OIL AND GAS

Maintain POSITIVE

Upstream and Midstream Defying the Odds

HIGHLIGHTS

- **4QCY24 saw average pricing of Brent crude oil down -by 11%yoy while CY24 ended with average Brent at USD80pb. However, Henry Hub natural gas gained +34%yoy in 4QCY24, with average CY24 at USD2.4pMMBtu**
- **KLEN gained +1%yoy in tandem with unpredictable oil and gas market, amid lower oil and gas prices and ongoing geopolitical tensions and US presidency election**
- **Upstream is expected to be sanguine globally in line with increased production while midstream remain stable due to higher demand for LNG, storage charter rates and storage solutions. Meanwhile, downstream demand maintains stable for fuel, although petrochemicals' recovery remain uncertain.**

SECTOR RECAP

Crude oil down -11%yoy. Average Brent crude oil for 4QCY24 slipped -10.9%yoy to an average of USD74pb. Overall for CY24, Brent crude oil dropped -2.7%yoy to a yearly average of USD79.89pb. The decline was due to: (i) increased global oil production, (ii) slower economic growth in China influencing slower demand growth, and (iii) ongoing geopolitical tensions in the Middle East providing short-lived spikes.

Natural gas up +34%yoy. Conversely, Henry Hub natural gas gained in 4QCY24, by +33.6%yoy to a monthly average of USD2.58pMMBtu, but lower by -4.4%yoy from CY23 average to USD2.43pMMBtu. The improved quarter was due to a colder winter and tighter supply conditions, offset by stronger US natural gas supply and constraints on demand, as well as geopolitical tensions between Russia and Europe, following the expiration of the gas transit agreement, which increased US production of gas.

KL Energy Index (KLEN) flattish. In line with the volatile crude oil and natural gas prices, the KLEN index's CY24 saw marginal gain, by +0.6% from CY23. This was caused by fluctuations of energy stocks traded throughout the year, wherein the index had maintained a peak of nearly +17% until the end of 3QCY24. In 4QCY24, energy stocks had erased most of the gains due to the lower Brent prices.

Brent traded in short flares. Brent was trading at a narrow range in 4QCY24, attributed by geopolitical tensions and economic concerns amid worries of lower consumption growth. However, the prices spiked momentarily from these influences, which caused Brent to trade with a marginal decrease in CY24 as compared to CY23 average. The strong global growth in oil production, notably in the US and certain OPEC+ countries, and slower demand growth from China, placed a downward pressure on both Brent and Henry Hub prices. Nonetheless, OPEC+'s continuous supply cuts continue to provide support.

COMPANY IN FOCUS

MISC Bhd

Maintain BUY | Target Price: RM8.95

Price @ 9 January 2025: RM7.15

- Resilient earnings due to robust tanker rates
- Long-term contractual stability
- Diverse fleet with sustainable solutions for newbuilds

Share price chart



Bumi Armada Bhd

Maintain BUY | Target price: RM0.88

Price @ 9 January 2025: RM0.66

- Global presence in FPSO market
- Diverse and sustainable FPSO solutions
- Growth potential with Akia PSC and merger with MISC's offshore unit

Share price chart



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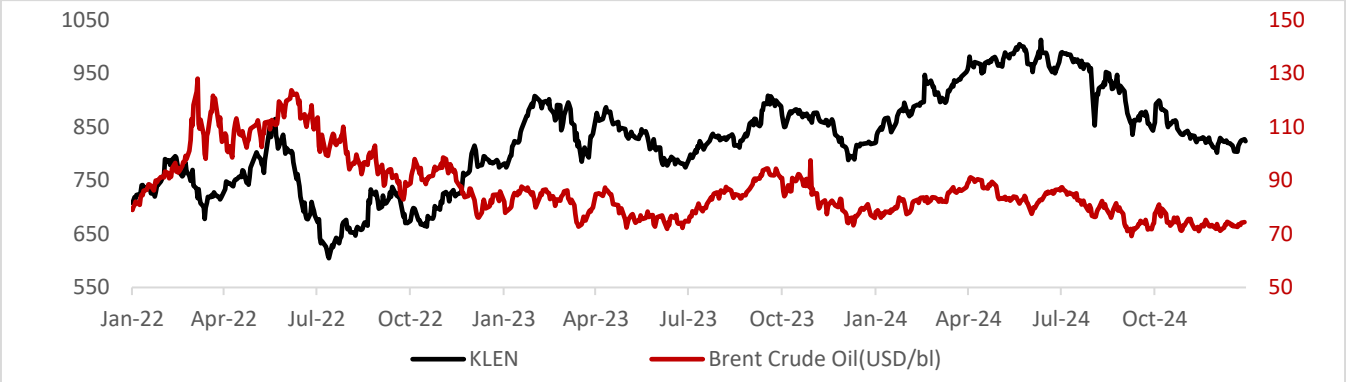
Strength in upstream from high global capex. Despite the volatile oil market, CY24 saw a renewed interest in US shale production, albeit at a slower pace, following the development of advanced rig efficiency and drilling techniques. This sentiment had triggered a worldwide increase in production of oil and gas, including a few OPEC+ countries that surpassed their intended output target in CY24. Global upstream investment had also surpassed USD600b in CY24, driven by the need to replenish reserves and inventory. Latin America has been the largest source of capex growth (20%), with significant investments in Brazil, Guyana, and Mexico, followed by North America (18%) and the Middle East (15%). Most of the capex has been used to invest in digital technologies to enhance exploration and production, as well as to reduce carbon footprint in adherence to ESG policies. However, overall upstream players had delivered mixed results up until 3QFY24, with an average gain of only +1.5%, due to fluctuating commodity prices and investor sentiments on the oil market throughout the year.

Midstream benefiting from M&A, newbuilds. The midstream sector had seen a surprise uptick in CY24, boosted by mergers and acquisitions as part of the midstream players' integration to control more of the value chain and improve profitability. Midstream companies had led the global energy sector with an average total return of +21% in CY24, driven by the strong fundamentals of a stable charter rate, increased gas transportation and higher demand for storage. Additionally, CY24 saw near-record levels of tanker contracting, with over 60mDWT ordered. The demand for larger crude oil tankers has been particularly strong; driven by increasing crude oil exports, especially from North America and Middle East to Asia. In 4QCY24, QatarEnergy concluded a historic multi-year shipbuilding program, committing to the newbuilds of 128 LNG carriers. This is a testament to the optimistic outlook on LNG in the long term, consequently giving the sector a leverage on natural gas amid expected lower average of Brent crude oil price in CY25.

CHART 1: Brent Crude Price v Bursa Energy Index (2022-2024)



KLEI\Date	Closed 29-Dec-23	Closed 31-Oct-24	Closed 31-Dec -24	QoQ%	YoY%
Index Points	817.7	835.2	822.9	-1.5	+1.0

Source: Bloomberg, MIDFR

TABLE 1: KLEN Gainers and Laggards (4QCY24)

Gainers	Points	Move%	Laggards	Points	Move%
Bumi Armada	+24.06	+102.7	Dialog Group	-32.33	-138.1
Hengyuan Refining	+0.76	+3.3	Velesto Energy	-7.66	-32.7
T7 Global	+0.56	+2.4	Dayang Enterprise Holdings	-4.54	-19.4
Reservoir Link	+0.37	+1.6	MMHE	-2.07	-8.8
Petral Energy	+0.25	+1.1	Coastal Contracts	-1.92	-8.2

Source: Bloomberg, MIDFR

UPSTREAM

PSCs uplifted the upstream amid declining Brent prices. The interest in the upstream division had seen a steady increase in 4QCY24. Foreign companies - notably companies like Shell and PTTEP – are committed to invest in the exploration and production (E&P) activities in the region. This is in tandem with the new discoveries in the Malay Basin, Suriname Offshore Block 52 and Sarawak Basin, totalling to over 20 discoveries with more than 1 Bbboe of new resources. These discoveries are crucial to Malaysia's goal of producing 2 Mbboepd of resources from CY25. As of 4QCY24, four Production Sharing Contracts (PSCs) had been awarded by Petronas Carigali, covering 9 discovered fields which are mostly recorded in Sabah. We believe this is a signal of the upstream division continued resilience amid the lower Brent crude oil price. We also opine that this is part and parcel of Malaysia's ongoing initiatives to focus on long-term energy security and environmental sustainability, given the developments for: (i) deepwater exploration and drilling, (ii) enhanced oil recovery (EOR) of mature fields, and (iii) implementation of carbon capture and storage (CCS) technologies for producing fields. Nevertheless, the downside risks to the upstream remain to be: (i) the execution of the upstream projects in the long run, (ii) uncertainties in the global economy and upstream policies, and (iii) prolonged geopolitical risks, subsequently impacting material prices.

CHART 2: Crude Oil Prices vs Natural Gas Prices (2022-2024)

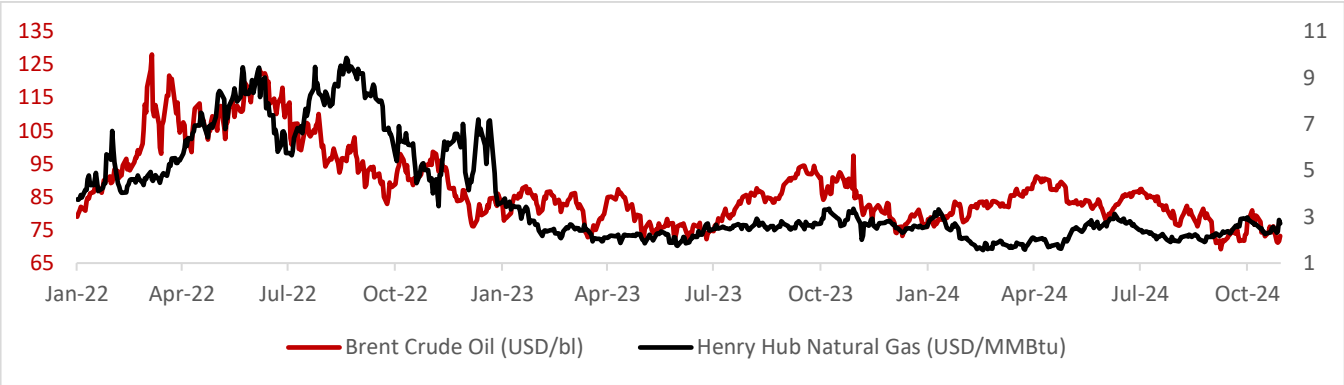


CHART 3: Brent v WTI Crude Oil Prices (2024) (USDpb)

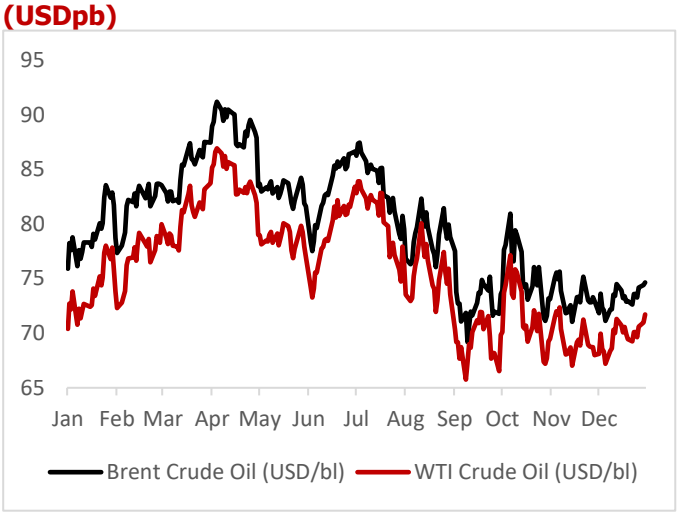
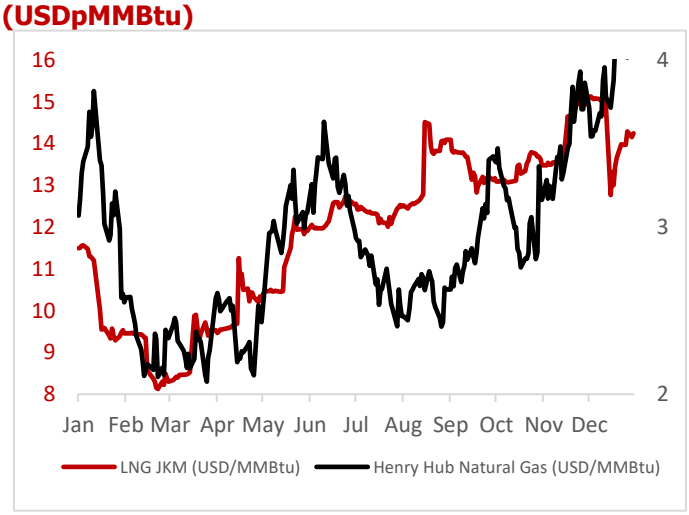


CHART 4: Natural Gas v LNG JKM Prices (2024) (USDpMMBtu)



Commodity\Date	4Q23	3Q24	4Q24	QoQ%	YoY%	Min 4Q24	Max 4Q24
Average Brent (USD/b)	83.03	78.70	74.00	-6.0	-10.9	71.04	80.93
Average Henry Hub (USD/MMBtu)	2.75	2.23	2.98	+8.4	+33.6	2.26	3.95

Source: Bloomberg, MIDFR

MIDSTREAM

LNG demand strengthening midstream division. The tanker market has an overall robust performance in 4QCY24, due to: (i) higher freight rates bolstered by increased refinery runs, (ii) increased ton-mile demand from ongoing tensions in the Red Sea and Suez Canal, and (iii) increased investments in newbuilds, notably in larger oil tanker vessels. Despite the volatile crude oil and natural gas prices, global demand for these commodities remained relatively high, consequently impacting better short- and long-term charters in CY24. All charters had seen higher average rates, with Handymax dominating the short-term charter market at +11%yoy, while Suezmax saw an increase in long-term charter by +6%yoy. In Malaysia, the midstream division saw an increase in LNG projects, with major highlights on the Rosmari-Marjoram gas project, which will feed the Bintulu LNG export plant, and the development of Sabah's first near-shore floating LNG facility. LNG dominated the local midstream market due to increasing demand for natural gas locally and regionally. This trend is driven by efforts to reduce carbon emissions and the growing consumption of natural gas in various end-user, notably utilities and industrial sectors. We expect these trends to remain in the near future, with downside risks on: (i) volatile raw material prices, (ii) ongoing sea route blockades, (iii) fluctuations of oil and gas prices, and (iv) crude petroleum and petroleum products demand uncertainties.

CHART 5: Baltic Tanker Index (2022 – 2024)

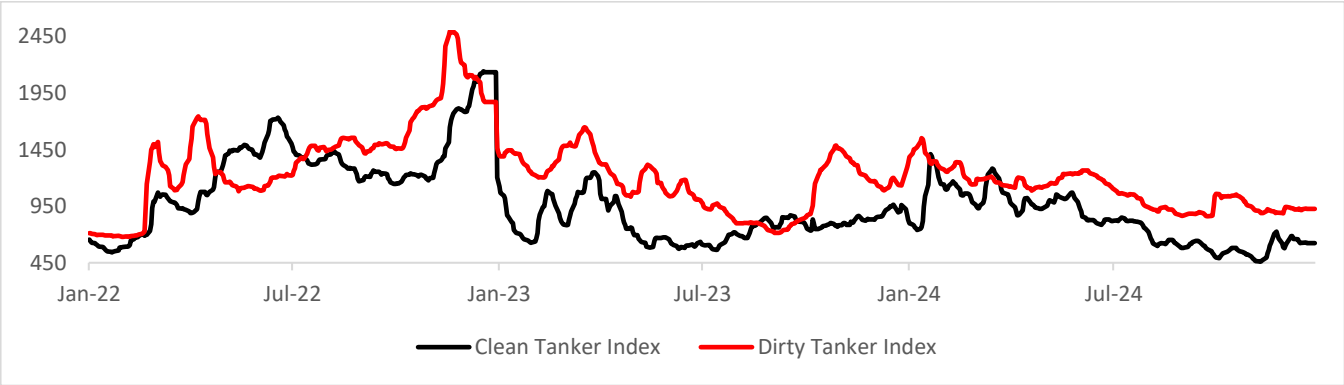


CHART 6: 1Y Time Charter (2022-2024) (USD/d)

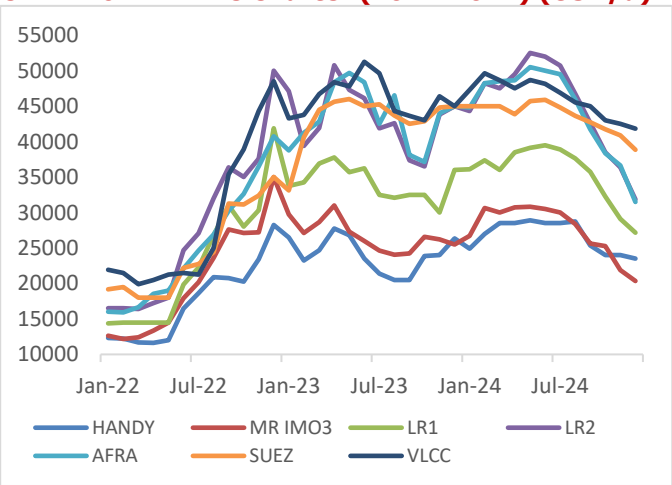
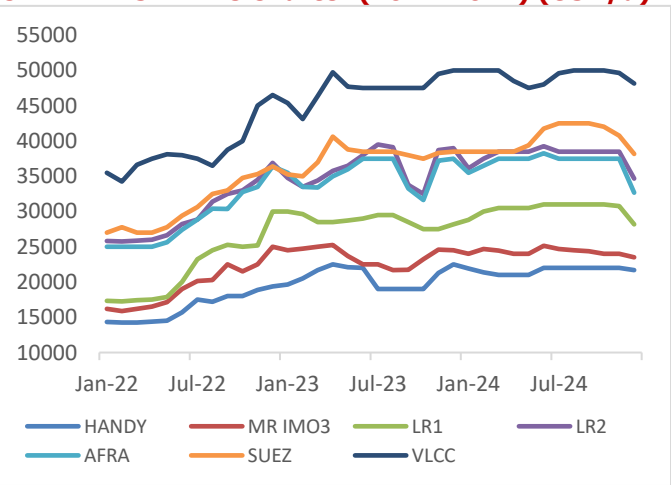


CHART 7: 5Y Time Charter (2022-2024) (USD/d)



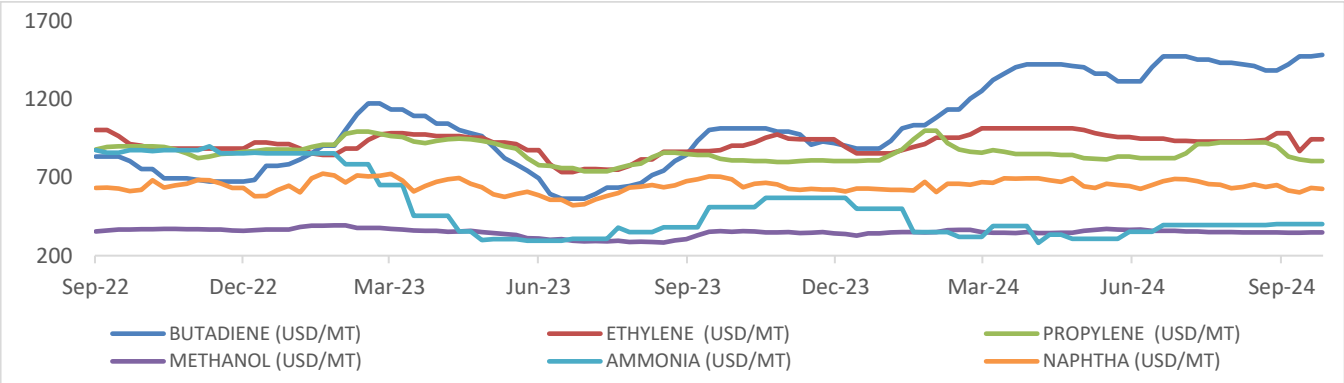
Baltic Tanker Index\Date	Closed 29-Dec-23	Closed 30-Sep-24	Closed 31-Dec-24	QoQ%	YoY%	Min 4Q24	Max 4Q24
Clean (petroleum products)	960	554	625	+12.8	-34.9	460	725
Dirty (crude oil)	1,134	863	927	+7.4	-18.3	867	1,060

Source: Bloomberg, Macrobond, MIDFR

DOWNSTREAM

Petrochemicals' recovery continues its delay. In line with PETRONAS' Activity Outlook for 2024-2026, the focus for the downstream division is to align its refining activities with demand patterns and decarbonisation initiatives. CY24 saw the local downstream players increasing their activities in decarbonisation projects, including EV solutions, green fuel initiatives and specialty chemical production. Travelling frequency had also increased in CY24, prompting higher demand for Mogas, Diesel and Jet A1 fuels, despite the Diesel targeted subsidy implemented in the mid-year as well as the anticipation of an upcoming targeted subsidy for RON95. However, uncertainties remain on two major catalysts – the ongoing discussions on Petroleum Sarawak (PETROS) takeover and its impact on other downstream players in the state, and the delayed petrochemical subsector recovery following volatile feedstock prices and supply-demand imbalance for petrochemical products. We expect the latter to be partially mitigated by the expected higher demand for fertilisers following a wetter climate in CY25, though oversupply of feedstocks against a weak demand, and higher competition with Chinese producers remain its downside risks.

CHART 8: Petrochemical Feedstock Prices (2022 – 2024) (USD/MT)



Source: Bloomberg, Macrobond, MIDFR

MOVING FORWARD

Resilient upstream expected. With the upstream and midstream divisions' performance in CY24, we expect that the resilience will remain in CY25, amid persistent geopolitical tensions in Eastern Europe and the Middle East. However, we also anticipated that the Brent crude oil price would be pressured by higher production following US president-elect Donald Trump's interest in increasing US oil production. Consequently, we expect Brent crude oil prices to range between USD76 and USD80 per barrel—lower than the average forecast for CY24 but within a manageable range for most oil and gas players across various sectors. Locally, upstream operations are expected to proceed as planned, aligned with the contractual commitments of their respective projects. In CY25, we anticipate a rise in regional rig counts, spurred by the oil and gas discoveries under PSCs since CY23. More growth project announcements are anticipated, particularly related to natural gas, driven by strong demand for exports, power generation and energy transition.

Midstream continues to ride on LNG demand. Additionally, the marine transportation segment presents opportunities to support CCS and hydrogen fuel projects by incorporating technologies for liquid carbon dioxide (LCO2) and hydrogen carriers (H2C). Demand for LNG is expected to remain strong, driving the need for expanded LNG terminal capacity and supporting elevated charter rates for carrier fleets. However, challenges such as higher raw material costs for retrofits, construction, and maintenance could pose risks. Meanwhile, pipelines and storage farms are likely to remain robust, bolstered by crude oil prices stabilizing at levels favourable for the transport, restocking, and storage of crude petroleum and related products. Overall, we anticipate that natural gas prices will remain elevated at the USD3pMMBtu to USD4pMMBtu on average in CY25, higher than the average of USD2.43pMMBtu in CY24.

Uncertainties remain in downstream. Amid the expected lower crude oil prices and the uncertainties in demand, we anticipate that downstream players would focus more on maintaining production efficiency and integrating advanced technology to mitigate financial risks and balance the adherence to decarbonisation efforts. Moving forward, we anticipate that the uncertainties within the refinery industry – particularly in petrochemical production – will remain in the early portion of CY25. Additionally, following the US elections in CY24, we expect the downstream sector to be impacted by not only the promise to increase refined petroleum products in the global market, but also to limit policies on certain green energy initiatives. Nevertheless, in our local front, the downstream division is expected to maintain robust operations, with natural gas likely to take a more prominent role compared to crude oil in CY25. LNG prices are anticipated to rise, aligning with the projected moderation in crude oil prices, driven by the ongoing shift towards cleaner fuels and the recovery of the petrochemical subsector.

Petrochemical still awaiting recovery. The global petrochemicals market is projected to grow significantly, with the market size reaching USD645b in CY24 and expected to reach USD970b by CY33. This growth is driven by increasing demand in other sectors like industrials, automotive, construction, pharmaceuticals and manufacturing. Since CY23, the subsector had been navigating volatile feedstock prices, drastic supply-demand imbalance and stringent environmental regulations. Coming into CY25, we expect the demand for sustainable production methods, including the adoption of green feedstocks and chemical recycling, will be higher, hence giving the leverage for petrochemical players to diverse its portfolio into specialty chemicals. Nonetheless, we remain cautious on petrochemical subsector's recovery. While we believe it is imminent, the pacing and conditions may still impact the performance of the downstream division in the near future.

RECOMMENDATION

Maintain POSITIVE with caution. We maintain our **POSITIVE** stance in the O&G sector, with emphasis on the upstream and mistream divisions. Although we forecasted Brent to be lower than CY24's average, we believe the prices will continue to be relatively stable in CY25, supported by the ongoing geopolitical tensions, US production policies and OPEC+ supply cuts. We remain highly optimistic about the upstream division, as its contractual work model provides operational stability. This optimism is further supported by PETRONAS's relatively elevated capex for its upstream division, despite talks of a capex reduction influenced by lower oil prices and domestic disputes on a governmental level. Similarly, we maintain a positive outlook for the midstream segment, particularly for ship tankers and storage farms, driven by stable and elevated charter rates across most vessel sizes for short- and long-term. As for the downstream segment, our stance remains neutral overall. However, we continue to foresee recovery in the petrochemical sector alongside increasing demand for biofuels and renewable energy sources, contributing to a gradual positive shift in this division.

All things considered, our main **TOP PICK** for the Oil & Gas sector is **MISC Bhd (BUY, TP:RM8.95)**

We like MISC, due to its strong position in the maritime industry, particularly in the charter of oil tankers, FPSO newbuilds and other offshore services. The group's diverse fleet as well as global presence further enhances its appeal. Additionally, MISC's commitment to sustainable maritime solutions and carbon initiatives, such as LCO2 and CCS, underscores its efforts to improve its ESG scores in the long run. Coming into CY25, we anticipate growing demand for FPSOs and tankers, driven by the expansion of upstream and midstream activities, supported by regional and local demand for petroleum products. However, key downside risks include: (i) uncertainties from ongoing geopolitical conflicts, (ii) potential economic volatility affecting raw material prices, (iii) drastic changes in charter rates, and (iv) higher competition from other vessel operators following growing demand for oil and gas transportation.

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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