Oil & Gas

Positive (Maintain)

Review of Petronas Outlook 2025-2027

HIGHLIGHTS

- O&G sector expected to face challenges on volatile prices, geopolitical conflicts, supply-demand imbalances and regulation changes.
- PETRONAS will be focusing on innovation, sustainability, and human capital development to support Malaysia's net-zero journey, while highlighting OGSE players as the key instigator to maintain this development in the sector.
- Upstream remains robust with to sustain production at 2mboepd of oil and gas, while about 200 wells and 38 facilities will be decommissioned by CY27.
- Downstream is expected to leverage on specialty chemicals and biofuel, with one biorefinery set to commence operations in CY28., alongside conventional fuel's steady supply and demand.
- Decarbonisation efforts, coupled with renewables and clean fuel continue to be invested, namely in CCS, SAF, Hydrogen and EV projects.

OUTLOOK OVERVIEW

Brent to rangebound at USD70-80pb. PETRONAS forecasted a slowing growth in interest rates with a moderate global GDP at 3.3% in CY25 (approx. 3.2% in CY24), with key challenges in China's slow economic growth, ongoing geopolitical tensions and disruption of the oil supply chain. Brent is expected to hover between USD70pb to USD80pb in the long-term, with OPEC+ maintaining to be the floor that controls the oil prices from being volatile due to uncertainties in interest rates, trade routes and geopolitics.

LNG prices to remain elevated. Meanwhile, LNG prices are expected to remain elevated, due to the anticipation of La Nina weather subsequently driving demand for gas higher in the short to mid-term. However, this may be offset by increasing supply from Qatar (post-discovery of gas in Qatar's North Field West in CY23, which is expected to increase Qatar's LNG production capacity by 85% or up to 142mTpa by CY33) and the US (the largest gas reserves discovered was in Texas and New Mexico in CY18, amounting to an estimated 281tcft or 6bT of natural gas). Nevertheless, LNG remains one of the crucial fuels in energy transition and decarbonisation efforts among O&G players, consequently making the exploration and production of natural gas necessary in the long run.

Renewables, clean energy facing challenges. US President Donald Trump had made a move to revoke and revise climate policies and green energy regulations in favour of conventional fuel production. While the changes are anticipated to only affect companies and industries in trade with the US, the spillover effect on oil prices due to oversupply, as well as the setbacks on global decarbonisation efforts. However, renewables expansion in China from the rapid growth of solar energy (CY24 saw an increase of +45%yoy in solar installations to 357GW, with a total capacity of 1120GW) and wind farms (CY24 saw installations growing by +18%yoy to over 300GW), akin to the capacity of 357 nuclear plants. This provides an assurance that renewables would remain a trendsetter in energy security within the regional and local fronts.

COMPANY *IN FOCUS*

Deleum Bhd

Maintain BUY | Target Price: RM1.62
Price @ 31 January 2025: RM1.38

- Strong earnings growth
- 34% insider ownership
- Well-established as an upstream OGSE player

SHARE PRICE CHART



Dialog Group Bhd

Maintain BUY | Target Price: RM2.72
Price @ 31 January 2025: RM1.90

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

SHARE PRICE CHART



OUTLOOK HIGHLIGHTS

OGSE: Key to a sustainable O&G sector. In pursuit of energy security amid reaching net zero goals, Malaysia had established the National Energy Transition Roadmap (NETR). NETR emphasised that the Total Primary Energy Supply (TPES) expected to rise to 102Mtoe by CY50, with natural gas to play a key role as a transitional fuel. This significance continues to necessitate the O&G industry, while aligning with PETRONAS' Net Zero Carbon Emissions (NZCE) 2050 pathway, which prioritizes initiatives such as reducing routine flaring and venting, electrifying operations, enhancing energy efficiency, and advancing carbon capture and storage (CCS) solutions to cut emissions. To achieve these long-term objectives, the Oil & Gas Services and Equipment (OGSE) players are vital as the backbone of the sector in sustaining the balance between conventional fossil fuel exploration and production, and decarbonisation efforts. The downside risks, however, remains to be the financial and workforce challenges within the OGSE ecosystem. As of writing, Malaysia has approximately 2,285 OGSE companies, with 26 listed in the Bursa KL Main Market.

PETRONAS had outlined several key areas to collaborate with OGSEs in driving growth within the sector, namely in:

- **Advancing innovation and development.** PETRONAS aims to collaborate with OGSEs with focus on improving operational efficiency – notably in asset management, waste management and HSSE – through advancing technology and research partnership with academia. This is to ensure that the competitiveness in the sector will be maintained, and net zero goals are achieved.
- **Pioneering new opportunities.** OGSE is well-positioned to take the lead in adopting and pioneering sustainable practices. The introduction of a carbon tax in CY26 and the CCUS Bill are windows of opportunities crucial for OGSEs to maintain market competitiveness and secure long-term operations.
- **Bridging skills gaps.** Talent shortages and competency gaps in the OGSE sector had been an issue for years. An industry-driven human capital development strategy between the academia and OGSE sectors is necessary to ensure efficient workforce training and rapid deployment, consequently closing skills gaps and ensuring a steady pipeline of qualified talent for the sector's future.
- **Ensuring energy transition and security.** Strong collaboration between financial institutions and OGSEs is crucial in overcoming financing hurdles and ensuring the sector's long-term viability within the energy industry, while balancing the energy trilemma—ensuring security, affordability, and environmental sustainability.

Upstream to remain sanguine. The local upstream O&G has been on a roll, with currently over 80% of offshore acreage awarded to Petroleum Arrangement Contractors (PACs) – signalling long-term growth in hydrocarbon production and solidifying Malaysia's appeal as an O&G regional hub. As of CY24, Malaysia's hydrocarbon production stands at 1.7mboepd, with a target to increase and sustain production at 2mboepd. Moving forward in the next three years, more than 400 wells are projected to be drilled and 39 upstream projects to be executed, while 153 wells are to be abandoned, and 38 facilities to be decommissioned. OGSEs will play a crucial role in ensuring that the competitiveness and project deliveries are sustained, while encouraging collaboration with other stakeholders in the upstream division. However, downside risks include: (i) volatile market conditions, (ii) rising project costs, and (iii) limited talented workforce.

Stronger focus on skilled workforce. Regular turnaround, shutdown, and maintenance activities are essential for maintaining the efficiency, safety, and reliability of O&G facilities. Equally, the tasks are among the most complex in the sector, which includes: (i) conducting inspections, (ii) performing maintenance and repairs, (iii) cleaning and overhauling equipment, (iv) upgrading systems, and (v) ensuring regulatory compliance. As such, PETRONAS is emphasising on hiring and training skilled workforce with a multi-pronged strategy which includes: (i) enhancing retention strategies, (ii) Increasing talent engagement, (iii) encouraging youth participation, (iv) strengthening industry collaboration, and (v) providing industry-relevant education and training. This is to ensure that operational efficiency and HSSE adherence are maintained within the sector players.

OUR VIEWS

UPSTREAM

Energy transition and security a priority in CY25-27. To enhance Malaysia's energy security, PETRONAS is focusing on accelerating exploration in both new and mature areas while fast-tracking appraisal programs to replenish resources and sustain production. The upstream division is expected to expand its resources to meet these production targets while managed cost effectively with lowered emissions. 69 development wells are expected to commence by CY25; signalling the start of the development phase and an eventual slowdown in E&P. Additionally, the division is anticipated to continue its venture in CCS as part of its energy transition and decarbonisation agenda, ultimately positioning Malaysia as a regional hub for CCS solutions.

Moving forward, we anticipate the upstream will continue its commitment in ensuring a robust supply of oil and gas. E&P and development activities are expected to remain robust in CY25, in tandem with the long-term contractual nature of upstream projects since phasing out from the Covid-19 pandemic. We believe that the upstream will also maintain its efforts in reducing carbon emissions, via advanced technology and strategic partnerships. As of writing, 5 green fields and 2 brown fields are currently explored and developed, while 13 green fields and 2 brown fields are expected in the mid- to long-term. The downside risks are: (i) volatile oil and LNG prices, (ii) supply chain disruptions (volatile raw material prices, route blockades), (iii) geopolitical tensions, and (iv) changes in regulations and policies.

CHART 1: Number of Exploration Activities

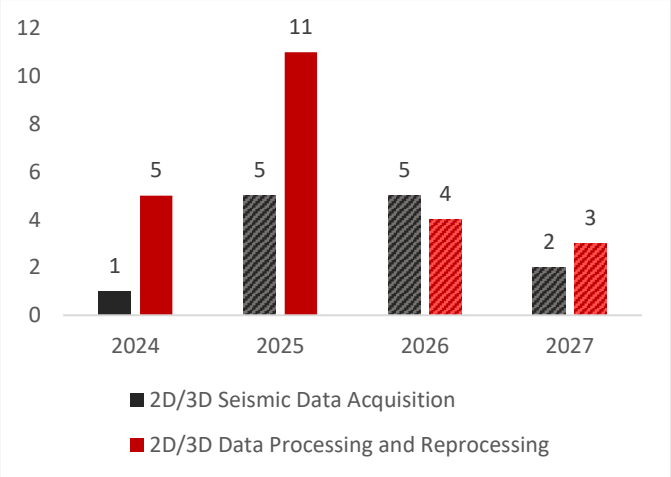


CHART 2: Man-hours of Commissioning and MCM

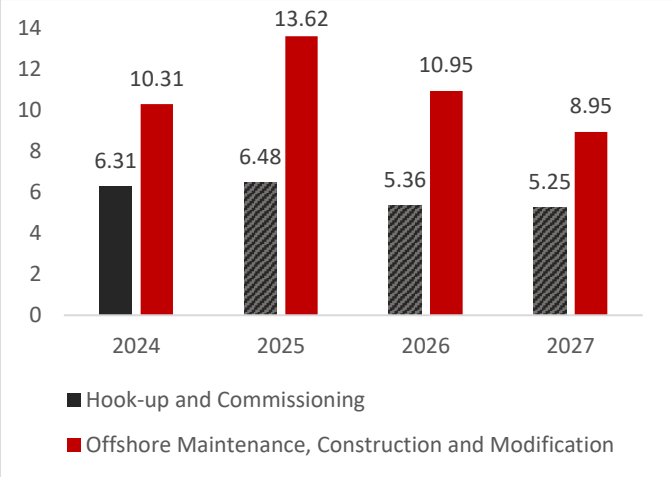


CHART 3: Number of Wells

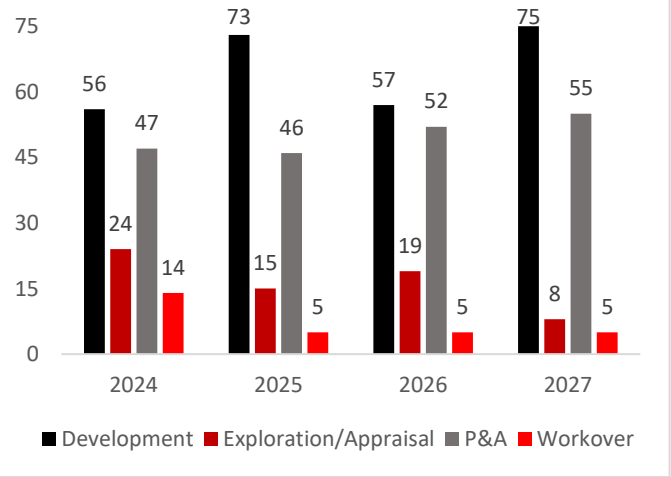
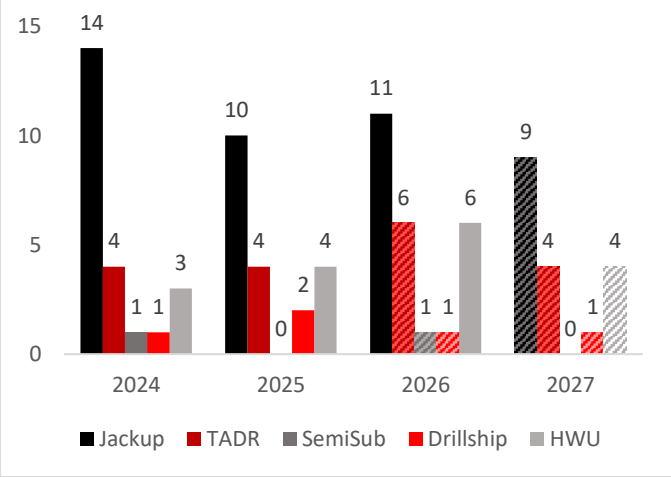


CHART 4: Number of Rigs



Source: PETRONAS, MIDFR

DOWNSTREAM

Downstream leveraging on green products. The cyclical nature of the petrochemical industry had prompted PETRONAS to expand into specialty chemicals. With the acquisition of BRB Group and Perstorp Group under its *Petronas Chemicals (NEUTRAL, TP:RM4.89)* group, PETRONAS offers a wider range of petrochemical products to fulfil consumer demands. Another venture into sustainability is the establishment of Malaysia's first advanced chemical recycling plant in Pengerang, which aligns with PETRONAS's New Plastics Economy strategy. PETRONAS is also advancing biofuel production through its collaboration with Enilive and Euglena. A biorefinery, set to begin operations in 2HCY28 at the Pengerang Integrated Complex, will produce Sustainable Aviation Fuel (SAF) and other biofuels such as Renewable Diesel or Hydrogenated Vegetable Oil (HVO). This initiative is expected to meet the growing demand for sustainable fuel solutions in the global aviation and transportation industries.

While we do not expect the petrochemical industry to recover in the near term, due to the oversupply against lower demand as well as the tight competition in supplying conventional petrochemical products, moving forward towards CY27, we anticipate that the downstream division will continue to leverage on the demand for both conventional fuels (Mogas, Diesel, Jet A1) and green fuels (biofuel, hydrogen). The balance of the utilisation of these fuels is crucial to ensure not only a sustained energy resource, but also a smooth energy transition in the long run. However, downside risks include: (i) unfavourable feedstock prices, (ii) tight competition with other refineries, (iii) geopolitical tensions, and (iv) changes in policies and regulations locally and regionally.

RENEWABLES

Balancing the conventional with renewables. Gentari, as part of PETRONAS's efforts to venture into clean energy, are focused on three key pillars – renewables, hydrogen and green mobility. As of CY24, Gentari had secured a total of 8GW in installed and under-construction renewable energy capacity worldwide, highlighting the group's commitment to meeting the rising demand for renewable energy and driving the global energy transition. Gentari has also developed a total of 175kTpa of clean hydrogen projects, installed around 1000 EV charging points worldwide and deployed over 3,600 electric vehicles through its Vehicle-as-a-Service (VaaS) offering, catering to various mobility needs.

Moving forward, we expect Gentari to actively explore hydrogen applications and production opportunities, as well as encourage hydrogen adoption to a commercial level. We believe that a more proactive approach is needed for the hydrogen sector, given the complex fuel production and higher initial cost that could hamper the adoption of the clean fuel in a commercial level. While we are optimistic at the trajectory of Gentari's efforts in the renewables and clean fuel subsector, we anticipate that the downside risks remain to be: (i) the cost management of these projects, (ii) the long-term sustainability and reliance of renewables and clean fuel, and (iii) geopolitical tensions and regulation changes.

MAINTAIN POSITIVE

Optimism remains for upstream amid uncertainties. All in all, we maintain our optimism on the sector, despite the possibility of volatile crude oil prices given the external geopolitical influences and the expected increased productions in North America and Middle East. We believe that Malaysia's OGSE companies would continue to benefit on PETRONAS's priorities in the upstream and decarbonisation solutions, with high emphasis on E&P, development and CCS. PETRONAS is also committed to expanding its renewable energy portfolio, focusing on solar and wind projects. However, uncertainties remain on: (i) the long-term impact of the increasing production in the US and Middle East, (ii) the lower reliance on sustainability solutions globally due to deregulation of climate policies, and (iii) supply chain disruptions from sanctions and geopolitical tensions.

Our **TOP PICKS** are **Deleum (BUY, TP: RM1.62)** and **Dialog (BUY, TP:RM2.72).** We are in favour of Deleum's offshore solutions in the long run. With its positive track record in providing equipment and services for the upstream division, coupled with its strong financial performance, we believe Deleum would highly benefit from the upsurge of upstream activities expected in CY25. As for Dialog, we like the group for its integrated nature, in addition to its contribution to decarbonisation solutions and sustainability efforts. We are optimistic on Dialog's ventures into renewable fuel storage and SAF storage, which would contribute greatly to PETRONAS's and Malaysia's energy transition efforts.

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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	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