Oil & Gas

Positive (Maintain)

Dissecting Trump's Energy Policy

HIGHLIGHTS

- Newly elected US President Donald Trump had come up with executive orders, aiming to address the US's energy issues including slower oil production and high energy prices. These orders prioritized the increased exploration and production of conventional fossil fuels, the increased tariffs on trade, and the deregulation of climate and environmental policies.
- Short-term oil price volatility expected, although OPEC+, geopolitical tensions and monetary policy will continue to keep the prices in rangebound, but unsustainable above USD80pb in the long run
- Selective green energy solutions may still be spared, as long as there are high productivity and contribution towards energy security.
- Malaysia is expected to receive minimal impact from this preliminary announcement of Trump's new Energy Policy.

DEVELOPMENT

Prioritising oil production. Recently elected US President Donald Trump had declared a "national energy emergency" prior to his inauguration into office. The order was invoked under the National Emergencies Act, which would enable the Trump administration to jumpstart energy production, including rapid leasing, siting and permitting. The key focus to this declaration includes the prioritisation of boosting US fossil fuel production and setting the US as the biggest energy producer in the near future. This initiative included reopening parts of Alaska for exploration. As of writing, the US produces 13.5bbpd of oil (+4.5% from CY24 average).

Reversal of environmental regulations. In tandem with the call for more oil drillings, Trump aimed to reverse many climate policies, renewable energy incentives and EV purchasing implemented by the previous administration, as well as pausing the disbursement of funds on these subsectors. Following the promise, executive orders aiming at halting new wind energy projects onshore and offshore were issued, along with significant rollbacks on environmental protections, subsequently facilitating higher energy production. Additionally, an executive order was signed directing the Environmental Protection Agency (EPA) to revisit its 2009 findings on the hazard of climate change. These orders would not only delay and hamper new green energy projects in the US as well as the service providers involved, but also overturn the definition of pollutants and GHG emissions in the long run.

Tariffs and trade policies emphasised. President Trump, during his inauguration event, had announced that his administration intends to impose across-the-board 25% tariffs on all products from Mexico and Canada. To note, Canada supplied nearly 60% of US crude oil imports while Mexico contributed around 11%, making the two nations one of the US's primary suppliers. Implementation of a similar tariff to crude oil imports could raise the cost of crude in the long run.

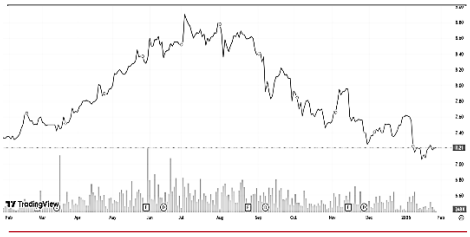
COMPANY *IN FOCUS*

MISC Bhd

Maintain BUY | Target Price: RM8.95
Price @ 27 January 2025: RM7.21

- Resilient performance in upstream and midstream
- Long-term contractual stability for its charter ships, newbuilds
- High potentiality in FPSO merger with Bumi Armada

SHARE PRICE CHART

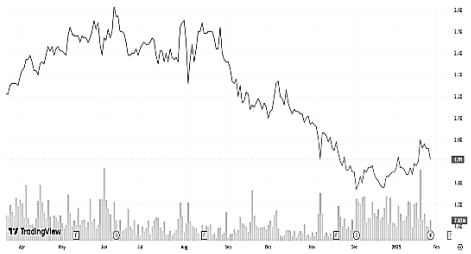


Dialog Group Bhd

Maintain BUY | Target Price: RM2.72
Price @ 27 January 2025: RM1.91

- Strong 3QFY24 performance due to integrated operations
- 10% shareholder's equity return
- Strategic investments in upstream assets and renewable products

SHARE PRICE CHART



OUR VIEW

Oil price short-term volatility expected. In the scenario that US production is to increase, similarly during Trump's first presidency (approx. +7% higher than during Obama's administration), crude oil prices could decline due to greater oil supply, potentially lower energy prices in the US. By reducing regulations, we expect that major oil players could lower their operational costs, consequently boosting profitability and economic growth. The higher US production would also reduce the US's reliance on foreign oil, notably from Canada, while enhancing its own energy security. Despite the lower crude prices, we opine that two major factors could control Brent crude into a rangebound of USD70-80pb: the US Federal Reserves' monetary policy and OPEC+ ongoing supply cuts. Geopolitical tensions in the Middle East and Eastern Europe – while still crucial – had a smaller impact on the movement of oil prices, particularly when the recent announcement of a Russian oil sanction had failed to keep the prices above USD80pb for long.

But green energy may be spared. Energy and climate diplomacy is considered labour-intensive and often requires a hefty and sustainable workforce and funding support. However, with potential productivity from the green initiatives across the world, we believe that Trump's deregulations and changes in the previous' administration's efforts for energy transition would not stop. Demand for low/zero-carbon energy will continue to grow due to competitive costs, corporate demand for clean power, state-level climate regulations, and the ongoing clean energy incentives. Even during Trump's first presidency, the US green energy subsector had seen a gradual rise in revenue and profits, making the feasibility of green energy to remain sanguine, disregarding the volatility of the oil prices. We opine that Trump's administration may also double down on certain feasible low-carbon technologies, including geothermal, carbon capture, and nuclear. Nevertheless, the question remains on how smooth the transition will be under the absence of an overarching climate policy framework ahead of the reversal on climate policies.

CHART 1: US Oil Production (bbl/d)

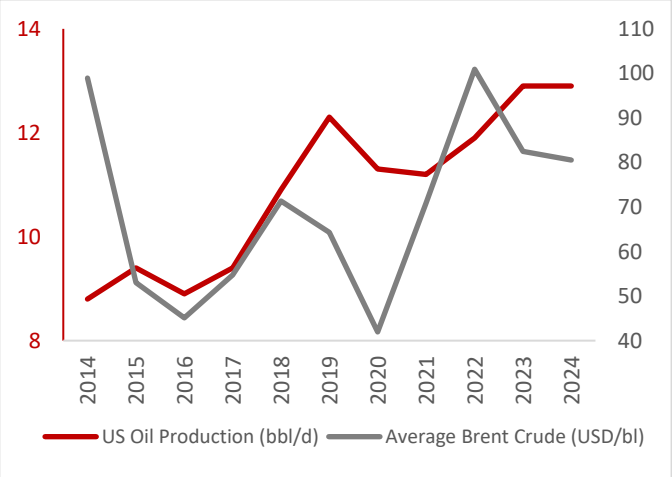


CHART 2: US Rig Count

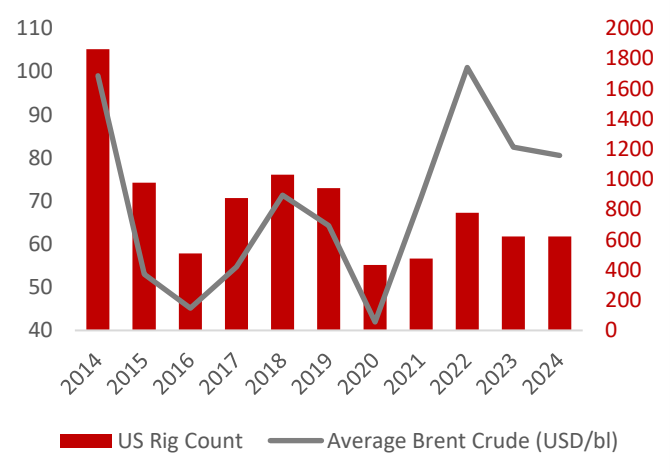


CHART 3: US Green Energy Revenue (USD b)

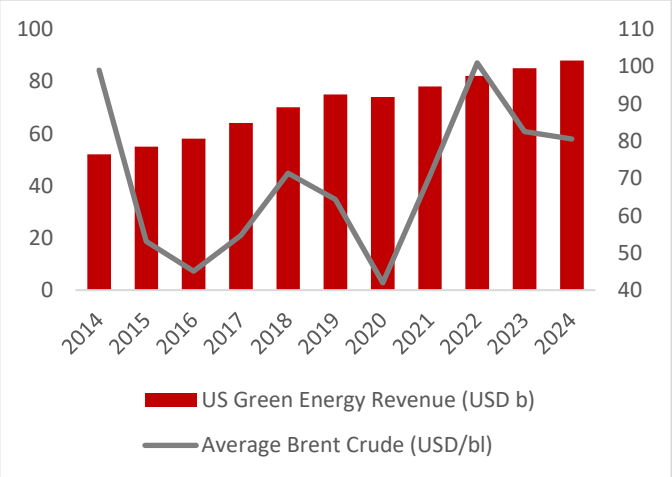
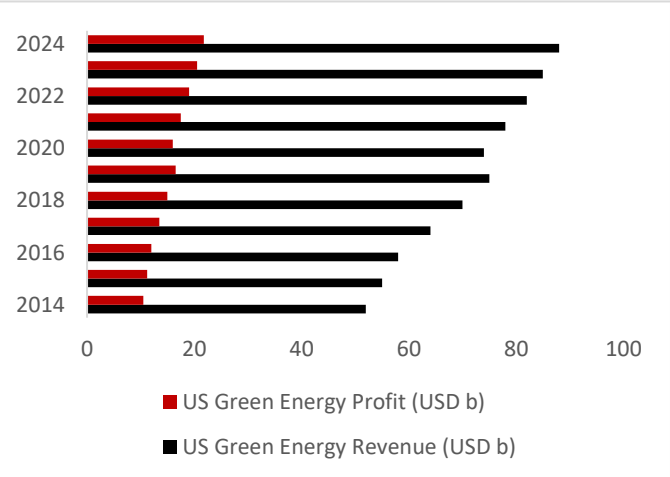


CHART 4: US Green Energy (USD b)



Source: EIA, Bloomberg, MIDFR

MOVING FORWARD

The 100 Days wait. At this juncture, it is still too early to assume that President Trump's framework for the US Energy Policy would have a large, lasting impact on the sector, other than the executive orders to: (i) revise and reversal of climate policies, (ii) increase US oil production, and (iii) add trade tariffs that may extend to heavy crude oil. The orders are exclusive to the US, and while increased US production could cause imbalance in the supply-demand of oil globally, note that, during Trump's similar policy on US oil production between CY17-20, Brent average price movement was subdued to a slower growth but not entirely declining. This is a testament that OPEC+ still has a say in keeping the prices in a rangebound. Similarly, the energy deregulation agenda is only anticipated to upend Biden's GHG policies, but maintains the commitment in feasible green solutions, including green LNG, nuclear, hydrogen and carbon capture. Climate discussions also remain on a negotiation level, amid the expectation that the US would abandon the Paris Agreement in the near term.

Business as usual for our local front. For our local players, we opine that the key drivers would be on the oil price movement. We reiterate our positive view for the upstream, in light of 20 hydrocarbon discoveries by PETRONAS since CY23, which we believe could secure Malaysia's energy security in the long run. No local oil and gas players are involved directly with US oil production, and considering that Malaysia boasted over 1,800 OGSE companies, we expect that Malaysia's upstream division would be more focused in SE Asia and the Middle East. Echoing the Prime Minister's speech during the World Economic Forum in Davos recently, Malaysia will remain attentive towards AI technology and energy transition, as part of the shared economy and trade investments within the SE Asian region. Despite Trump's drastic changes to the US's energy environment, ultimately, we believe that the impact of the changes would be minimal to our local oil and gas, as well as renewable energy players.

MAINTAIN POSITIVE

Weighing the good and the bad. All in all, we maintain our optimism on the sector, despite the possibility of a volatile crude oil prices due to overproduction. We believe that, once the renewed US energy policy is fully implemented, Malaysian OGSE companies could take advantage on the increased demand for exploration solutions and fuel transportation. The deregulation could also open new investment opportunities for Malaysia to penetrate the North American energy sector, consequently increasing the potential for collaboration and trade. However, uncertainties remain on: (i) the long-term impact of the increasing US oil production (note the rapid drop in crude oil prices in CY14-15 by -46%yoy during the peak of the Shale Oil Boom in the US), (ii) the environmental impact of unregulated exploration and lower reliance on energy transition, and (iii) supply chain disruptions from the US boosting its domestic manufacturing.

Our **TOP PICK** is **MISC (BUY, TP: RM8.95).** We strongly believe MISC's contractual operations in newbuilds and ship charters could mitigate any sudden fluctuations of the oil prices. MISC also has a global presence within Asia, Oceania, South America and Europe, providing vessels and vessel services to other oil and gas players. The group has been actively enhancing its sustainability effort and supporting the LNG market as part of its ESG agenda for cleaner fuel and greener operations within its maritime business. The major highlight for MISC is its potentiality to collaborate with another FPSO company (Bumi Armada, TP:RM0.84) for its offshore business, further supporting the local and regional upstream division in the long term.

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad 197501002077 (24878-X).

(Bank Pelaburan) (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD 197501002077 (24878-X).

It is for distribution only under such circumstances as may be permitted by applicable law. Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD. The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

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