Oil and Gas Sector

***Maintain* POSITIVE**

Petronas collaborates with oil states for upstream projects

DEVELOPMENT

- Sabah and Petronas signed HoA for more collaboration in the oil and gas industry, with potentiality of Sabah's SMJ to own 50% of the Samarang PSC auctioned by Petronas.
- Samarang field expected to contribute 26 million stock tank barrels (MMSTB) by CY35, with 51% recovery factor.

OUR VIEW

- **HoA inked.** Sabah State government's wholly owned company SMJ Sdn Bhd (SMJ) and Petronas' subsidiary, Petronas Carigali (PCSB) signed a Heads of Agreement (HoU) to expand their collaboration in the oil and gas industry. SMJ potentially could acquire 50% participation in the Samarang production sharing contract (PSC).
- **Unlocking Sabah's potential.** We believe the HoA marks a strategic collaboration for both SMJ and PCSB to unlock the full potential of Sabah's oil and gas industry, subsequently shared a mutual pursuit for sustainable development and inclusive environment.
- **Old field, new life.** Samarang oil and gas field is located 50km off Sabah's shore. Previously deemed uneconomic in CY17, the recent Samarang Redevelopment Project - Phase 2 EOR increased the additional volume of reserves by 25.5MMSTB by the end of 2035. The recovery factor after the implementation is expected to be more than 51%. Currently the field is producing 36,000 Bboe of both oil and gas, which are delivered to Sabah and Labuan.
- **Other collaborations.** Earlier this year, Petronas Chemicals Group Bhd (PCG) had signed a HoA to welcome SMJ as a partner to Petronas Chemicals Fertiliser Sabah Sdn Bhd (PCFS) as part of its efforts to provide greater revenue sharing. PCSB also signed a letter of understanding with SMJ on the back-in option arrangement involving Block SB409 PSC, giving the Sabah up to 20% participating interest upon completion or discovery.
- **Positive prospects.** We believe the collaboration will provide more benefit to the Sabah state in the long run. As a zone with hydrocarbon-rich bedrocks, Sabah has the high potential to leverage its economic development on the oil and gas industry.
- **Upstream ramp-ups.** With the elevated and stable crude oil prices YTD, we opine that the upstream will remain operational for the year. While rig counts are not expected to rise in the short-to-mid-term, Petronas's auctions of its PSCs had seen positive responses from at least 500 vendors in the last 3 years.
- We maintain our **POSITIVE** stance on Malaysia's oil and gas industry, notably on its upstream subsector.
- For the long term, our top pick is **Dialog (BUY, TP: RM3.28),** considering that the group had recently signed the Baram Junior Cluster Small Field Asset Production Sharing Contract (BJCSF-PSC) with Petronas, for feasibility studies and subsequently the exploration and development of the Baram Field in Sarawak. To date, the Sarawak Basin had produced over 160,000bpd of oil and 4bscf of gas, with an estimated unexplored prospect of 11 Bboe worth of hydrocarbon.

DIALOG's INVESTMENT STATISTICS

Financial year ending 30th June (in RM'm unless otherwise stated)	2021A	2022A	2023F	2024F	2025F
Revenue	1,609.9	2,319.0	3,151.8	3,339.0	3,536.8
EBIT	621.4	590.4	932.3	939.7	961.8
Pretax Profit	595.0	550.3	672.9	685.0	706.7
Profit After Tax	543.1	505.9	610.9	620.5	635.2
PATAMI	**543.1**	**508.0**	**605.9**	**615.5**	**630.2**
EPS (sen)	9.6	8.9	10.7	10.9	11.2
EPS growth (%)	-14.0%	-7.3%	20.3%	1.6%	2.4%
PER (x)	41.2	44.4	30.6	30.1	29.4
Dividend per share (sen)	3.1	3.1	3.8	3.8	3.9
Dividend yield (%)	0.8%	0.8%	1.1%	1.2%	1.2%

Source: Company, MIDFR

DIALOG's SHARE PRICE CHART



Source: Company, Bloomberg, MIDFR

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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