Oil and Gas Sector

***Maintain* POSITIVE**

Limelight continues to reside with the upstream and midstream segments

DEVELOPMENT

- Petronas announced 1QFY23 report card with profit of RM24b, a slight improvement of +2%yoy
- It remains a cautious outlook for the rest of the year in view of economic uncertainty and volatility in the oil and gas markets
- 1QFY23 capex increased strongly by +44%yoy to RM10.5b focusing on its East Malaysia projects

OUR VIEW

Keeping our optimism in the sector. We are keeping our POSITIVE stance on the sector in conjunction with the release of Petronas' 1QFY23 report card. We continue to favour the upstream and midstream segments with **MISC Bhd (BUY, TP: RM8.16)** and **Petronas Gas Bhd (BUY, TP:RM18.43)** as our top pick respectively. The decrease in Covid-19 severity led to recovery in demand, especially for the upstream and midstream segments.

Marginal increase in 1QFY23 profit. Petroliam Nasional Bhd (Petronas) reported 1QFY23 PAT of RM23.8b, a small increase of +2%yoy. This was supported by a +16%yoy increase in turnover to RM90.4b. The improvement in sales volumes and favourable impact from foreign exchange was partially offset by lower average realized prices from major products.

Higher output locally and abroad. Petronas recorded a total daily production average of 2.49mboe for 1QFY23 as compared to 2.46mboe a year ago. This was attributed to higher output of natural gas production in our local shores as well as higher crude oil production in international operations. Additionally, its gas division reported higher overall equipment effectiveness (OOE) at 97%, and 109 LNG cargoes had been delivered in 1QFY23. The gas division had completed 2.25mscfpd of average gas sales in Malaysia. For its downstream, OEE was at 89%, with sales up +8.6%yoy at 6.3bL of petroleum products.

Capex remains in expansionary mode. There were an increase in domestic capex to RM10.5b (+44%yoy) from RM7.4b in 1QFY22. PETRONAS's 1QFY23 capex was concentrated mostly on its nearshore floating LNG projects in Sabah and the Kasawari gas field project in Sarawak.

Pointing towards recovery in demand. Despite marginal increase in PAT for 1QFY23, operations and productions for PETRONAS remain steadfast on our local shores in tandem with the: (i) recovery of the labour market, (ii) recovery of the manufacturing industry and (iii) increased consumer spending on oil and gas products.

Upstream and midstream expected to remain strong. We expect the upstream and midstream would remain robust, in the consideration that most of contracts had been signed and agreed upon until the coming years. The downside risks remain to be contractual risks and unforeseen maintenance or shutdown season.

Meanwhile, downstream posed a short-term risk of an imbalance in the supply-demand, although locally, demand for petroleum products had been increasing since the complete end of lockdowns from Covid-19 and the return of travelers and laborers.

INVESTMENT STATISTICS – MISC BHD

Income Statement	2021E	2022F	2023F	2024F	2025F
Revenue	10,671.7	13,867.0	14,701.1	15,722.5	16,936.4
Cost of Sales	(8,054.2)	(10,159.8)	(10,584.8)	(11,477.4)	(12,363.6)
Gross Profit	2,617.5	3,707.2	4,116.3	4,245.1	4,572.8
Net Operating Expenses	(669.1)	(605.2)	(735.1)	(786.1)	(846.8)
Operating Profit	1,948.4	3,102.0	3,381.3	3,458.9	3,726.0
Net one off gains/(losses)	243.6	(576.5)	(500.0)	(300.0)	0.0
Finance costs	(417.3)	(651.2)	(600.0)	(500.0)	(400.0)
Profit/(Loss) before tax	1,774.7	1,874.3	2,281.3	2,658.9	3,326.0
Taxation	(41.1)	(39.3)	(22.8)	(26.6)	(33.3)
PAT	1,733.6	1,835.0	2,258.5	2,632.4	3,292.7
PATAMI	1,831.3	1,835.0	2,258.5	2,632.4	3,292.7
Core Earnings	1,888.4	1,835.0	2,258.5	2,632.4	3,292.7
EPS	0.41	0.41	0.51	0.59	0.74
Dividends Yield	1.8%	4.6%	4.3%	5.1%	6.3%

Source: Company, MIDFR

MISC BHD'S SHARE PRICE CHART



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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