Oil & Gas

All Eyes on OGSE Players

Positive (Maintain)

HIGHLIGHTS

- Jan CY25 saw average pricing of Brent crude oil down by -1%yoy while Henry Hub natural gas gained +36%yoy
- KLEN lost -4%yoy in tandem with lower oil and gas prices and ongoing geopolitical tensions in the US, Middle East and Eastern Europe
- Upstream is expected to be sanguine globally in line with increased exploration, production and development activities
- Midstream remained stable due to higher demand for LNG, while tanker rates are normalizing amid increased at-sea vessels
- Downstream demand maintained stable for conventional fuel and biofuel, amid slow petrochemical recovery
- Moving forward, OGSE and upstream players remain key focus, with expectation of more volatility in market due to ongoing uncertainties in geopolitics and possible increase in oil production in the near term

SECTOR RECAP

Crude oil down -1%yoy. Average Brent crude oil for Jan CY25 slipped -1.2%yoy to an average of USD78.18pb. This is lower by -2.1% from CY24's average of USD79.89pb. The decline was due to: (i) increased oil production from non-OPEC+ countries, (ii) slower demand growth, and (iii) marginal improvements in economic outlook. This is offset by renewed Russian oil export sanctions and the ongoing OPEC+ supply cuts.

Natural gas up +36%yoy. Conversely, Henry Hub natural gas gained in Jan CY25, by +36.2%yoy to a monthly average of USD3.72pMMBtu, which is higher by +53.3%yoy from CY24 average to USD2.43pMMBtu. The upward surge was due to: (i) colder weather due to the Arctic blast, (ii) increased demand for power generation and heating, (iii) supply constraints due to weather-related disruptions, and (iv) lower storage levels in the Northern Hemisphere.

KL Energy Index (KLEN) barely supported. In line with the lessened volatility in oil prices but higher gains in natural gas prices, the KLEN index's Jan CY25 spread had dropped by -4.0%yoy. This was also caused by market uncertainties fuelled by the geopolitical tensions in the Middle East and Eastern Europe, as well as newly elected US President Trump's Energy Policy and US trade tariffs.

Sanctions boosted Brent temporarily. Brent surpassed USD80pb for a week in Jan CY25, due to a renewed sanction on Russian oil export. The sanction targets Gazprom, Neft and Surgutneftgas, as well as 183 oil tankers which are allegedly part of Russia's "shadow fleet" and 2 LNG facilities. Provisions of services to Russian oilfield are and payments for Russian energy through US banks are also prohibited. While this sanction has the potential to limit Russia's production and reduce its contribution to global oil supply (accounting to over 12%), we believe the impact to the oil prices is limited, given OPEC+'s continuous role to balance the supply and Russia's capability to shift its trade routes. We also see this as a potential for our regional and local OGSE players to cater to the service gaps left by the sanction for other global oil producers.

COMPANY *IN FOCUS*

Dialog Bhd

Maintain BUY | Target Price: RM2.72
Price @ 4 February 2025: RM1.90

- Strong 3QFY24 performance due to integrated operations
- 10% shareholder's equity return
- Strategic investments in upstream assets and renewable products

SHARE PRICE CHART

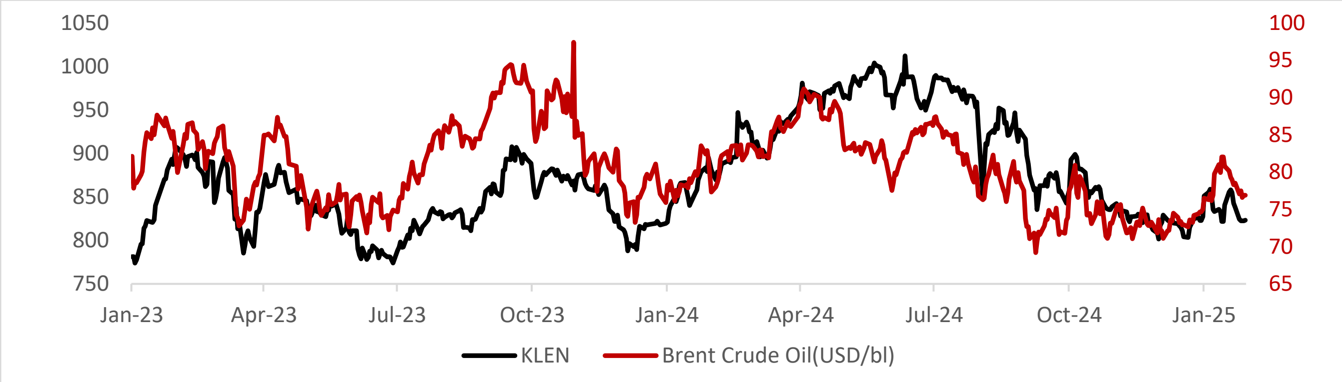
Deleum Bhd

Maintain BUY | Target Price: RM1.97
Price @ 4 February 2025: RM1.33

- Strong earnings growth
- 34% insider ownership
- Well-established as an upstream OGSE
- Expansion in sustainable upstream solutions

SHARE PRICE CHART

CHART 1: Brent Crude Price v Bursa Energy Index (Jan 2023-YTD)



KLEI/Date	Closed 31 Jan 2024	Closed 31 Dec 2024	Closed 31 Jan 2025	MoM %	YoY %	Min Jan 2025	Max Jan 2025
Index Points	895.1	822.93	823.32	+0.0	-8.0	821.79	858.72

TABLE 1: KLEN Gainers and Laggards (Jan 2025)

Gainers	Points	Move %	Laggards	Points	Move %
Velesto Energy (Upstream: Drilling)	+5.82	+1491.6	Yinson Holdings (Integrated)	-19.45	-4986.5
Dialog Group (Integrated)	+5.39	+1382.0	Hibiscus Petroleum (Upstream: E&P)	-1.87	-479.7
Keyfield International (Upstream: Vessels)	+2.77	+710.6	Coastal Contracts (Integrated)	-1.29	-330.7
BM Greentech (Renewables: Solar, Biomass)	+1.51	+386.7	Hengyuan Refining (Downstream: Refinery)	-0.94	-239.8
Bumi Armada (Upstream: FPSO)	+0.71	+182.5	Solarvest Holdings (Renewables: Solar)	-0.72	-184.6

Source: Bloomberg, MIDFR

OGSE and E&P expected to champion 4QFY24 results. Two out of fives subindustries reported a significant increase in revenue in the FY24 results, namely Oil & Gas Exploration & Production (+USD4t from USD245b in FY23) and Oil & Gas Equipment & Services (+USD770b from USD85b in FY23) subindustries. This is attributable to several factors, including: (i) increased capex by over +6%yoy to approximately USD600b, (ii) higher production from non-OPEC countries, (iii) increased adoption of advanced technologies which improved efficiency and reduced costs, (iv) favourable demand for oil and gas, and (v) supportive policies for energy transition within the upstream division. However, major oil producers still saw lower earnings in FY24, due to: (i) lower oil prices in CY24 (average USD79.89, -3%yoy), (ii) higher costs affecting profitability, (iii) increased impairments and write-offs, and (iv) volatile foreign currency effects. Meanwhile, OGSE companies saw an opposite, as they benefitted from the increased exploration, development and production activities. Additionally, the long-term contracts and orders, coupled with continuous technological innovations and a diverse portfolio buoyed OGSE's financial performance in FY24. We are expecting our local front to mirror this overseas performance, notably from the OGSE companies, on similar fundamentals in the upcoming quarter season.

TABLE 2: 4QFY24 Earnings for O&G Companies

FYE Dec (USD bil)	Quarterly					Yearly		
Companies	4Q23	3Q24	4Q24	QoQ %	YoY %	2023	2024	YoY%
Exxonmobil (NYSE: XOM)	9.96	8.61	7.39	-14.2	-25.8	38.6	33.5	-13.2
Shell (NYSE: SHEL)	7.31	6.03	3.66	-39.3	-49.9	28.3	23.7	-16.3
Chevron (NYSE:CVX)	2.26	4.49	3.24	-27.8	43.4	21.4	17.7	-17.3
Schlumberger (NYSE:SLB)	1.50	1.57	1.63	3.8	8.7	5.8	6.5	12.1
Baker Hughes (NASDAQ:BKR)	0.44	0.77	2.98	287.0	577.3	1.9	3.0	57.9
Halliburton (NYSE:HAL)	0.66	0.57	0.62	8.8	-6.1	2.3	2.6	13.0

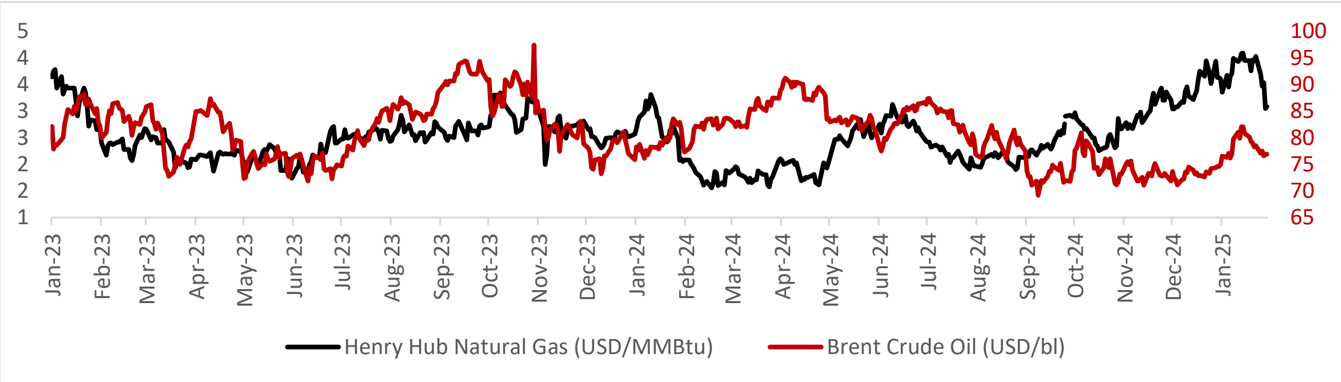
Source: Companies, Bloomberg, MIDFR

UPSTREAM

PETRONAS highlights a resilient upstream. The global upstream O&G division continues to intensify its focus on efficiency and AI technology to optimize costs, production, and revenues. Despite the clean energy advocacy, there is a resurgence in conventional exploration since CY23, buoyed by a stable demand outlook and long-term forecast for oil prices to remain elevated for longer. Additionally, the ongoing geopolitical tensions and OPEC+ supply cuts remain key impacts to the sector, offset by a possible increase in oil and gas production in the Americas and the Middle East. For our local front, PETRONAS had reported significant exploration successes, contributing to approximately 1bboe of new resources. Ongoing exploration activities and new production sharing contracts (PSCs) are expected to continue supporting the division, with peak exploration expected in CY25, followed by development works in the wells. We opine that OGSE companies will remain the major beneficiaries to the robust upstream moving forward, notably OGSEs dealing with rig operations, drilling, EPCC, and maintenance and repair.

Refer to our review on PETRONAS Activity Outlook 2025-2027 *(published 3 Feb 2025)* for more information.

CHART 2: Brent Crude Oil Price v Henry Hub Natural Gas Price (Jan 2023-YTD)



Commodity\Date	Jan 2024	Dec 2024	Jan 2025	MoM %	YoY %	Min Jan 2025	Max Jan 2025
Average Brent (USD/b)	79.15	73.13	78.18	+6.9	-1.2	74.64	82.03
Average Henry Hub (USD/MMBtu)	2.73	3.41	3.72	+9.2	+36.2	3.05	4.09

CHART 3: Brent v WTI (Jan 2024-Jan 2025)

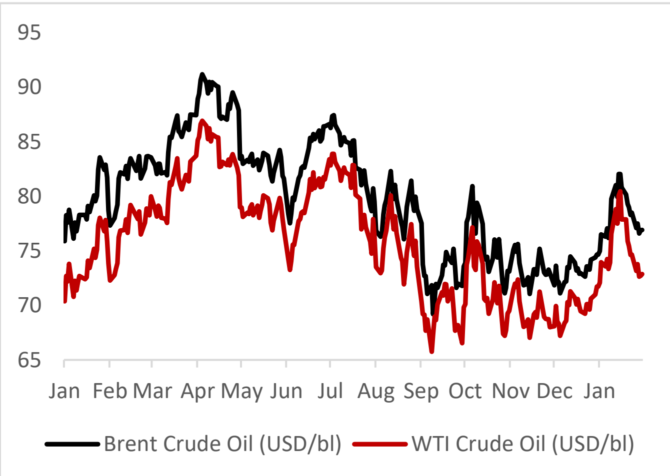
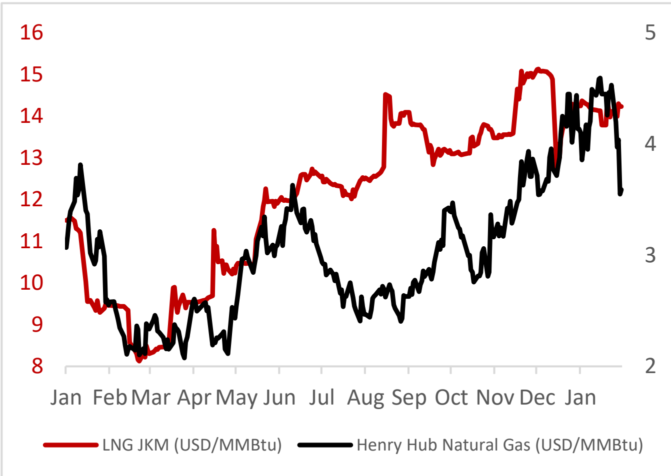


CHART 4: Henry Hub v LNG JKM (Jan 2024-Jan 2025)



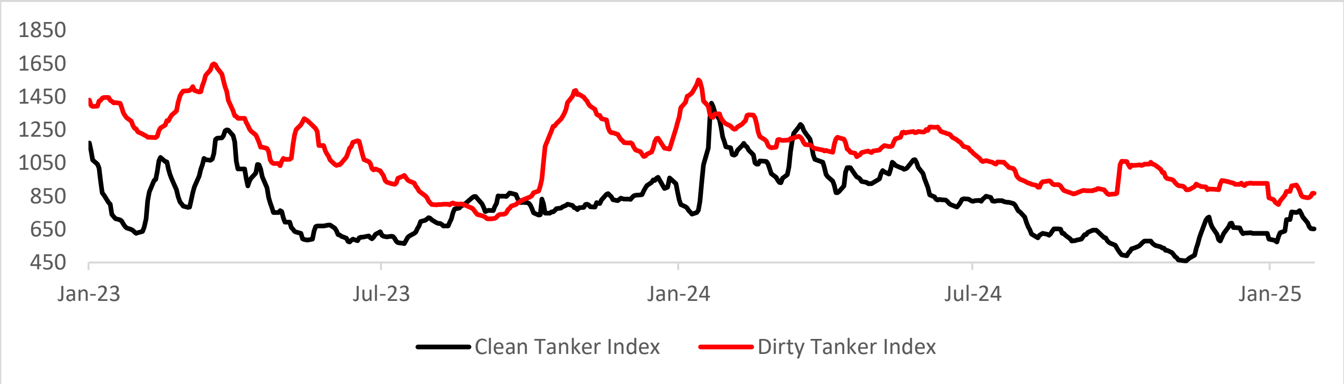
Source: Bloomberg, MIDFR

MIDSTREAM

Demand growth for tankers normalizing. The tanker market saw an increase in tanker deliveries, contributed by the lower charter rates and higher supply of vessels in Jan CY25, offset by lower charter rates across all tanker sizes, for short-term and long-term, as compared to the Jan CY24. Nevertheless, the demand growth for petroleum products had started to balance out the market, although the downside risks of geopolitical tensions remained. Moving forward, we expect the charter rates to keep being stabilized though we observe caution of the impact of the Russian sanctions and US trade tariffs on the maritime transportation sector.

LNG gaining popularity. The surge in LNG prices in Jan CY25 by +35-37%yoy was supported by the increase in demand for LNG, subsequently prompted the expansion of LNG terminals and pipelines. Notable LNG development was 5 new LNG import projects coming online in Europe, which added 28.7bcmpa in new LNG import capacity. Additionally, North America saw a development in LNG-fueled train which is expected to be in full service by 2HCY25. Similarly in Malaysia, LNG terminals is expected to dominate the midstream market due to increasing demand for natural gas. Ongoing development of LNG terminals and pipelines remain robust, with strong attention on PETRONAS's recent venture in a Floating LNG facility, used to develop deepwater fields in Sabah. The floating LNG plant is anticipated to commence operation in CY27, with a minimum production capacity of 2mTpa of LNG.

CHART 5: Baltic Tanker Index (Jan 2023-YTD)



Baltic Tanker Index/Date	Closed 31 Jan 2024	Closed 31 Dec 2024	Closed 31 Jan 2025	MoM %	YoY %	Min Jan 2025	Max Jan 2025
Clean (petroleum products)	1208	625	653	+4.5	-45.9	574	799
Dirty (crude oil)	1306	927	868	-6.4	-33.5	762	927

CHART 6: 1-Y Time Charter (Jan 2024-YTD) (USD/d)

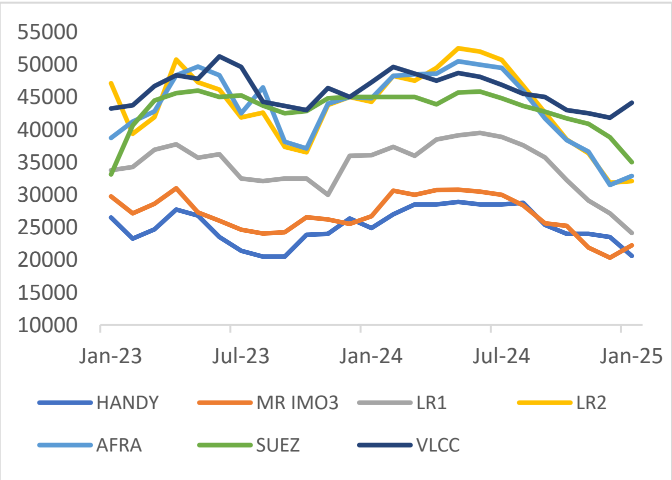
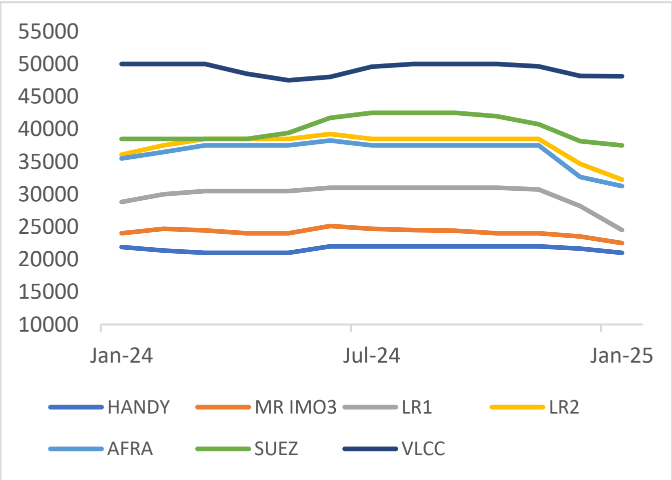


CHART 7: 5-Y Time Charter (Jan 2024-YTD) (USD/d)

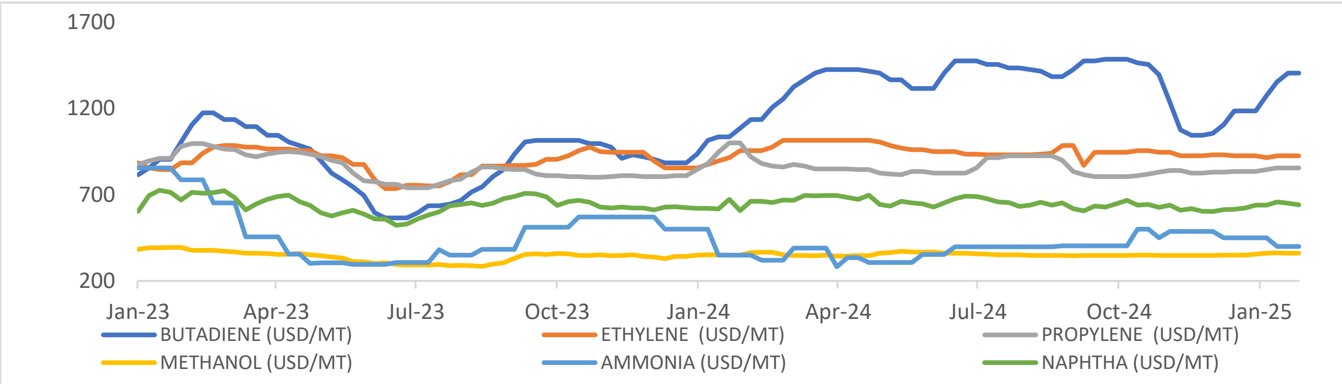


Source: Bloomberg, MIDFR

DOWNSTREAM

Balancing conventional fuel and biofuel. Global refinery activity on crude oil had jumped in Jan CY25, driven by improved margins and completed maintenance activities for most refineries. In our local front, PETRONAS is focusing on enhancing the value of its petroleum products through refining, marketing, and manufacturing of petrochemicals. While we believe the demand for conventional fuel would remain sanguine in the near term, most major downstream players added additional priority for clean energy and biofuels. PETRONAS had outline plans to increase its petrochemical portfolio to include specialty chemicals, while adding a new biorefinery plant to produce sustainable aviation fuel and renewable diesel. These efforts are aligned with the energy transition plans under the National Energy Transition Roadmap (NETR) in shifting energy into a zero net carbon emission operation. Additionally, there was also an increased focus in decarbonization coming into CY25, via integrating renewable energy sources into downstream operations, such as solar, biomass and wind energy. Moving forward, we expect these green energy initiatives to continue, amid the slow recovery of the petrochemicals and potential changes in policies regarding fuel subsidies.

CHART 8: Petrochemical Feedstock Prices (Jan 2023-YTD)



Source: Bloomberg, MIDFR

MOVING FORWARD

Riding on the upstream trend. Amid the US's anticipated implementation of pro-growth policies in the sector – including deregulations of environmental laws for oil players, expansion of access to federal leases and streamlining permits for wells, pipelines and LNG exports – we expect the oil market would remain optimistic on the conventional fuel production. In tandem with the pro-growth sentiment, PETRONAS had also emphasized its focus on exploration and development of the upstream division up until CY27. Short term downside risks include: (i) strong global growth in oil production from non-OPEC countries (forecasted to increase by 1.8mbpd in CY25), (ii) slower demand growth for oil, and (iii) escalation of ongoing geopolitical tensions and trade wars. We are expecting Brent crude oil price to remain within the USD70-80pb, averaging around USD75pb in Feb CY25.

Clean energy, decarbonization still has cards to play. Renewables and clean fuel as part of decarbonization efforts still play a vital role in the sector. The European Union had been aggressively integrating more renewable energy into its grid – particularly with solar and wind power – in addition to its utilization of conventional oil and gas. AI had also been utilized more to optimize energy and fuel production, while improve efficiency in both conventional and clean energy efficiency. In our local front, we opine that the initiatives to integrate renewables and clean fuel into a commercial level would continue in the near to mid-term. These initiatives are part and parcel of Malaysia's aim to achieve 31% renewable energy in its energy mix by CY35, and 70% by CY50. The rise in the LNG market could also assist in ensuring a smooth energy transition, supporting oil and gas players through LNG infrastructure development and operations, locally and regionally. Note that LNG is considered a transitional fuel that we believe will not only reduce the utilization of carbon-heavy fuel, but also facilitate the shift towards cleaner fuel. Moving forward into Feb CY24, we expect conventional fuel to remain in demand, while clean fuels will continue to improve its relevance in the industry.

MAINTAIN POSITIVE

All in all, we maintain our optimism in the sector, particularly in the upstream division. Despite the anticipation of a volatile crude oil price due to the ongoing geopolitical conflicts and the expected increased productions in North America and Middle East. As highlighted in PETRONAS's Activity Outlook 2025-2027, we believe that Malaysia's OGSE companies would continue to benefit from the new and ongoing upstream activities, as well as decarbonization and clean energy solutions. In the near term, we are expecting the market to remain influenced by the changes in the macroeconomic ecosystem, including Fed interest rates, renewed energy policy in the US and Europe, renewed sanctions on China and Russia, and AI tech wars. At this juncture, we remain cautious on the possible impact of the global economic changes and its impact on the operations of the oil and gas sector, particularly within the ASEAN region and in our local front.

Our **TOP PICK** is **Dialog (BUY, TP:RM2.72).** We favour Dialog for its integrated nature as an oil and gas player. Dialog has been involved in several notable offshore projects, including the Bayan Oil Phase 1 and Phase 2 brownfield modifications, and the D35DP-A facilities modifications. They are currently working on the EPCIC for the Bayan non-associated gas project. The group had also recorded higher profits from higher production in the division. Additionally, Dialog has made significant progress in its sustainability efforts, including the introduction of an Environmental Policy in Sept CY24., which focuses on decarbonization, sustainable and renewable energy, circular economy, and climate risk management. The group also ventured into storage facilities for renewable fuel products with a storage capacity of 24,000cbm with further expansion of an additional 150,000cbm. This is in tandem with both NETR's and PETRONAS's energy transition efforts.

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad 197501002077 (24878-X).

(Bank Pelaburan) (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD 197501002077 (24878-X).

It is for distribution only under such circumstances as may be permitted by applicable law. Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD. The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.
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