Oil and Gas Sector

***Maintain* POSITIVE**

PETRONAS positive on sector but sees headwinds in FY24

DEVELOPMENT

- Petroliam Nasional (PETRONAS)'s FY23 net profit fell -21%yoy to RM80.7b due to lower average realised prices, following a drop in Brent crude oil price in CY23 (-15%yoy), while revenue dropped -8%yoy to RM343.6b.
- CY24 dividend payout of RM32b – a drop of -20% from CY23 – will be distributed to the government.
- FY23 capex stood at RM52.8b – up by +5%yoy – mainly due to robust upstream and gas projects.

OUR VIEW

- **Financial management a primary focus.** Amidst the volatile oil market and the uncertainties in the macroeconomic climate, PETRONAS maintains in commitment to sustain diligent financial management. We believe this is apt given the current shift in supply and demand in the oil market, consequent to the geopolitical turmoil in the Middle East, Europe and East Asia.
- **Clean energy and energy transition a way forward.** The group also continues to intensify efforts to reduce emissions and seek cleaner energy solutions. PETRONAS has formulated a comprehensive strategy for energy transition to pursue a balanced approach by providing emissions-abated solutions while establishing the groundwork for a new energy system. This is in line with the nation's move to transition into cleaner energy via NETR and NIMP 2030, which we believe is the next step for the oil and gas sector to adhere to following its sustainability goals and zero-carbon emission targets by 2050.
- All in all, we expect that PETRONAS may see headwinds, considering that the oil and gas sector faced a fragility in the end of FY23, following the geopolitical tensions and the lower Brent crude and Henry Hub natural gas prices. This had instilled caution in spending and investing for crude petroleum and petroleum products, as well as downstream services. Additionally, the uncertainties remained on slower global demand on top of supply risks, following the increased geopolitical tensions in the Middle East, Europe and potentially East Asia. However, we believe that, pending a drastic change in the current Brent crude oil price (currently hovering between USD80-85pb), the oil and gas sector would see a recovery in late 2HCY24, on the increase in demand for petroleum products, notably petrochemicals.
- At this juncture, we maintain our **POSITIVE** stance on Malaysia's oil and gas industry, notably on its upstream subsector, as well as its midstream in terms of storage farms.
- In PETRONAS's environment, our top pick is **Petronas Gas (BUY, TP: RM19.37)**. In the energy sector, our top pick is **Dialog (BUY, TP: RM2.42)**, considering that the group has the leverage for its upstream from the Baram Junior Cluster Small Field Asset Production Sharing Contract (BJCSF-PSC) with PETRONAS in the Sarawak Basin. Additionally, we opine that given the current geopolitical turmoil in the Red Sea, tankers would favour onshore storage to mitigate operation losses via higher charter rates. Being an integrated oil and gas company with diversification on every division within the sector, including sustainable and green energy, Dialog is at an advantage among its Energy Services peers, more so if PETRONAS boosted its capex above RM50b in CY24 in line with its lower dividend payment.

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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