

A sincere nod to South Korea's lost supply

- Olefin margin rebounds likely to sustain on South Korea's supply cuts by 3.7mtpa
- China-U.S. war now spills over to petrochemical industry
- Near-term winners: PTTGC/ IRPC; Long-term winners: SCC/ IVL

A bid nod to South Korea

Yesterday share prices of Thai petrochemical firms jumped after South Korea announced a restructuring plan for its petrochemical industry. According to Korea Economic Daily, Ministry of Finance called for 10 petrochemical producers to sign MOUs to cut productions by 25% (2.7-3.7mtpa out of 14.7mtpa capacity). The goal is to stop the industry's financial bleeding as margins have been distressed for the past five years. All 10 firms have to submit their reduction plan by the end of 2025.

South Korea's chemical industry restructuring is evitable

The restructuring initiative was triggered by warnings by Boston Consulting Group's study under KCIA that if current margins persist for 2-3 years, 50% of South Korea's chemical producers will face financial distresses or bankruptcy. In 1Q25, all Korean chemical producers suffered losses over KRW400b, leading government to set 3 targets of 1) production cut; 2) transition to specialty chemicals; and 3) improve producer financials/ prevent risks for job loss for local communities where chemical plants are located. The industry now requires consolidation at sites 1) Daesan: Lotte Chemical & Hyundai Chemical; 2) Ulsan: SK Innovation & Korea Petrochemical.

China's massive new supplies led to current olefin margin collapses

Since the collapse of Evergrande and property market, China has invested to boost exports to compensate for the lost growth from China's 20+-yr growth property. Starting with upstream refinery to produce naphtha feedstock, China has later built massive downstream chemical production capacities, including PX, PTA, polyester, PET, and olefins. The influxes of new capacities of olefins chain has transformed China from global importer to net exporter, triggering global margin collapses.

China emerges to be the world's largest excess olefin capacity, replacing US

China now has "excess" capacity of 11.5mtpa (+121% y-y) for ethylene and 20.3mtpa for propylene after adding massive capacity (+9mtpa ethylene). China's propylene excess capacity stands at 2.4mtpa in 2024 and 20.3mtpa (+179% y-y) in 2025, surpassing the U.S. as the world's largest "excess" capacity for olefins, accounting for 31% (vs 20% for U.S., 18% for Middle East, 21% for other Asia) of global 50% excess ethylene capacity. U.S. has long been the world's largest "excess" olefins capacity during 1992-2023 at 22%-35% but dipping to 21% in 2024 and 20% in 2025.

Near-term winners PTTGC, IRPC – Long-term winners SCC, IVL

We believe olefin margin rebound will sustain at above-cash cost level in 2H25-2026, thanks to South Korea's 3.7mtpa production cut to help offset the impact of China's supply influx. We project share prices of PTTGC, SCC, IRPC, and IVL to rise further on their visibly better earnings outlook. Near-term PTTGC and IRPC emerge as winners on their distressed losses and potential turnarounds, but we think SCC will likely have the most benefits given SCC's THB10b annual loss from LSP in Vietnam could turn into profits of THB5.0b by 2026. Thai petrochemical sector will now be the driver for SET to move to our target of 1300 by the end of 2025.

Analyst

Suwat Sinsadok, CFA, FRM, ERP
suwat.s@globlex.co.th,
+662 687 7026

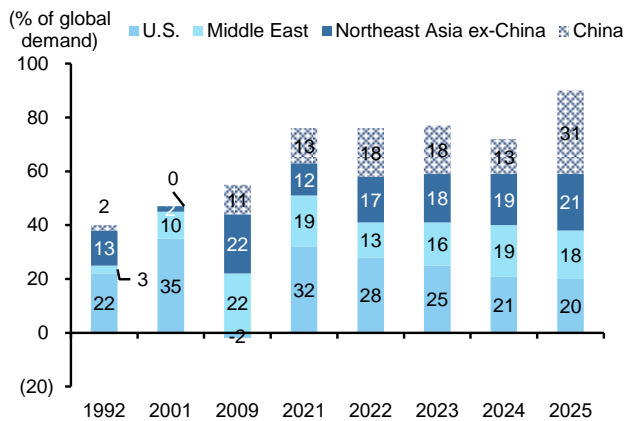
Siriluck Pinthusoonthorn
Siriluck@globlex.co.th,
+662 672 5806

Exhibit 1: South Korea's primary Products cut

	Production cuts (m tonne)	% of Korea total capacity (%)
Olefins		
Ethylene	1.50 - 2.00	15-20%
Propylene	0.80 - 1.00	12-15%
Butadiene	0.15 - 0.20	10-12%
Polyolefins		
High-density polyethylene (HDPE)	0.60 - 0.75	18-20%
Linear low-density polyethylene (LLDPE)	0.40 - 0.50	15-18%
Polypropylene (PP)	0.70 - 0.85	12-15%
Aromatics		
Benzene	0.30 - 0.40	10-12%
Paraxylene	0.50 - 0.65	15-18%
Styrene monomer	0.20 - 0.25	12-15%
Synthetic Rubbers		
Styrene-butadiene rubber (SBR)	0.10 - 0.15	15-18%
Butadiene rubber (BR)	0.08 - 0.10	10-12%
Base Chemicals		
Methanol	0.20 - 0.25	8-10%
Ethylene glycol	0.30 - 0.35	15-18%

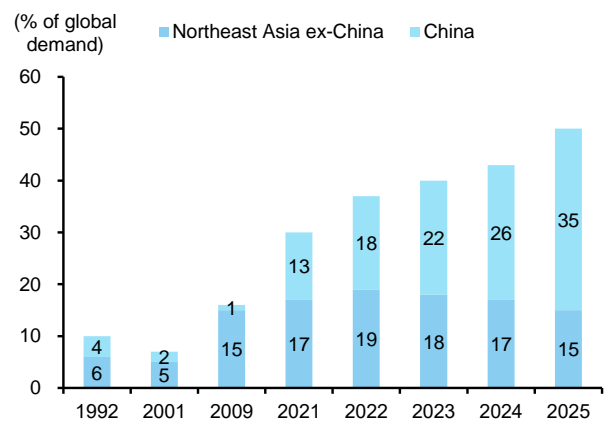
Sources: [Discovery Alert](#)

Exhibit 2: Ethylene excess capacity (supply - domestic demand)



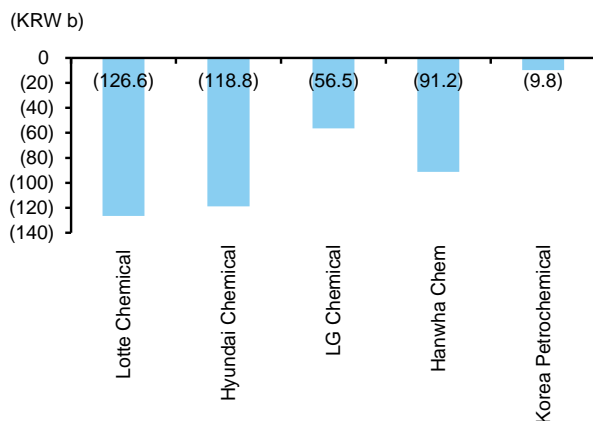
Sources: ICIS

Exhibit 3: Propylene excess capacity (supply - domestic demand)



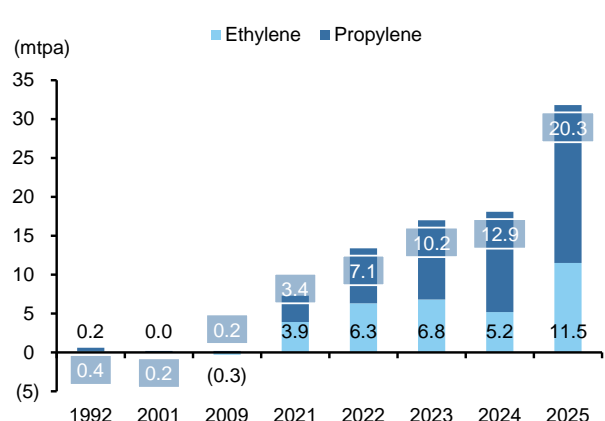
Sources: ICIS

Exhibit 4: South Korea chemical producers' operating losses in 1Q25



Sources: ICIS

Exhibit 5: China's excess capacity (supply - domestic demand)



Sources: ICIS

GENERAL DISCLAIMER

Analyst Certification

Suwat Sinsadok, Register No. 020799, Globlex Securities Public Company Limited

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RECOMMENDATION STRUCTURE

Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as $(\text{target price}^* - \text{current price}) / \text{current price}$.

- 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.