Oil and Gas Sector

***Maintain* POSITIVE**

Price surge expected after 1.2 mbpd supply cuts by OPEC+

DEVELOPMENT

- OPEC+ announced an unexpected voluntary supply cut of a total of 1.16mbpd for May CY23; adding the amount of supply cuts by the group for CY23 to 3.66mbpd.
- The recent supply cut aims to stabilise the oil market and to ensure pre-emptive measures are taken in case of a decline in demand.

OUR VIEW

- **Massive supply cut.** Previous plans not to change production targets by OPEC+ after Russia announced a 500,000bpd output cut for Mar CY23 – caused by the Western sanctions and price cap on its crude oil – was short-lived after announcing a surprise 1.16mbpd cut. A cut was collectively anticipated for the group's June meeting prior to this announcement. In total, CY23 is expected to see around 3.66mbpd supply cut by OPEC, or 3.7% of global demand. The cut will begin in May CY23.
- **For market stability.** The aim of the supply cut is to ensure a stabilised market for crude oil and as a pre-emptive step in the event of a decline in demand in the near-to-mid-term. Saudi will be cutting the most by 500,000bpd, followed by Iraq (211,00bpd), UAE (144,00bpd), Kuwait (128,00bpd) and Kazakhstan (78,000bpd). Russia, however, will continue to sell its entire volume of oil produced, barring sales to nations and companies that directly or indirectly adhere to the price cap.
- **Tight supply continues.** The US had argued that further supply cut is not advisable given the uncertainty in the global market, and considering that supported prices will not support economic growth while adding to the Russia-Ukraine war. However, it was to be noted that this round of supply cuts is voluntary, as many OPEC+ countries are facing divestments, consequently lacking capacity for their production. Additionally, crude oil supply is expected to remain tight with the continuous Russian sanctions, slow inventories in the US, and uncertainty in demand from Europe and China.
- **Positive upstream prospects.** As of writing, Brent crude oil had added about +7% to USD86pb, consequent to the supply cut announcement. While the higher oil prices will be a possible headwind for the midstream's refineries and the downstream in relation to sales of refined products, it bodes well for the upstream in terms of exploration and production activities. In consideration that Malaysia has over 1,300 OGSE companies, we believe the upstream will be a major beneficiary to the increase in crude oil price in the near term.
- **All in all,** we opine that this announcement is fair to ensure a more stabilised oil price, which subsequently will continuously support the recovery of underinvested upstream operations. However, downside risks remain to be: (i) rapid increase in US oil production, (ii) decrease in crude oil demand from China, and (iii) inflationary pressures from hiking interest rates.
- Upon this news, our **TOP PICK** is **Dialog (BUY, TP:RM3.28).** Our target price equates PER of 30.6x pegged to EPS23 of 10.7sen. We like Dialog for its integrated approach to its operations, and with its E&P ventures and expertise in providing technical services to the upstream, hence we believe an elevated crude oil price will support its upstream-related operations.

DIALOG GROUP'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 GROUP'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