as having high CBM potential, with gas content comparable to that of the Black Warrior and Power River basins in the US.

Low permeability presents technical challenges

In our view, foreign companies such as Enviro face relatively lower reserve risk, given the geographical distribution of China's vast CBM reserves (figure 1). However, production risk remains high. In some Chinese coal basins, coal has apparently been sheared, causing it to have unproductive permeabilities and rendering it difficult to drill. Of 10 CBM pipeline projects scheduled to be completed in 2010 in China, only two were eventually finished.

Fig 1: China CBM reserves



Source: CNPC

Technology constraints still top, but horizontal wells not as bad as they seem

The dearth of CBM technology in China means that foreign companies such as Enviro have to continue to employ technological expertise and personnel out of the US and Canada. Major above-ground support systems including compressors, pumping stations, roads and pipelines depend on the availability of local engineering and support services, another potential risk that could affect business continuity.

Horizontal drilling can be economical

Many reports highlight the bottleneck in drilling technology in China given that its unique geological conditions require horizontal drilling. While we acknowledge that the cost factor for horizontal wells may be 3-4 times that of a vertical one, recent industry consensus shows that the production factor can be enhanced by 15-20 times, making horizontal drilling an increasingly attractive option.



Financing costs high but shared between state-owned and foreign companies

The key challenge for foreign companies such as Enviro that have secured CBM reserves lies in delivering their Phase 1 development plans post pilot production and meeting their production targets. This involves the heavy drilling of wells, such as in Enviro's case, which will see the drilling of 180 wells over 2011-14, at a cost of c.US\$130-140m.

As with all PSCs, Enviro's contract dictates that development and production costs are borne according to the share of each party in the contract; in Enviro's case, PetroChina will provide 53% of total capex. Financing costs are further reduced as foreign companies can also look to recover up to 70% of capital funding during the production phase.

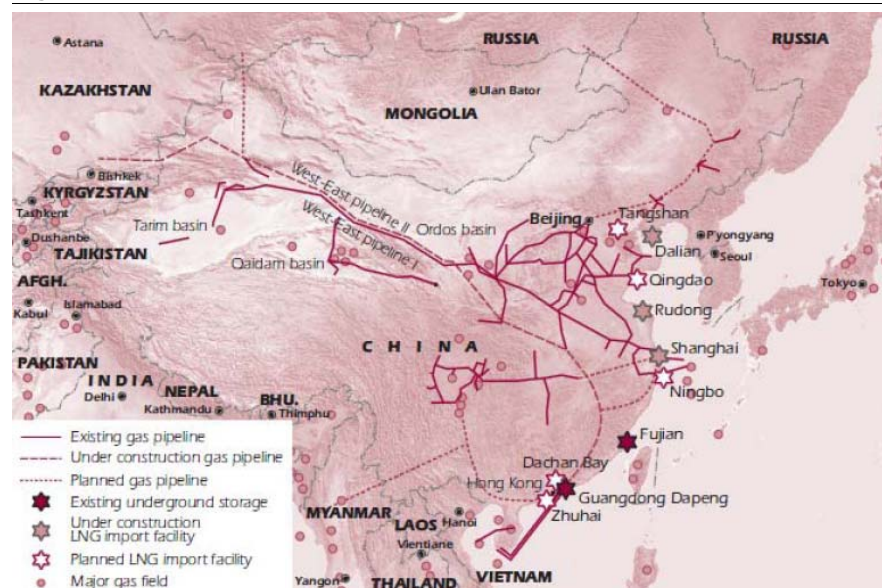
Distribution and infrastructure improving but gaps remain

In our opinion, large-scale development of CBM blocks must be supported by market access to be economically viable. A section of the second West-to-East (WE2) pipeline runs through Enviro's block, which is also close to the WE1. Enviro's gas output could potentially supply the growing gas market in Urumqi city which has an urban population of more than 2.5m. Most of the CBM blocks operated by foreign companies are also close to major pipelines (figure 2).

Restricted to small volumes and locations

However, China's pipeline network is dominated by PetroChina and Sinopec, and foreign companies generally lack bargaining power in any gas off-take agreements. Most of the producing projects in the Qinshui Basin currently supply gas to local markets as compressed natural gas using trucks. CBM sales from Enviro's counterparts, Green Dragon Gas and Asian American Gas have been restricted to small volumes to the local transportation sector.

Fig 2: China Gas Pipeline Infrastructure



Source: International Energy Agency, CNPC

Prospective winners

Major Chinese oil companies have planned very significant investments in the sector, and we believe that PetroChina could dominate the next phase of China's CBM development. Among the smaller CBM producers, we believe the eventual winners will be companies that can obtain wider access to the markets through China's major gas distribution infrastructure, which may in turn result from the right partnerships with local governments and state-owned oil majors.



Global and regional news highlights

CNOOC, Sinopec and CNPC evacuated employees from Libya

- China National Offshore Oil Corp. and Sinopec Group said that they have evacuated all their employees from Libya. CNOOC Group said that all 77 of its Chinese staff working in Libya have been evacuated. Separately, China Petrochemical Corp. said that seven of its Chinese staff working in Libya returned safely by 27 February. Earlier, CNPC said it evacuated all 392 employees working for its subsidiaries in Libya. On 25 February, CNPC said it had evacuated 47 employees from Libya and that its work sites in Libya were attacked. None of its employees were harmed. (Source: Platts)

Sinopec strikes LNG deal – Conoco, Origin to supply coal-seam gas from Australia

- China has agreed to buy unconventional gas from coal seams from a US\$35.4 billion venture owned by ConocoPhillips and Origin Energy Ltd. Under a non-binding, preliminary agreement, China Petrochemical Corp, better known as Sinopec, will buy up to 4.3 million metric tons of liquefied natural gas a year from the project for 20 years and buy 15% of the development. (Source: Wall Street Journal Asia)

US Invista plans to build new nylon plant in China by 2014

- US Invista plans to build a new nylon intermediates and polymer plant at Shanghai Chemical Industry Park in China by 2014. The plant is expected to have a design capacity of 10,000 mt/year. Since November 18, 2008, Invista has operated an airbag fibre manufacturing plant with a production capacity of 11,000 mt/year in Qingpu district, Shanghai. The company plans to double the capacity of the airbag plant by 2013. (Source: Platts)

PTT group shake-up creates SE Asia's No. 2 petrochemical firm

- As part of plans to consolidate its downstream businesses, PTT, Asia-Pacific's third-biggest listed oil and gas firm by market value, is to merge PTT Chemical Pcl (PTTCH) and PTT Aromatics and Refining (PTTAR). The new firm, which will be the flagship in the petrochemical business of PTT group, will have petrochemicals capacity of 8.2 million tonnes a year and petroleum production capacity of 228,000 barrels per day (bpd), and will be Southeast Asia's second-biggest petrochemicals firm by market value. (Source: Reuters)

S. Korea's GS Caltex to build Lithium battery material plant with JX Nippon

- South Korean oil refiner GS Caltex announced it will sign a contract with JX Nippon Oil & Energy to build a plant for producing one of the key materials for lithium batteries. The construction of the plant, which will annually produce 2,000 tons of anode in Gumi, South Korea, will be completed by the end of this year and is expected to commence commercial operations next year. The company plans to eventually expand the capacity of the plant so that it will be able to annually produce 4,000 tons of anode, or more. (Source: Dow Jones)



Fig 3: Stock screen

(SCB Rated)

| | | Market Cap (USDm) | Last price (LC) | 5D px change (%) | SCB rating | Value traded (per day LC m) | PER* (x) | Est PER* (x) | P/B* (x) |
|-----------|------------------------------|----------------------|--------------------|------------------------|-------------------|--------------------------------|-------------|-----------------|-------------|
| PTTEP TB | PTTEP | 19,747 | 182.00 | +4.9 | OP(PT:THB200) | 1,207.0 | 19.1 | 13.5 | 1.8 |
| RIL IN | Reliance Industries | 69,713 | 964.25 | +0.8 | IL(PT:Rs1,100) | 5,955.8 | 11.7 | 15.1 | 1.4 |
| 883 HK | CNOOC Ltd | 101,398 | 17.68 | +0.6 | OP(PT:HK\$22.00) | 1,192.2 | 15.5 | 12.7 | 3.5 |
| SMM SP | SembCorp Marine | 8,734 | 5.35 | +0.2 | IL(PT:\$S\$5.00) | 48.1 | 12.9 | 16.4 | 3.5 |
| 392 HK | Beijing Enterprises Holdings | 6,308 | 43.20 | -0.8 | OP(PT:HK\$61.50) | 78.3 | 19.4 | 17.4 | 3.8 |
| 857 HK | PetroChina Co Ltd | 309,866 | 10.60 | -1.3 | OP(PT:HK\$11.50) | 801.8 | 13.8 | 12.2 | 2.0 |
| KEP SP | Keppel Corp | 14,281 | 11.26 | -1.6 | OP(PT:\$S\$13.00) | 69.3 | 11.1 | 14.1 | 2.3 |
| 2883 HK | China Oilfield Services | 14,979 | 15.52 | -1.9 | OP(PT:HK\$19.00) | 151.5 | 13.7 | 14.6 | 2.2 |
| ONGC IN | ONGC | 51,091 | 270.35 | -2.1 | OP(PT:Rs380) | 2,084.2 | 11.9 | 9.6 | 3.0 |
| OINL IN | Oil India | 6,568 | 1,236.60 | -3.0 | OP(PT:Rs1,679) | 70.2 | 10.9 | 9.6 | 1.4 |
| 135 HK | Kunlun Energy | 7,352 | 11.56 | -3.5 | OP(PT:HK\$16.50) | 81.1 | 25.8 | 24.4 | 1.4 |
| EZRA SP | Ezra Holdings | 976 | 1.56 | -4.3 | OP(PT:\$S\$1.95) | 4.0 | 12.2 | 11.7 | 0.9 |
| ASL SP | ASL Marine Holdings | 213 | 0.64 | -4.5 | IL(PT:\$S\$1.13) | 0.0 | 7.2 | 7.4 | 1.5 |
| 096770 KS | SK Innovation | 14,384 | 175,000.00 | -4.6 | IL(PT:W120,000) | 52,206.6 | 23.9 | 8.4 | 3.7 |
| 2688 HK | ENN Energy | 3,121 | 23.15 | -4.7 | OP(PT:HK\$29.00) | 120.1 | 21.4 | 18.8 | 1.6 |
| 386 HK | Sinopec | 107,764 | 7.94 | -4.8 | IL(PT:HK\$8.00) | 1,146.0 | 9.1 | 8.0 | 2.1 |
| HPCL IN | Hindustan Petroleum | 2,396 | 320.30 | -4.9 | OP(PT:Rs599) | 507.8 | 7.4 | 8.8 | 3.1 |
| GAIL IN | GAIL India | 11,952 | 426.55 | -5.0 | OP(PT:Rs572) | 900.5 | 16.3 | 14.7 | 2.5 |
| EZI SP | Ezion Holdings | 351 | 0.63 | -5.3 | OP(PT:\$S\$0.95) | 2.2 | 8.6 | 7.4 | 2.7 |
| IOCL IN | Indian Oil Corp | 16,033 | 298.95 | -5.9 | OP(PT:Rs471) | 229.7 | 6.8 | 8.9 | 4.3 |
| BPCL IN | Bharat Petroleum | 4,420 | 553.45 | -6.1 | IL(PT:Rs787) | 446.5 | 12.3 | 13.1 | 1.4 |
| 010950 KS | S-Oil Corp | 10,758 | 107,500.00 | -8.9 | UP(PT:W52,000) | 61,307.9 | 54.5 | 10.1 | 1.0 |
| 078930 KS | GS Holdings | 5,740 | 69,500.00 | -11.5 | UP(PT:W33,000) | 39,059.7 | 13.1 | 7.7 | 2.2 |
| OTML SP | Otto Marine | 357 | 0.24 | -12.7 | OP(PT:\$S\$0.42) | 0.5 | 10.9 | 8.3 | 0.9 |
| KST SP | KS Energy Services | 294 | 0.89 | -15.7 | UP(PT:\$S\$1.00) | 0.6 | N.A | 11.3 | 0.9 |

(SCB-rated top percentage change over 5 days)

| | | Market Cap (USDm) | Last price (LC) | 5D px change (%) | SCB rating | Value traded (per day LC m) | PER* (x) | Est PER* (x) | P/B* (x) |
|-----------|--------------------|----------------------|--------------------|------------------------|------------------|--------------------------------|-------------|-----------------|-------------|
| 078930 KS | GS Holdings | 5,740 | 69,500 | -11.5 | UP(PT:W33,000) | 39,059.7 | 13.1 | 7.7 | 2.2 |
| OTML SP | Otto Marine | 357 | 0.24 | -12.7 | OP(PT:\$S\$0.42) | 0.5 | 10.9 | 8.3 | 0.9 |
| KST SP | KS Energy Services | 294 | 0.89 | -15.7 | UP(PT:\$S\$1.00) | 0.6 | N.A | 11.3 | 0.9 |

(Non-rated)

| | | Market Cap (USDm) | Last price (LC) | 5D px change (%) | Bloomberg Consensus^ | Value traded (per day LC m) | PER* (x) | Est PER* (x) | P/B* (x) |
|----------------------------|------------------------------|----------------------|--------------------|------------------------|-------------------------|--------------------------------|-------------|-----------------|-------------|
| E&P/Int O&G | | | | | | | | | |
| PTT TB | PTT PCL | 30,984.0 | 331.0 | +2.8 | 5 | 1,528.6 | 12.3 | 12.2 | 2.0 |
| CAIR IN | Cairn India Ltd | 13,873.1 | 319.0 | +2.5 | 4 | 2,081.4 | 59.6 | N.A | 1.8 |
| ENRG IJ | Energi Mega Persada Tbk PT | 480.4 | 106.0 | +1.0 | 2 | 6,536.7 | N.A | 36.0 | 0.7 |
| 135 HK | Cnpc Hong Kong Ltd | 7,440.0 | 12.0 | -0.2 | 5 | 181.7 | 26.1 | 25.8 | 3.9 |
| MEDC IJ | Medco Energi Internasional | 1,136.4 | 3,150.0 | -6.2 | 4 | 56,523.4 | 46.1 | 26.2 | 1.4 |
| Equipment | | | | | | | | | |
| 067250 KS | STX Offshore & Shipbuilding | 1,984.4 | 29,350 | +5.7 | 5 | 58,759.4 | N.A | 20.9 | 1.3 |
| 042660 KS | Daewoo Shipbuilding & Marine | 5,910.0 | 35,850.00 | -0.9 | 5 | 79,238.6 | 11.4 | 8.6 | 2.0 |
| 010140 KS | Samsung Heavy Industries | 7,437.0 | 37,500 | -1.4 | 4 | 91,189.6 | 11.7 | 9.1 | 2.8 |
| SCI SP | SembCorp Industries Ltd | 6,741.6 | 4.89 | -1.4 | 4 | 19.1 | 10.5 | 12.1 | 2.4 |
| 009540 KS | Hyundai Heavy Industries | 30,086.6 | 449,500 | -1.9 | 5 | 84,187.3 | 12.5 | 9.2 | 2.8 |
| KNMG MK | KNM Group Bhd | 928.7 | 2.96 | -2.7 | 4 | 14.1 | 35.2 | 18.5 | 1.6 |
| COS SP | Cosco Corp Singapore Ltd | 3,535.6 | 2 | -3.3 | 4 | 32.6 | 18.1 | 18.5 | 4.0 |
| 196 HK | Honghua Group Ltd | 417.9 | 1.04 | -4.7 | 2 | 1.2 | N.A | 170.6 | 0.7 |
| 010620 KS | Hyundai Mipo Dockyard | 3,127.9 | 185,500 | -5.9 | 5 | 39,101.6 | 9.0 | 7.5 | 1.3 |
| PUNJ IN | Punj Lloyd Ltd | 495.2 | 70 | -6.9 | 2 | 635.2 | N.A | 337.5 | 0.7 |
| 097230 KS | Hanjin Heavy Industries | 1,328.1 | 33,950.00 | -19.4 | 5 | 47,800.9 | 28.8 | 37.1 | 0.7 |
| Refineries | | | | | | | | | |
| PTTAR TB | PTT Aromatics & Refining PCL | 3,867.4 | 41 | +7.4 | 4 | 609.8 | 12.9 | 22.2 | 2.0 |
| TOP TB | Thai Oil PCL | 4,863.6 | 73.75 | +4.7 | 4 | 630.3 | 16.6 | 11.3 | 2.1 |
| SHELL MK | Shell Refining Co Federation | 1,022.8 | 10.50 | -1.9 | 1 | 0.1 | N.A | 21.2 | 1.6 |
| Services | | | | | | | | | |
| PETD MK | Petronas Dagangan BHD | 4,266.3 | 12.94 | +7.0 | 4 | 15.6 | 16.2 | 16.2 | 2.8 |
| SCRES MK | SapuraCrest Petroleum BHD | 1,477.4 | 3.60 | -0.6 | 4 | 8.1 | 22.8 | 20.5 | 4.3 |
| KEPB MK | Kencana Petroleum Bhd | 1,533.8 | 2.59 | -0.8 | 4 | 18.9 | 24.4 | 20.9 | 5.2 |
| MISC MK | MISC Bhd | 11,852.7 | 8.11 | -1.7 | 3 | 12.5 | 29.5 | 20.7 | 1.6 |
| 603 HK | China Oil and Gas Group Ltd | 502.0 | 0.79 | -2.5 | 4 | 8.7 | 26.6 | 24.7 | 1.7 |

^ Bloomberg consensus: Indicates the analysts' opinions on the security. The rating is calculated by converting each of the analysts' current recommendations into a number from 1 (SELL) to 5 (BUY) and then taking the average.

- Bloomberg consensus: PER, Est PER and P/B.

Share price as of 28 Feb 2011

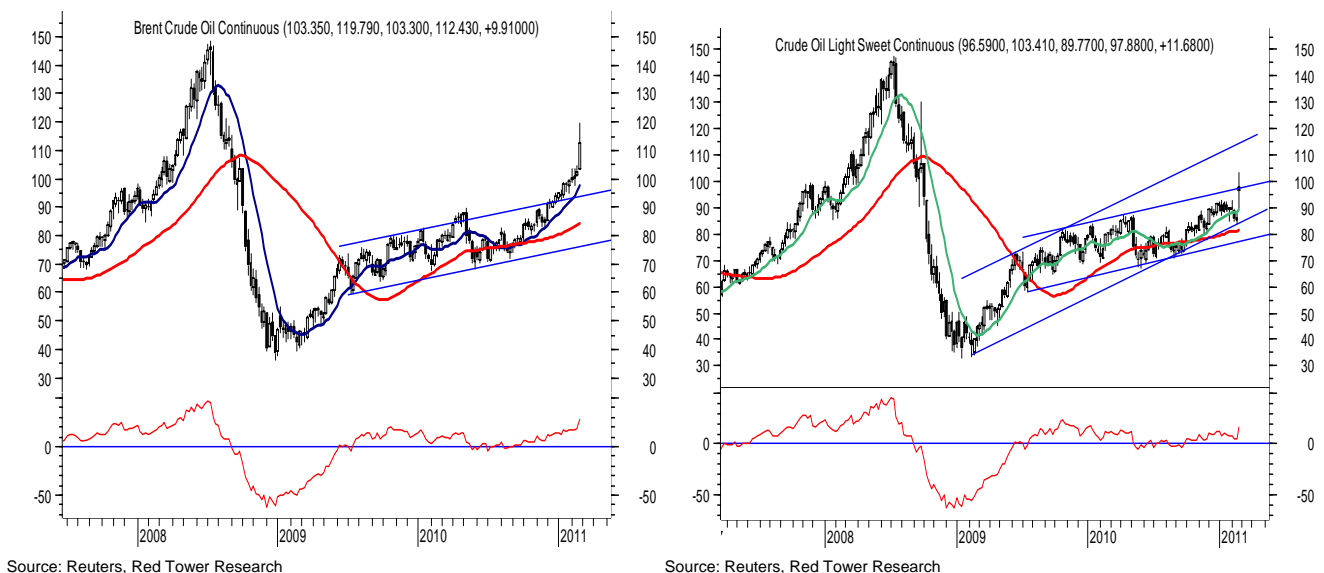
Source: Bloomberg



Weekly Energy Technicals (extracted from *Standard Chartered Weekly Energy Technicals*, dated 28 Feb 2011)

Crude prices rallied sharply last week as buying sentiment dominated in an event-driven market. This saw key resistance levels give way in ICE Brent and WTI crude, with ICE gasoil futures meeting bull targets. Pullbacks are expected to remain limited which should keep the focus on further gains to follow. The **ICE Brent** contract saw sharp gains last week, with most of the upside targets met. The near-term focus is on gains above USD 120/barrel (bbl), with an increasing risk of further gains towards the all-time high of USD 148.41/bbl. We remain watchful of pullbacks, and if support USD 103.00/bbl can hold. USD 93.70/bbl marks trendline support now and serves as the medium-term level to hold. The **WTI crude** contract turned sharply higher last week, with gains approaching USD 103.70/bbl, the 61.8% retracement of the drop from the USD 147.27/bbl peak. Sustained gains above USD 103.70/bbl are expected to leave rising trendline resistance at USD 114.70/bbl, and this is likely to come under pressure further out. Pullbacks are expected to find USD 92.00/bbl offering support. The **ICE gasoil** contract rallied last week, meeting the target of USD 961.93/t, the 61.8% retracement of the drop from the USD 1,339.25/tonne (t) peak. Further gains above USD 1,002.75/t should follow. Support is at USD 870/t now, and is expected to hold on pullbacks in the very near term. The **ICE gasoil/Brent** crack spread remained under pressure last week, but a long-term basing pattern is still unfolding. We are still favouring a rally above USD 14.00/bbl to unfold again for USD 15.00/bbl and then USD 15.79/bbl. The latter marks the 38.2% retracement of the drop from the USD 39.09/bbl peak, with further gains to USD 20.25/bbl favoured on a 50% retracement target.

Fig 4: Brent: ICE Brent – Upside Potential Remains High Fig 5: WTI: Break higher is building

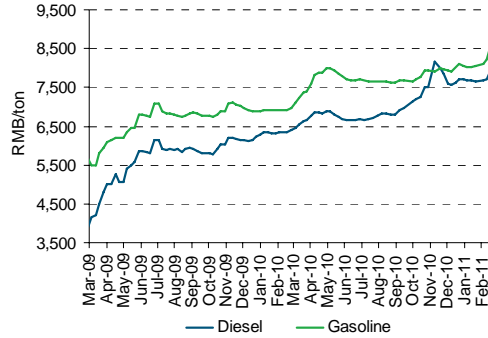


- Dips are likely to remain limited, with the risk kept on a rally back to the 2008 peak
- Sustained gains above USD 100/bbl are expected to build for USD 114.70/bbl trendline resistance
- USD 121.92/bbl (76.4% retracement) is important to watch as the next trigger for gains
- Dips are favoured to remain limited to USD 92.00/bbl in the near term
- Technically, clients should look for pullbacks to remain limited, with further gains expected
- Technically, clients should favour gains to extend

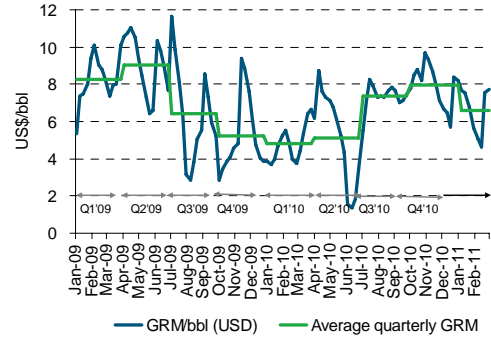


PRC GRM recovered to over US\$7/bbl after NDRC increased product prices on 20 Feb – however we expect GRM to decline rapidly as in-tank costs had been rising fast

Fig 6: PRC wholesale diesel/gasoline prices **Fig 7: PRC estimated refining margins**



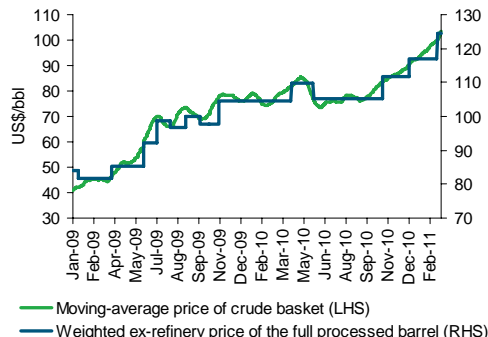
Source: CNPC



Source: Bloomberg, Standard Chartered Research

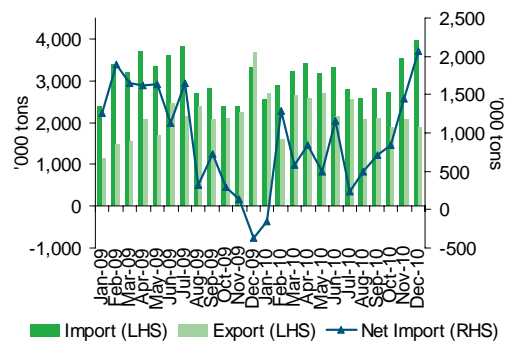
product exports would have dropped materially in January as state-owned refiners have to increase supply into the domestic market to offset lower output from independent refiners, who would have found operations increasingly less profitable

Fig 8: Oil price vs NDRC set price



Source: Bloomberg, Standard Chartered Research

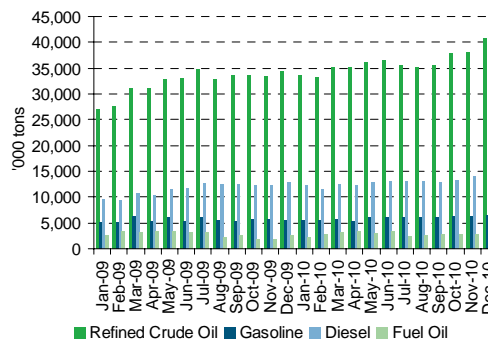
Fig 9: PRC refined products import/export



Source: CEIC

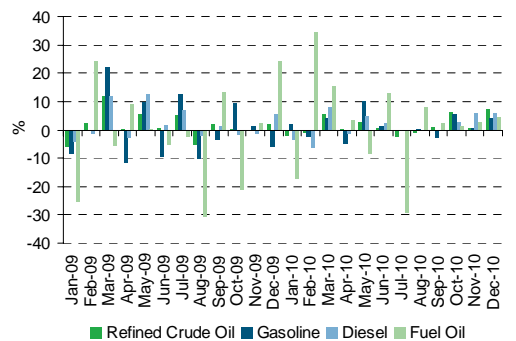
we should see oil product demand having moderated slightly in January, having had a very strong December

Fig 10: PRC oil product apparent demand



Source: CEIC

Fig 11: PRC product apparent demand MoM

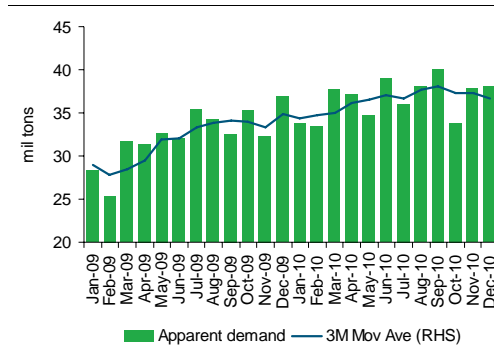


Source: CEIC



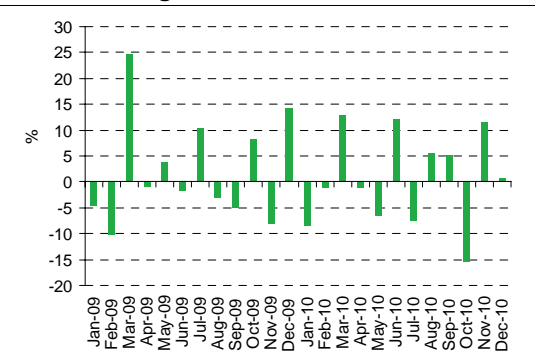
we expect apparent crude demand to have stayed strong in January before the seasonal fall in February

Fig 12: PRC crude oil apparent demand



Source: CEIC

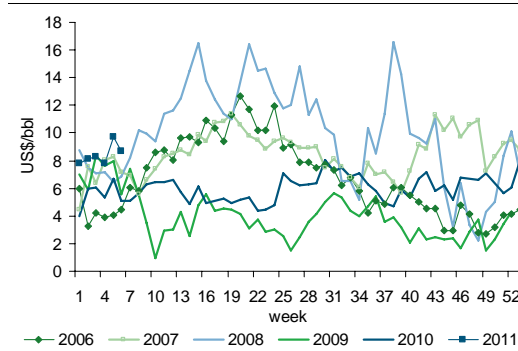
Fig 13: PRC crude oil apparent demand MoM change



Source: CEIC

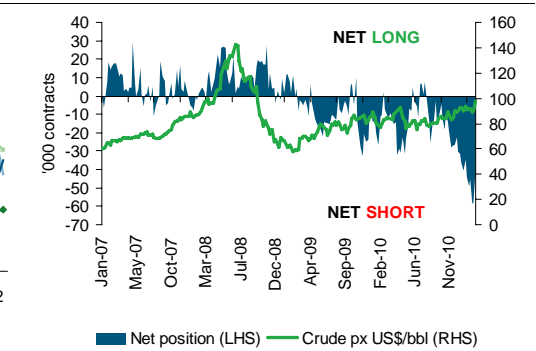
regional GRM remained robust as strong demand continued to underpin distillate spreads

Fig 14: Singapore estimated refining margins



Source: Bloomberg, OPEC

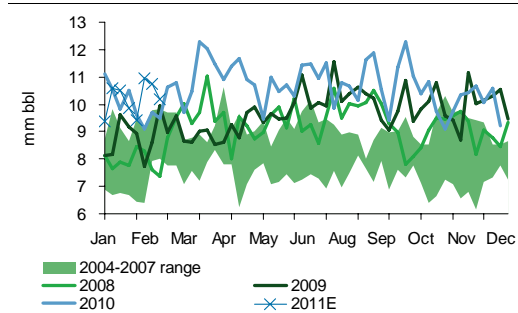
Fig 15: Crude oil net futures position



Source: CFTC

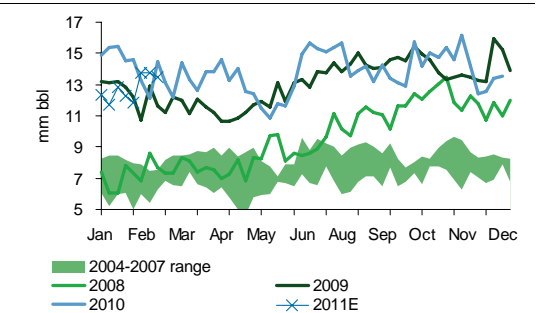
the wide distillate spread has led to refineries increasing production and inventory

Fig 16: Singapore light distillates inventory



Source: IES

Fig 17: Singapore middle distillates inventory

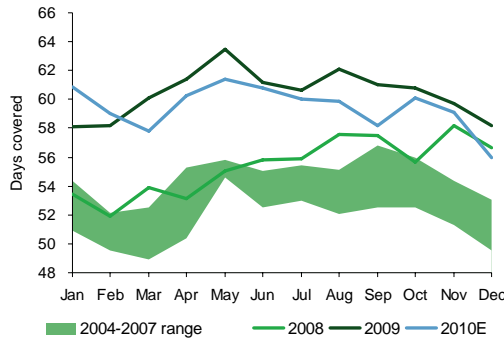


Source: IES



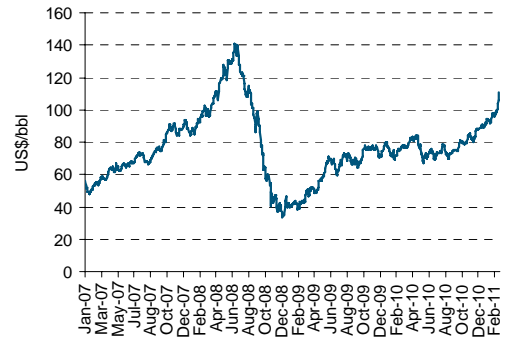
supply coverage has stayed below 2009 levels – continuing a bullish trend

Fig 18: OECD supply coverage



Source: Bloomberg, DOE

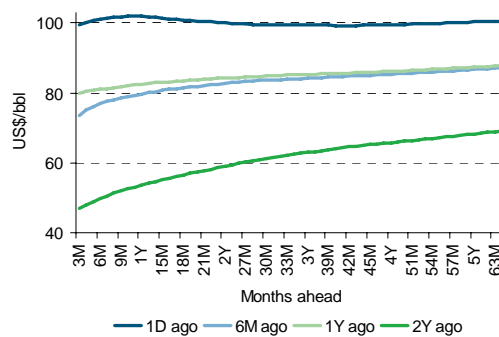
Fig 19: OPEC basket value



Source: Bloomberg, OPEC

the front end of the curve had increased materially due the current geopolitical situation in MENA while the back end changed little over the last week

Fig 20: WTI forward prices



Source: Bloomberg

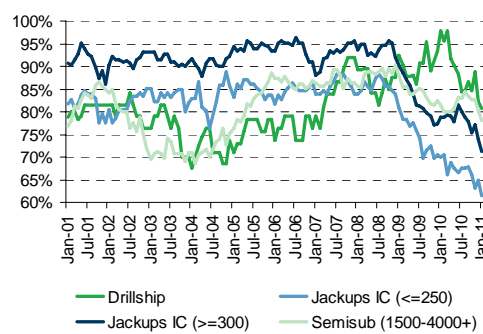
Fig 21: Tanker Index (12 routes)



Source: Bloomberg

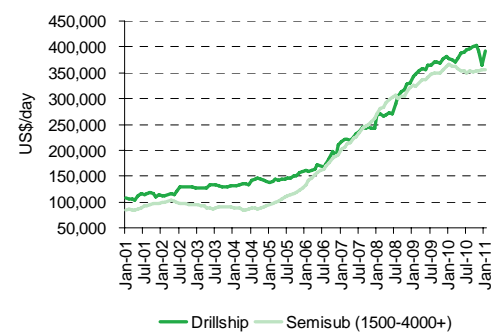
day rates have stabilized even though average global utilization rates have not reversed their downtrends

Fig 22: Global rig utilisation



Source: Rigzone, Bloomberg

Fig 23: Average day rates (floaters)

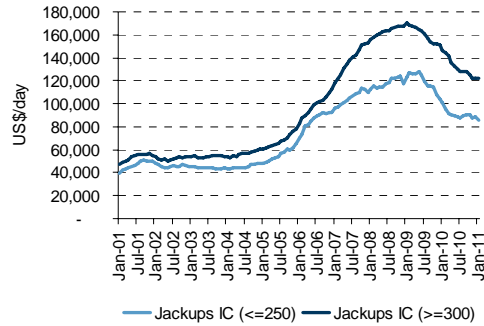


Source: Rigzone, Bloomberg



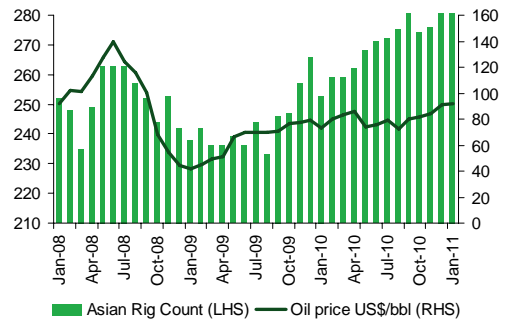
Asia and international rig counts continue to improve, which should translate to improving day rates, albeit at a gradual rate due to the current supply-demand balance for offshore rigs

Fig 24: Average day rates (jack-ups)



Source: Rigzone, Bloomberg

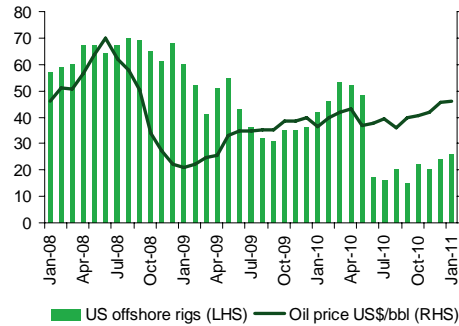
Fig 25: Asian rig count



Source: Baker Hughes, Bloomberg

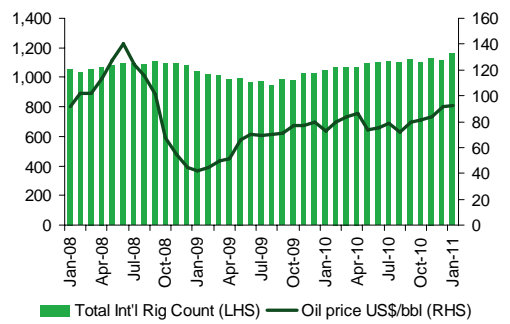
US rig count is improving and international rig count is maintaining its uptrend

Fig 26: Total US offshore rig count



Source: Baker Hughes, Bloomberg

Fig 27: Total international rig count



Source: Baker Hughes, Bloomberg



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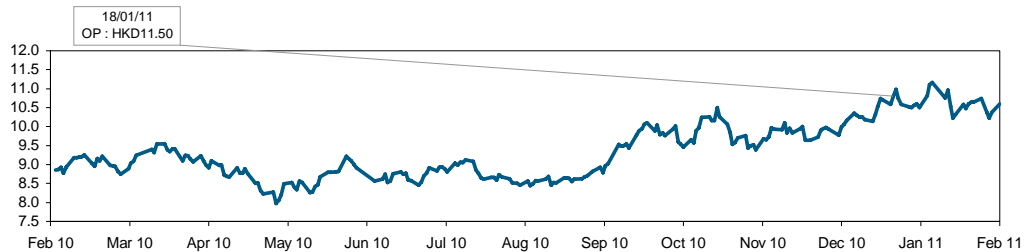
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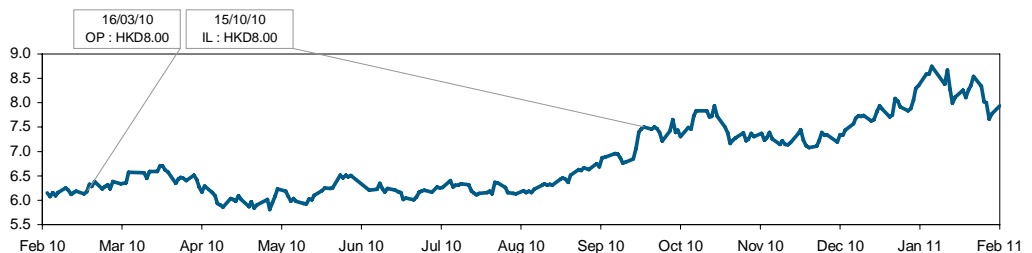
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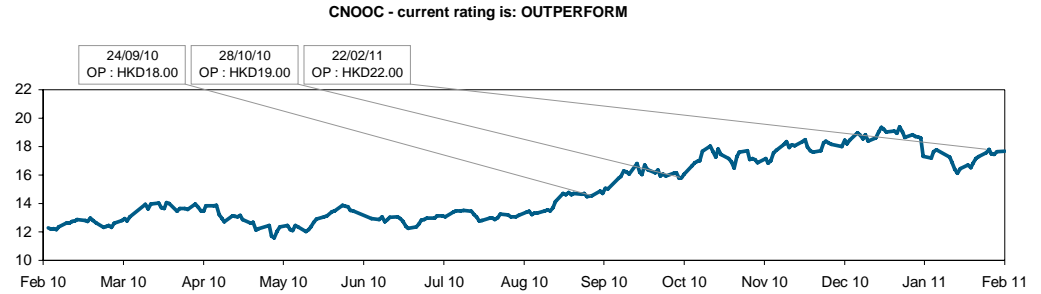
Source: FactSet prices / SCB ratings and price targets



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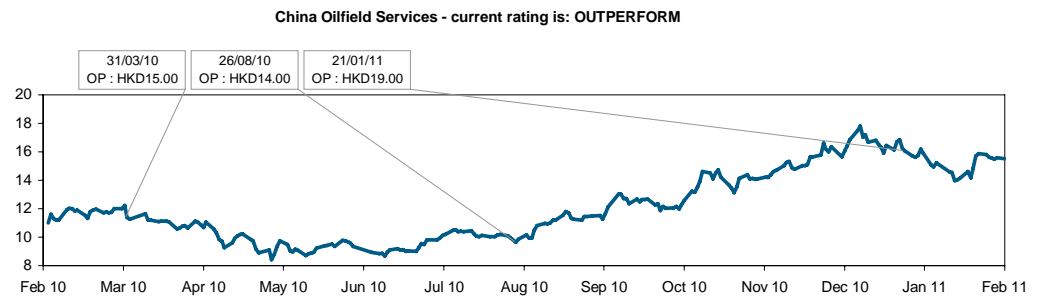
SCB makes a market in securities issued by this company



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Company China Oilfield Services

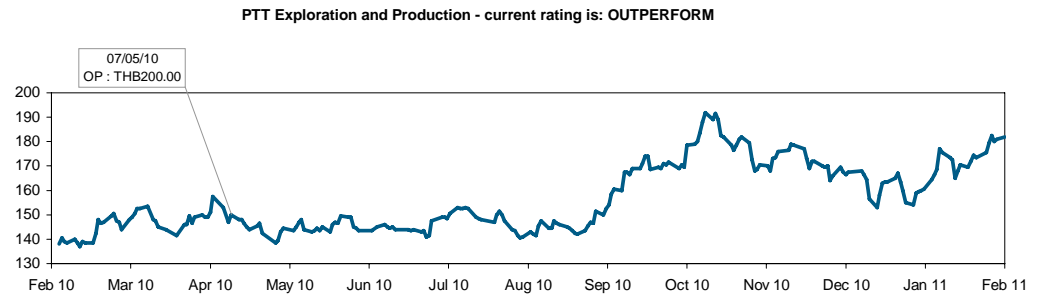
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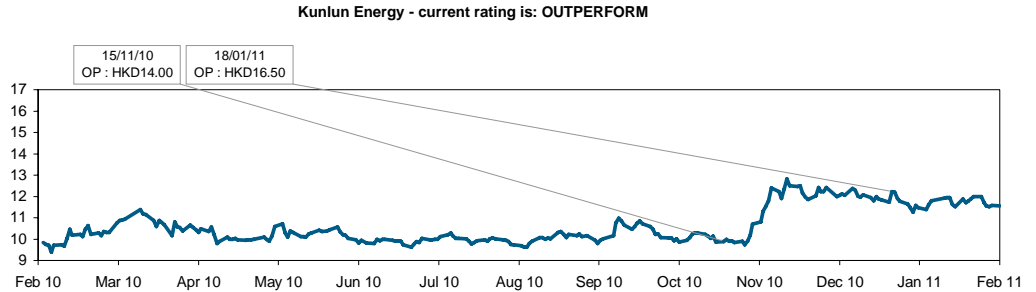


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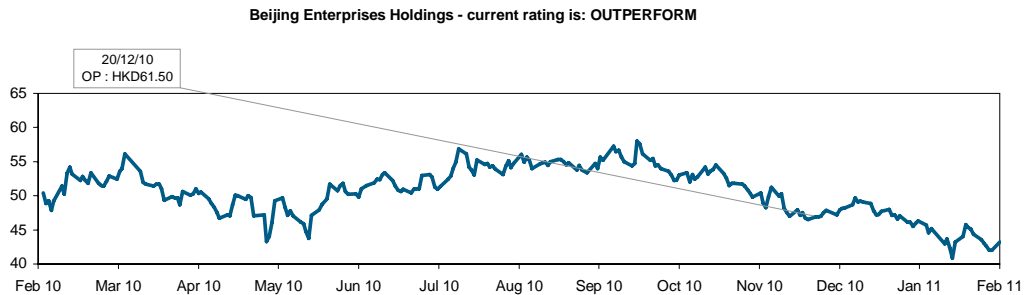


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Company Beijing Enterprises Holdings

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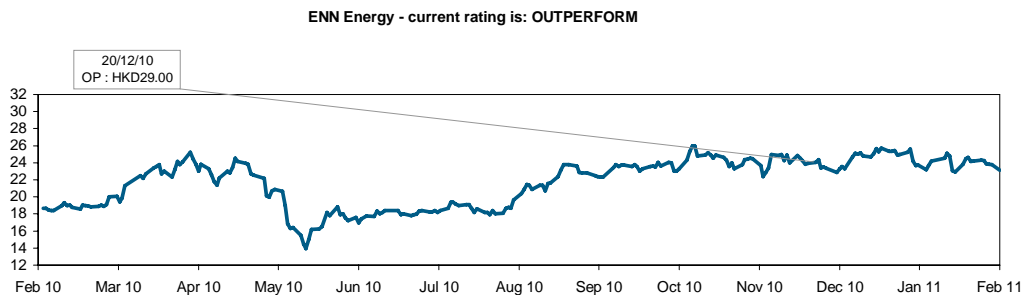
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Company ENN Energy

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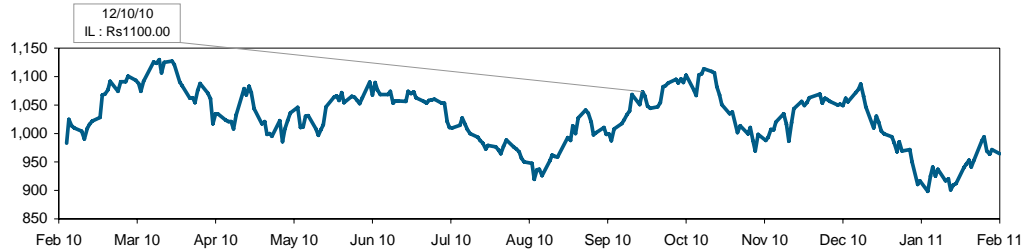


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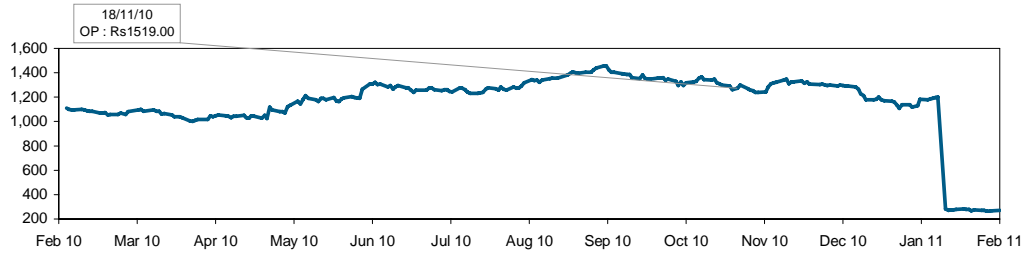


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Company Oil and Natural Gas Corporation Ltd

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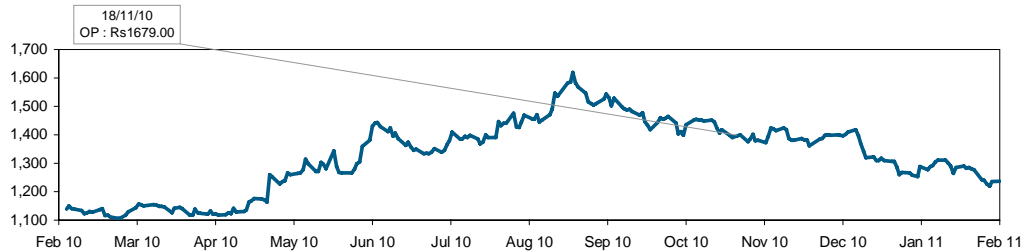


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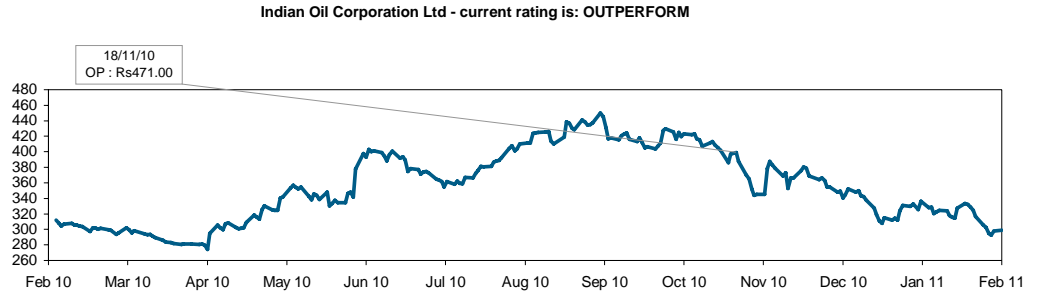


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Company Indian Oil Corporation Ltd

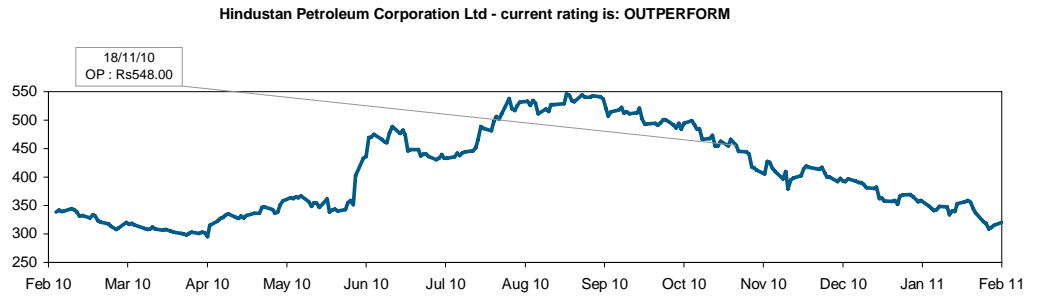
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Company Hindustan Petroleum Corporation Ltd

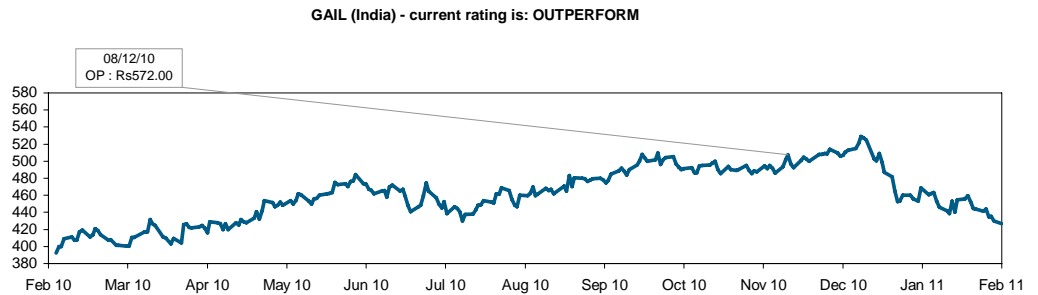
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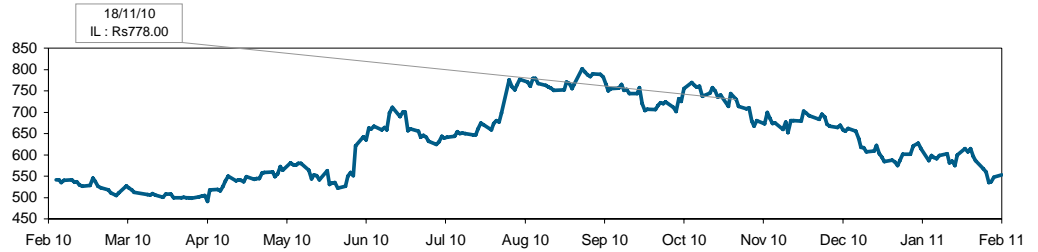


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Bharat Petroleum Corporation Ltd - current rating is: IN-LINE

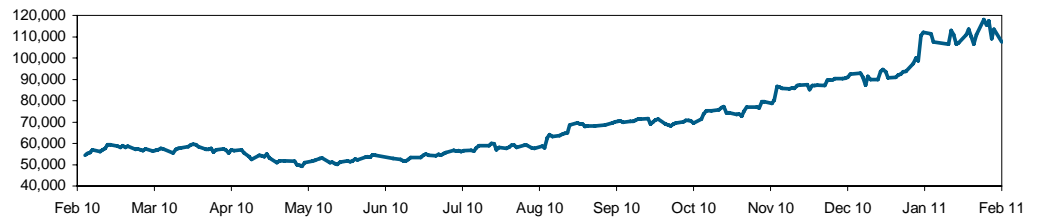


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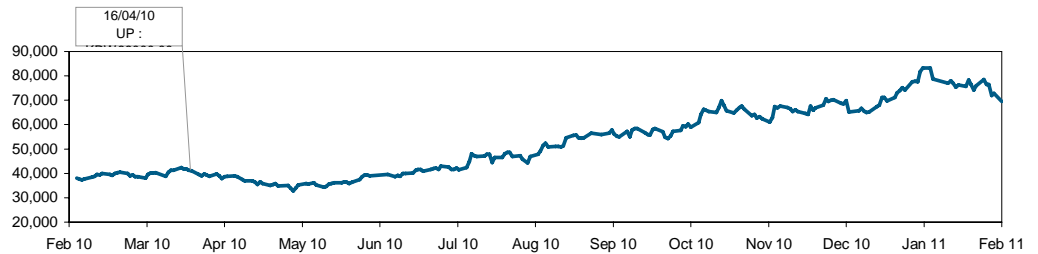


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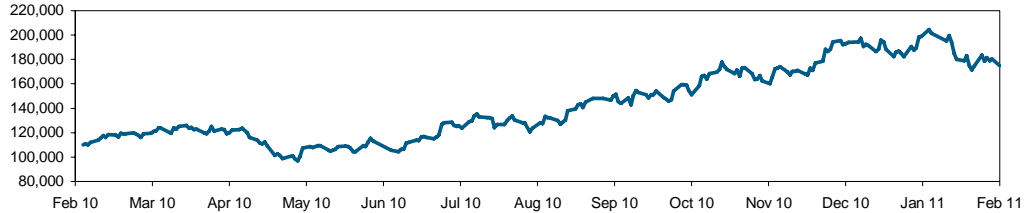
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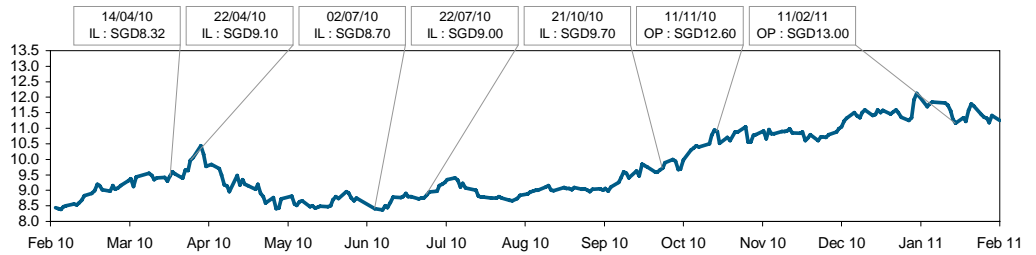


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Keppel Corporation - current rating is: OUTPERFORM

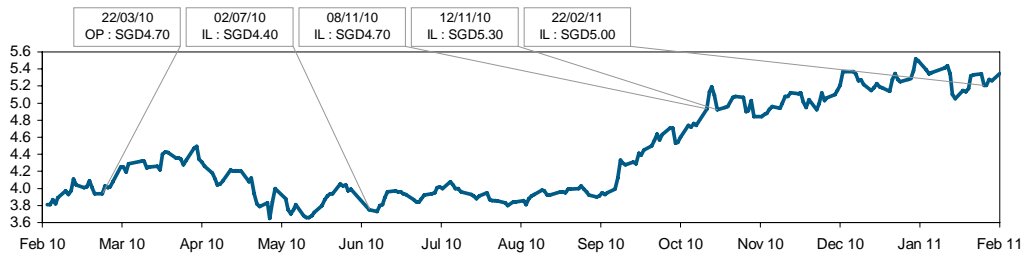


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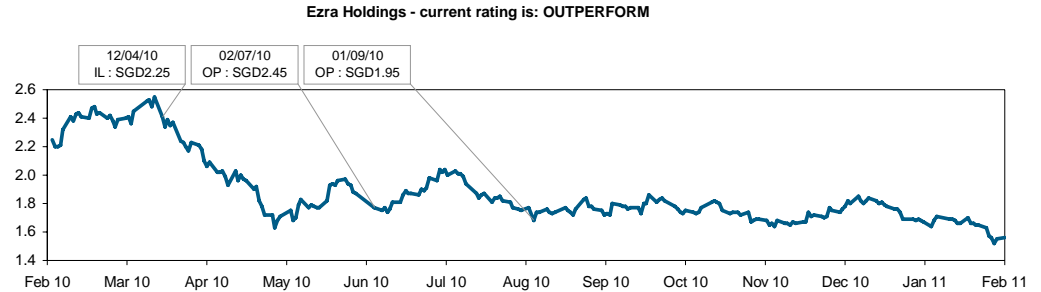


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Company Ezra Holdings

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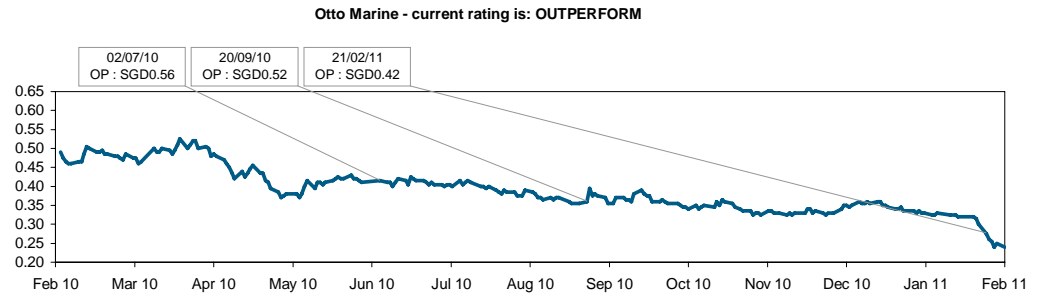


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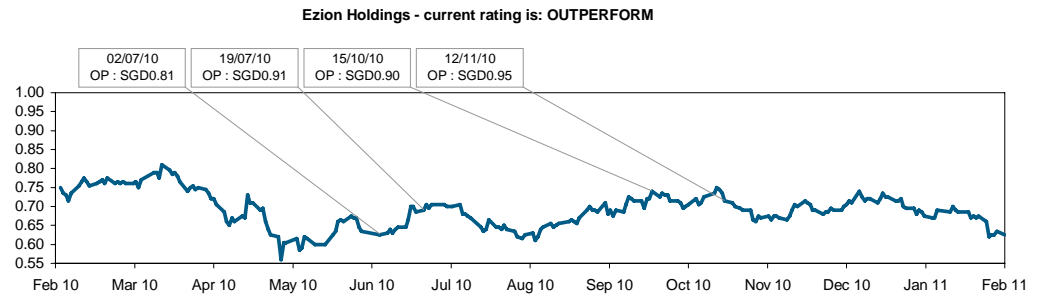
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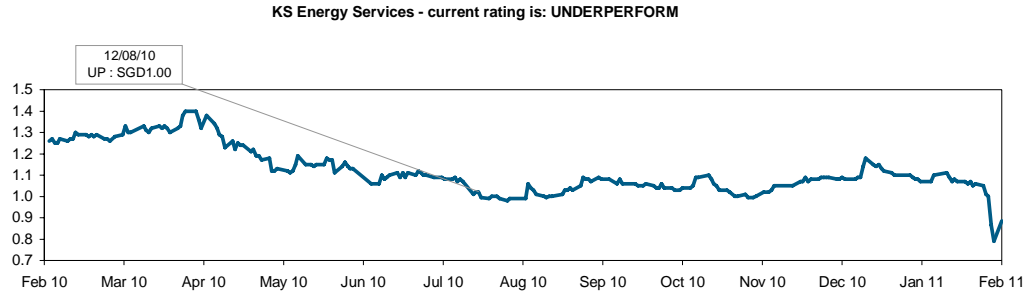


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Company KS Energy Services

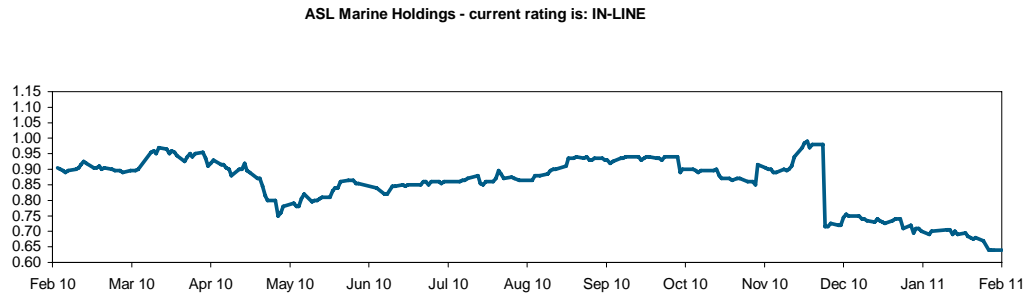
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|--------------|---|---|
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| IN-LINE | 28.6% | 10.9% |
| UNDERPERFORM | 8.9% | 0.0% |

Research Recommendation

| Terminology | Definitions |
|-------------------|--|
| OUTPERFORM (OP) | The total return on the security is expected to outperform the relevant market index by 5% or more over the next 12 months |
| IN-LINE (IL) | The total return on the security is not expected to outperform or underperform the relevant market index by 5% or more over the next 12 months |
| UNDERPERFORM (UP) | The total return on the security is expected to underperform the relevant market index by 5% or more over the next 12 months |

SCB uses an investment horizon of 12 months for its price targets.

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