THAILAND PETROCHEMICAL

The Ethane ban that changed the game

- U.S. ethane ban disrupts supply chains, hitting China and creating openings for others.
- SCG, PTTGC, and IVL stand to gain from lower feedstock costs and less competition.
- In this new energy-politics era, flexible, integrated producers will lead.

Ethane becomes a weapon, not just a fuel

The United States has turned ethane — a gas once flared off during shale production — into a geopolitical tool. In a sharp policy shift, the U.S. banned exports of ethane and butane to China, citing military-use concerns. This move breaks years of cooperation where the U.S. supplied low-cost ethane to China's petrochemical sector, helping both sides economically. Now, ethane joins the list of strategic resources, much like rare earth minerals which China has previously restricted. The shift marks a new stage in the U.S.-China rivalry, one that targets chemicals and energy more directly than ever before.

China loses feedstock, U.S. loses a customer

China is the world's largest importer of U.S. ethane, taking up nearly half of total U.S. exports in 2024. These imports feed China's fast-growing ethylene and propylene production — essential chemicals used to make plastics and industrial materials. With 4.3 million tons per year of ethane crackers either running or under construction, China faces a supply gap. On the U.S. side, companies like Enterprise Products and Phillips 66 may lose a major buyer. Still, the U.S. has flexibility: if ethane demand drops, producers can stop separating it from natural gas and sell it as LNG or for domestic energy use instead.

Naphtha in play again as oil prices rise

With China cut off from U.S. ethane, demand is shifting back to naphtha — a crude oil product used as an alternative feedstock. This shift has pushed oil prices up in recent weeks, especially Brent crude. While ethane was cheaper and more efficient for many uses, China may now rely more on naphtha to keep its petrochemical plants running. Interestingly, propane — another key gas the U.S. exports to China in even larger volume — was not included in the ban. That raises questions about whether future restrictions might widen or whether this was a targeted strike at ethylene capacity.

Thailand's petrochemical players catch a break

Thai petrochemical firms stand to benefit from this disruption. SCG's Long Son Petrochemical (LSP) project in Vietnam — delayed due to poor naphtha margins — may now proceed with US ethane imports, which could reduce feedstock costs by up to 30%. SCG is already investing $500m in long-term VLEC (Very Large Ethane Carrier) contracts to secure 1mtpa of ethane by 2027. Similarly, PTTGC has a 0.4mtpa supply agreement with Enterprise Products and is leasing its own VLECs, expecting cost reductions of ~20%. These moves make Thai producers structurally more competitive than their Chinese counterparts.

IVL: Quiet winner in a noisy market

Indorama Ventures (IVL) may be the biggest gainer in this shake-up. IVL already operates ethane-based ethylene plants and turns the output into high-value products like EG and PET — used in water bottles and textiles. With less competition from China and cheaper feedstock from the U.S., IVL stands to boost profits. Estimates suggest it could earn THB1–2b more per year under current conditions. As the global petrochemical landscape shifts, companies with flexible feedstock strategies and diversified global operations — like IVL — are likely to outperform.

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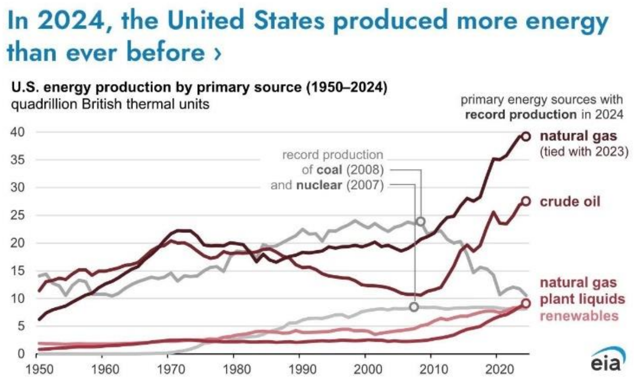
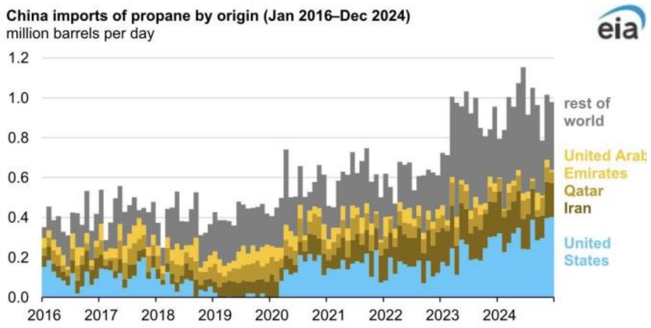
Exhibit 1: U.S. energy production



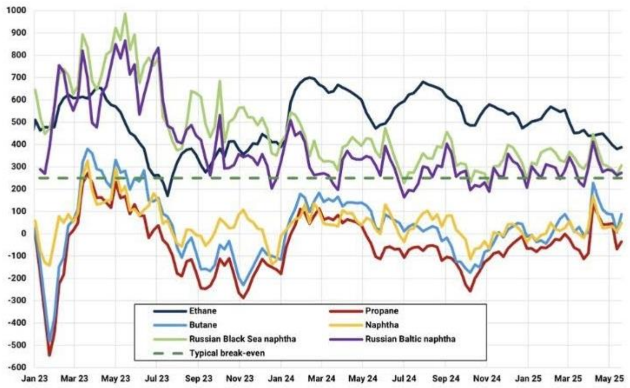
Sources: eia

Exhibit 2: China imports of propane by origin



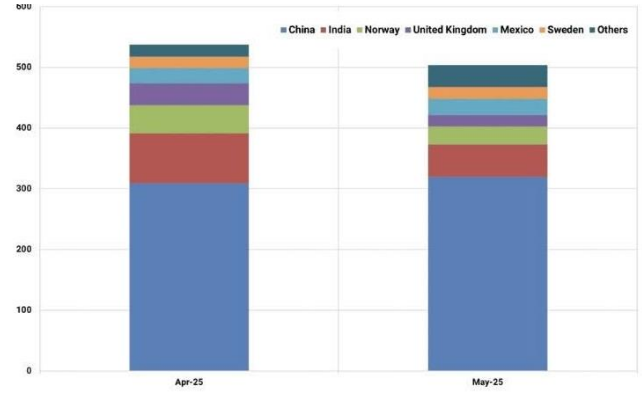
Sources: eia

Exhibit 3: Northeast Asian gross complex steam margin



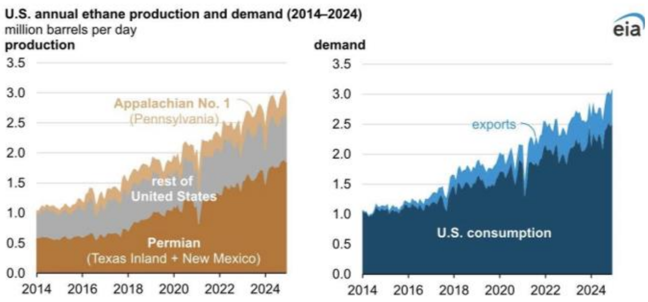
Sources: Kpler

Exhibit 4: U.S. ethane exports by country



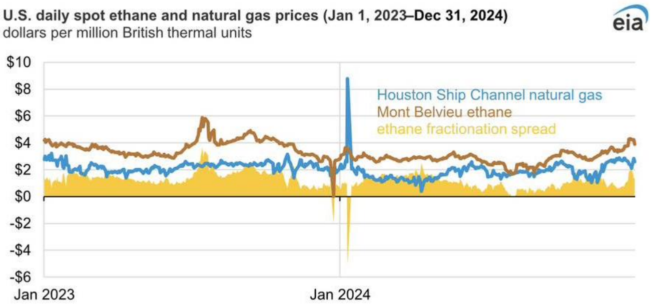
Sources: Kpler

Exhibit 5: U.S. annual ethane production and demand



Sources: eia

Exhibit 6: U.S. daily sport ethane and natural gas prices



Sources: eia

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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.

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