Oil and Gas

Maintain POSITIVE

HIGHLIGHTS

- **June CY24 saw monthly average pricing of Brent crude oil rising +11%yoy and Henry Hub natural gas gaining +30%yoy, due to the ongoing geopolitical tensions and OPEC+ production cuts.**
- **KLEN gained +23%yoy over lessened Covid-19 impact and normalised Russia-Ukraine conflict against Brent.**
- **Upstream activities remain strong, while charter rates are expected to remain elevated. However, downstream is expected to be affected by uncertainties in Diesel and Mogas subsidies, as well as petrochemicals.**
- **NETR initiatives in relation to O&G continue to accelerate amid calls for more adaptation of renewables and cleaner energy in the sector.**

SECTOR RECAP

Crude oil up +11%yoy. Average Brent crude oil for Jun CY24 gained +10.7%yoy to a monthly average of USD83.01pb. This was a +1.1% increase from CY23 average of USD82.12pb. The gain was due to: (i) China's steady economic growth momentum in 1HCY24, (ii) extended OPEC+ production cuts until 3QCY24, and (iii) the continuous geopolitical tensions in Eastern Europe and Middle East. This was moderated by increased US crude oil inventory in 1HCY24.

Natural gas up +30%yoy. Similarly, Henry Hub natural gas had a significant rise in Jun CY24, by +30.0%yoy to a monthly average of USD2.82pMMBtu. This was an +11.0% increase from CY23 average of USD2.54pMMBtu. The gain was due to cooler weather in 1HCY24 compared to 1HCY23, lower global gas supply and increased geopolitical risks.

KL Energy Index (KLEN) up +23%. Consequent to the higher crude hydrocarbon prices, Bursa's KL Energy Index (KLEN) had closed higher in June CY24, gaining +23.4%yoy. The index is starting to balance out with Brent crude oil spot prices in the beginning of CY23 as Covid-19 pandemic impact had started to diminish and the effect of the Russia-Ukraine conflict had normalised, realigning the index trend to Brent crude oil once again. This would correlate the valuation of local O&G companies to the crude pricing, giving investors a better picture on the sector in the coming months.

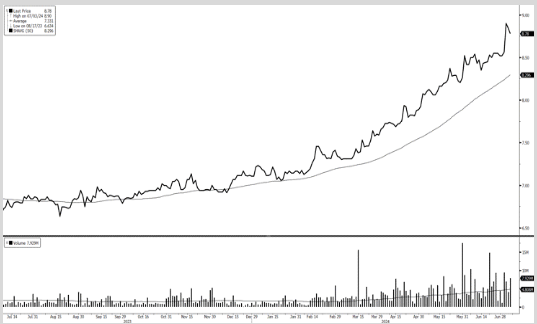
Brent movement relatively steady. Brent crude is still holding onto its monthly gain amid renewed global turmoil. Geopolitical tensions in the Red Sea in the Middle East, as well as in the Russia-Ukraine borders continue to be major contributors to the volatility of hydrocarbon prices. The forthcoming elections in several countries, including Iran and the US, added to the simmering geopolitical risks. This remains as the floor that kept Brent at a minimum of USD76pb, while continuous OPEC+ supply cuts amid growing demand provided price support of circa USD86pb in June CY24. OPEC+ had announced that it will extend its production cuts of 2.2mbpd collectively until the 3QCY24 and then gradually phase, out until the end of CY25 starting from 4QCY24.

COMPANY IN FOCUS

MISC Bhd
Maintain BUY | Target Price: RM9.75
Price @ 5 July 2024: RM8.78

- Resilient earnings in 1QFY24 due to robust tanker rates
- Long-term contractual stability for its charter ships
- High potentiality in LCO2C shipbuild and operations for CCS

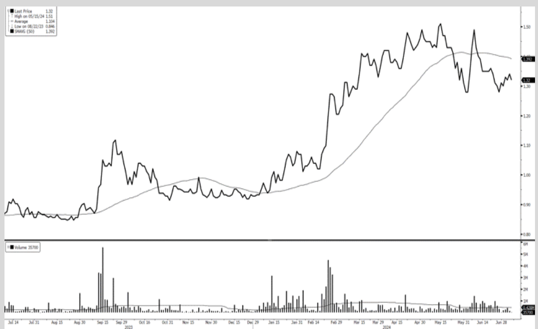
Share price chart



Deleum Bhd
Maintain BUY | Target price: RM1.62
Price @ 5 July 2024: RM1.32

- Strong 1QFY24 earnings on higher demand for machinery services for upstream division
- Beneficiary to higher OGSE demand and sustainable services for O&G players
- Low debt, with consistently positive cash flow

Share price chart



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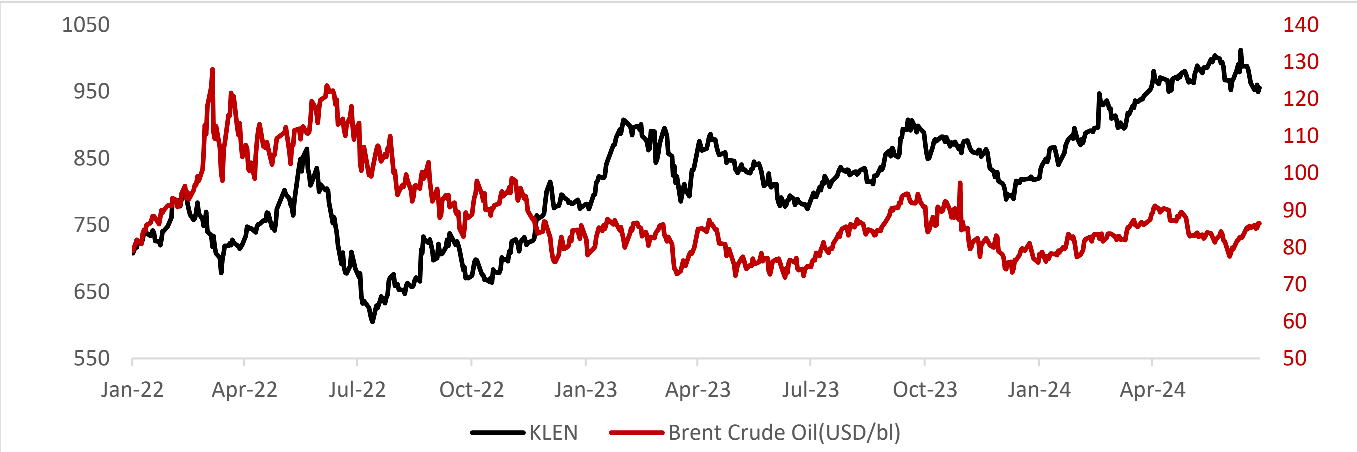
Global clean energy advocacy on the rise. In June CY23, the US had implemented substantial energy and climate policy reforms as part of its net-zero economy goals. The US market is continuously pushing for renewables, battery manufacturing, electric vehicle sales, and biofuels production in its energy sector, as it aims for 100% carbon-free electricity generation by 2035. Similarly, Malaysia had been reviewing policies related to the oil and gas service and equipment (OGSE) industry. The goal is to make the sector more global, sustainable, agile, and divergent, in line with the smooth transition from conventional fossil fuel to cleaner resources advocated in the National Energy Transition Roadmap (NETR). Carbon capture and storage (CCS) had also gained momentum in June CY24, with the recent collaboration between DNV and Petronas for the certification of carbon dioxide (CO2) storage sites and associated facilities for CCS projects in Malaysia.

CHART 1: Brent Crude Price v Bursa Energy Index (2022-1H 2024)



KLEI\Date	Closed 30-Jun-23	Closed 31-May-24	Closed 30-Jun-24	MoM%	YoY%
Index Points	774.09	967.36	955.42	-1.2	+23.4

Source: Bloomberg, MIDFR

TABLE 1: KLEN Gainers and Laggards (Jun-24)

Gainers	Points	Move%	Laggards	Points	Move%
Icon Offshore	+3.52	+29.5%	Hibiscus Petroleum	-2.90	-24.3%
Dialog Group	+1.95	+16.3%	Wasco	-2.39	-20.0%
Coastal Contracts	+1.56	+13.1%	Bumi Armada	-2.12	-17.8%
Yinson Holdings	+0.75	+6.3%	Petron MRM	-1.76	-14.7%
Uzma	+0.46	+3.8%	MMHE	-1.34	-11.2%

Source: Bloomberg, MIDFR

UPSTREAM

Crude oil, natural gas climbing amid extended supply cuts. Average Brent crude oil had been on a flattish monthly growth yet remained elevated due to OPEC+'s extended supply cuts of 2.2mbpd. OPEC+ is also expecting a stable global economic growth in 2HCY24, which would help support its higher demand forecast. Additionally, the ongoing conflicts in Europe and the Middle East, as well as the geopolitical implications of upcoming elections in major American, European and Middle Eastern countries are also expected to keep Brent crude price elevated. Meanwhile, natural gas saw a monthly and yearly surge on the back of increasing demand for LNG, notably from Europe. However, the challenge remains in the competition with renewable energy as Japan and Korea are shifting to nuclear, wind and solar. Nevertheless, natural gas is expected to see more uptake as a colder CY24 winter is forecasted, consequently adding into higher demand amid lower supply. Brent closed at USD86.41 while Henry Hub closed at USD2.60pMMBtu in Jun CY24.

Elevated Brent price pushes upstream capex higher. For our local front, the upstream division had been performing on a positive note, as crude oil prices largely maintained within a relatively stable range (YTD range: USD76-91pb; YTD average: USD83pb). The elevated crude oil price bodes well for the upstream division as prices would support the trading of crude oil at a reasonable level, subsequently supporting E&P projects in the long run and benefitting the upstream Oil, Gas, and Energy Services (OGSE) players. With 21 new discoveries recorded in CY23 - contributing to approximately 1bboe of new resources - and over 9 production sharing contracts (PSC) secured in 1HCY24 amounting to about RM1.3b worth in capital, we believe the upstream division in Malaysia will continue its uptrend momentum amid the expected capex of RM50b-60b by PETRONAS in CY24.

CHART 2: Crude Oil Prices vs Natural Gas Prices (2022-1H 2024)

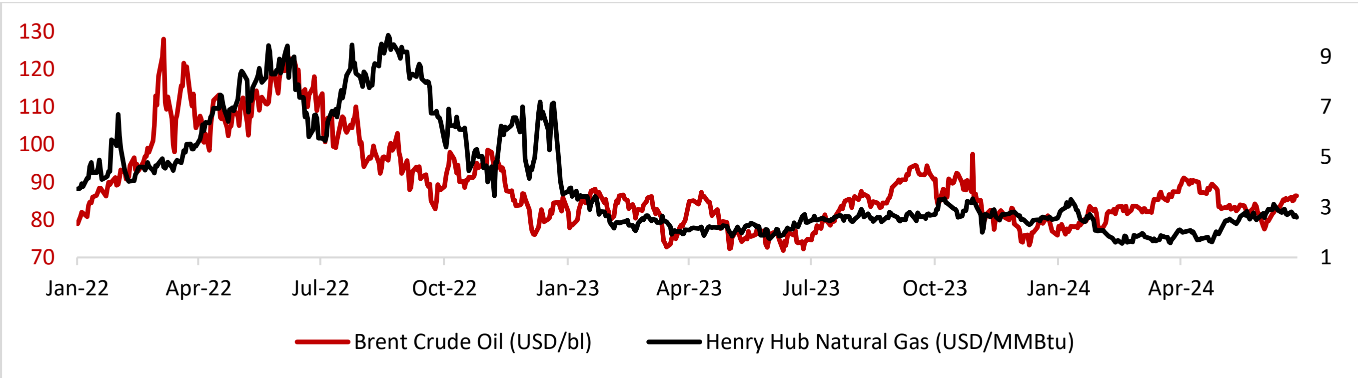


CHART 3: Brent v WTI Crude Oil Prices (1H 2024) (USDpb)

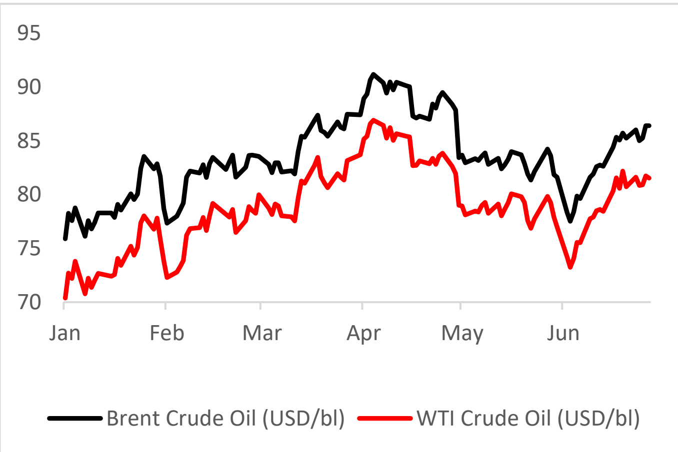
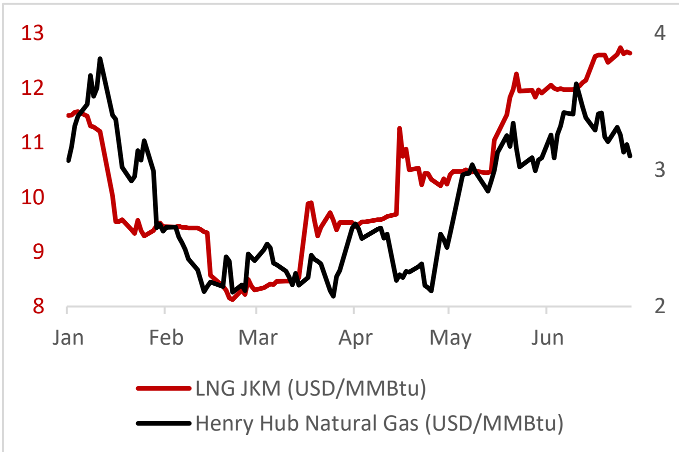


CHART 4: Natural Gas v LNG JKM Prices (1H 2024) (USDpMMBtu)



Commodity\Date	Jun-23	May-24	Jun-24	MoM%	YoY%	Min Jun-24	Max Jun-24
Average Brent (USD/b)	74.98	83.00	83.01	+0.0	+10.7	77.52	86.41
Average Henry Hub (USD/MMBtu)	2.17	2.49	2.82	+13.3	+30.0	2.59	3.13

Source: Bloomberg, MIDFR

MIDSTREAM

Tanker market remain healthy amid geopolitical tensions. The tanker market is expected to remain healthy and profitable. The short- and long-term rates in June CY24 had shown growth in all vessel types except short-term rates for VLCCs (-6%yoy) due to weakening China freight markets for summer. The ongoing geopolitical tension in the Middle East and Eastern Europe, most notably in the Red Sea, had been causing shipping tankers to be selective and take longer routes have resulted in higher demand for medium-sized tankers, particularly from the Asian region.

Additionally, the demand for crude oil and LNG is expected to see a slight rise to accommodate to inventories ahead of the winter season. The demand for energy security and trade flow disruptions are expected to affect the demand for more tankers in the trade route, particularly for Aframax and Suezmax tankers.

But demand recovery risk might shift tankers to onshore storage. The global oil supply surged to 102.5mbpd, fuelled by a rise in non-OPEC+ production (+1.4mbpd) that countered OPEC+ reduction (-880 kbpd) while oil demand growth is taking a plunge (-100kbpd from May CY24). This widening gap between supply and demand is reflected in bulging oil inventories, especially on land. While we are expecting tankers to be affected by the continuous supply-demand imbalance in the oil market, we believe the total volume of crude oil shipped remain sanguine. Aging tanker fleets and changes in environmental regulations are also highly likely to impact utilisation of tanker ships into a plateau. Subsequently, we are optimistic on the utilization of onshore tanker facilities, due to the ongoing geopolitical risks that could cause volatility in charter rates.

CHART 5: Baltic Tanker Index (2022-1H 2024)

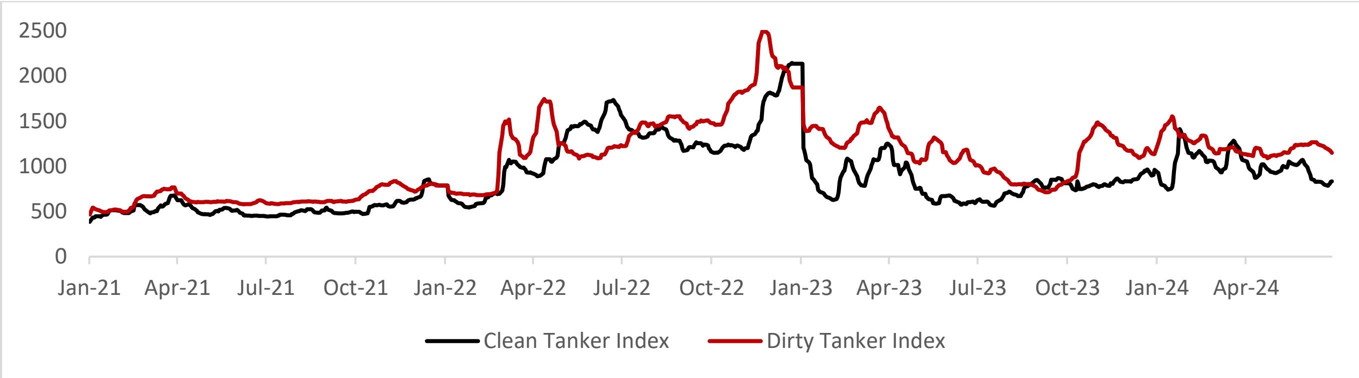


CHART 6: 1Y Time Charter (2022-1H 2024) (USD/d)

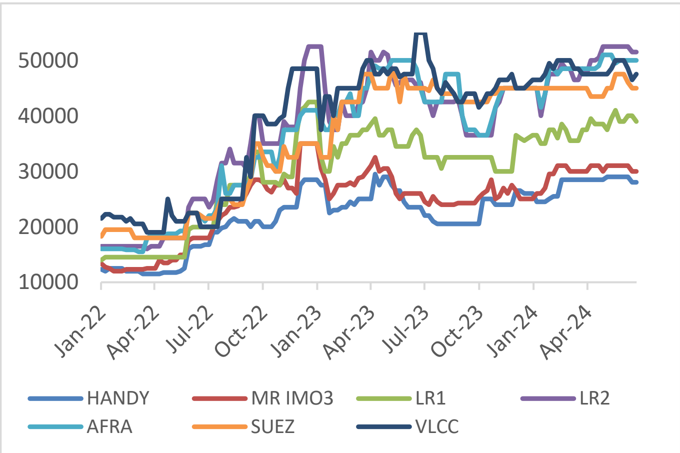
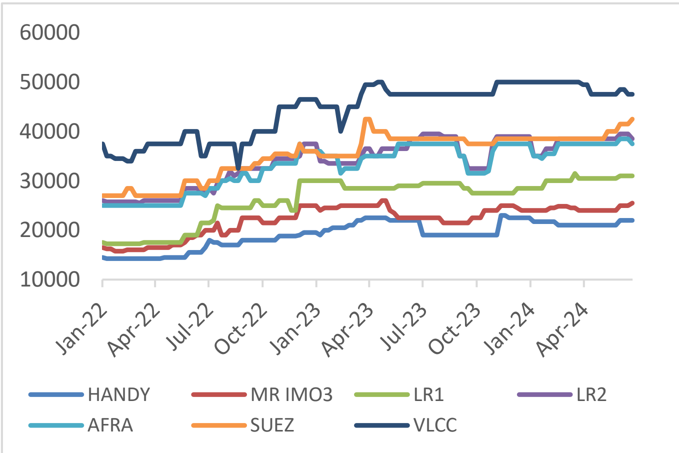


CHART 7: 5Y Time Charter (2022-1H 2024) (USD/d)



Baltic Tanker Index\Date	Closed 30-Jun-23	Closed 31-May-24	Closed 30-Jun-24	MoM%	YoY%	Min Jun-24	Max Jun-24
Clean (petroleum products)	1,566	1,023	834	-18.5	-46.8	785	988
Dirty (crude oil)	1,234	1,241	1,150	-7.3	-6.8	1,150	1,267

Source: Bloomberg, Macrobond, MIDFR

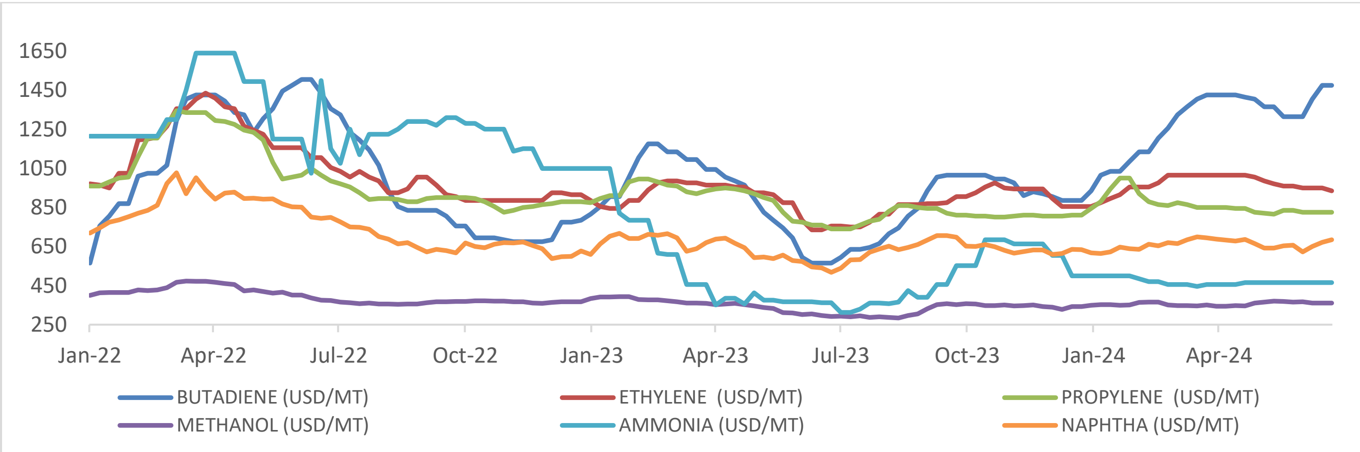
DOWNSTREAM

Fuel demand on the rise despite Diesel targeted subsidy. The anticipation of higher travelling frequency in 2HCY24 following the summer and winter holidays, as well as the boosted manufacturing sector under the New Industrial Master Plan 2030 (NIMP) bodes well for Mogas and Jet A1 fuel demand.

Aviation sector is expecting air passenger traffic to reach 95-99% of pre-pandemic levels in CY24, while the manufacturing sector's expected USD133b contribution to local economy by CY30, consequently spilling over to the transportation and industrial sectors' demand for fuel. The targeted diesel subsidy, however, had seen a slight shift in demand upon introduction. However, it should be noted that the diesel prices will only affect Peninsular demand, while Sabah & Sarawak is expected to remain status quo. Consequently, we are expecting the logistics, industrial and consumer sectors to rationalise to the smooth transition. With the government's future incentives for diesel consumers, we opine that the demand would improve alongside Mogas and Jet A1.

Petrochemicals recovery imminent. While there is a global optimism in that recovery may occur, following the expected higher demand for olefins and ammonia for the plantation and transportation sectors, as well as green chemical products in 2HCY24, oversupply of feedstocks against a weak demand remains a challenge. Additionally, the added competition among petrochemical producers from other countries like China continue to be a factor that could make average selling prices highly competitive, thus off-balancing the regional supply-demand for petrochemicals. Nevertheless, many petrochemical companies had been positive that the subindustry could recovery by 4QCY24, despite current bottom-cycle conditions. With a shifted long-term focus on demand, sustainability goals and digital transformation, in addition to the escalating demand from automotive, plantation and construction sectors for petrochemicals, we believe the late recovery may be imminent.

CHART 8: Petrochemical Feedstock Prices (2022 - Jun 2024) (USD/MT)



Source: Bloomberg, Macrobond, MIDFR

RENEWABLES & CLEAN ENERGY

Positive trend in energy transition readiness. The World Economic Forum's Energy Transition Index 2024 reveals positive trends for key enablers of the global energy transition, such as regulation, infrastructure, and financial investment. These enablers provide the framework for a successful shift towards clean energy in CY24. Similarly, Malaysia's O&G industry is experiencing a transformative phase in energy transition; integrating digital technologies, future-focused innovations, and lower-carbon alternatives to address the evolving demands for fuel and energy. In line with NETR and PETRONAS's Energy Transition Strategy, we opine that Malaysia is on the right trajectory, notable by the completion of the Kasawari Gas Field Development in Malaysia and PETRONAS LNG plant in Canada by the end of CY24.

OGSE as a spearhead for cleaner industry. OGSE had seen an increasing demand for both broad and specialized expertise in renewables and cleaner fuels. Integrating O&G services with clean energy services is a crucial strategy for OGSE companies in diversifying their portfolios by investing in low-carbon technologies and solutions. Although these opportunities present promising potential, it oftens require substantial capex and advanced technological capabilities. Other challenges include: (i) competency gaps in energy sustainability, (ii) stiff competition with other major players adept in renewable and clean energy, and (iii) susceptibility to high-risk environments like offshore operations and processing plants. We believe that, on top of the governmental policies and initiatives, collaboration efforts with O&G-related organisations in talent development could mitigate these challenges.

MOVING FORWARD

OGSE companies expected to remain robust. With the upcoming 2QFY24 earnings result season, oil and gas companies are expected to have performed well as in the 1QFY24 earnings season. This is in tandem with the higher Brent crude price in 2QCY23 at USD85.03pb (+3.8%qoq). We believe the OGSE subindustry will display improved performance with surprises expected in the tanker market. This is attributable to a growing capex for the global upstream division, overall, by approximately +24%yoy to USD600b in CY24, as upstream continued to ramp up in E&P activities, as well as the expectation that the elevated Brent crude price will continue to support the contractual nature of upstream operations. We maintain our forecast of Brent to reach an average of USD85pb and Henry Hub to average to USD2.45pMMBtu in July CY24.

Shipping rates to improve on seasonal demand. Oil supply cuts by OPEC+ against higher demand forecasts for 2HCY24 is expected to increase the need for tankers in July, in turn adding the cost of hauling crude and charter rates. The increasing inventories ahead of the winter season and the increase in the demand for petroleum products and LNG will continue to improve tanker rates in the near term, albeit the geopolitical tensions remained to place a lid on the rates. For our local front, we are expecting that shipping tankers to see an improvement following the seasonal changes and colder weather, in line with the increasing demand for crude oil and natural gas across most industries. Nevertheless, we remain vigilant on the rates following ship maintenance season in 2HCY24.

Energy transition collaboration in full swing. In June CY24, Malaysia had set up alliances with other regional governments and major oil players to improve and accelerate two main drivers of energy transition under NETR – CCS and Hydrogen. With Kasawari CCS project nearing completion and Sarawak pledging to pioneer Hydrogen fuel for commercial vehicles, Malaysia is poised to expand these projects through the established incentives and via collaborations and partnerships. Additionally, the 2024 World LNG Report had highlighted the importance of LNG as part of the transition value chain, which reinforced Malaysia's position as an LNG provider and sustainer. All in, we believe that the smooth shift to cleaner energy resources and decarbonisation will continue into July CY24.

RECOMMENDATION

Overall, our outlook for the O&G sector in CY24 remains positive, though major OPEC+ production changes is a possible downside risk. Nevertheless, we maintain our **POSITIVE** stance in the sector. Locally, we are optimistic about strong upstream activities, which will benefit our OGSE companies. This aligns with PETRONAS's expected capex of RM50-60 billion in CY24 and the relatively stable and elevated Brent crude price, averaging USD80-85 per barrel. Additionally, we anticipate higher demand for Jet A1 fuel, with Malaysia expected to welcome at least 94 million passengers in CY24, an approximate increase of 11% year-on-year. However, uncertainties in the petrochemicals sector due to increased competition from regional players, feedstock oversupply, and slower growth in specialty chemicals are expected to persist.

Our main Top Pick is MISC Bhd (BUY, TP:RM9.75). We like MISC, given its well-established status as a maritime industry player for offshore services and diversified portfolio within the upstream and midstream businesses. It also has an international reach with its FPSOs and LNGCs, in addition to a consistent dividend payment and its initiatives in sustainable maritime solutions to achieve zero-net carbon emissions. This is driven by strong demand for offshore vessels and delayed start-ups in the upstream post-pandemic. In the coming months, we are expecting a stronger demand for FPSOs and tankers in tandem with the growth in the upstream business. We opine that the stabilising oil prices, the increase in energy demand and long-term contracts for charter ships would continue to drive MISC's performance. MISC's involvement in dual-fuelled engines and LCO2C to feed the CCS value chain also added to its ESG score.

DISCLOSURES AND DISCLAIMER

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology