Oil & Gas

NEUTRAL (Maintain)

Bracing for 2QFY25 Downhills

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HIGHLIGHTS

- Global energy sector expecting a downturn in 2QFY25 earnings by -26%yoy
- 4 out of 5 subindustries expected to see declining earnings, with exception of Storage and Transportation
- Major oil players – notably in the upstream – reduced earnings forecast, while midstream players likely the main beneficiaries of lower crude oil prices
- Malaysia is expected to echo a similar trend and local OGSE might take a hit in 2QFY25, offset by PETRONAS's domestic spending
- LNG for energy transition and energy security, and power generation for data centers are believed to continue supporting the sector and boost midstream operations through storage and transportation

DEVELOPMENTS

Bracing for a downturn. The global energy sector is expected to face a significant slump in the 2QCY25 earnings season. Wall Street has slashed EPS (Earnings Per Share) forecasts for oil and gas companies by nearly -19%, leading to an expected -25.6%yoy decline in aggregate sector earnings. This is a considerable worsening from the earlier consensus of an -8.4%yoy post 1QCY25. Studying the S&P 500 Energy sector, 4 out of 5 energy sub-industries are anticipated to see revenue and earnings decline: (i) Integrated (revenue: -14%yoy, earnings: -34%yoy), (ii) Refining & Marketing (revenue: -15%yoy, earnings: -31%yoy), and (iii) Services & Equipment (revenue: -7%yoy, earnings: -18%yoy). For Exploration & Production earnings is expected to drop -20%yoy, but revenue to gain +10%yoy. Only Storage and Transportation is believed to report a positive revenue and earnings growth, at about +24%yoy and +13%yoy respectively. We opine that these forecasts are driven by: (i) lower oil and gas prices in 2QCY25, (ii) reduced oil and gas trading, (iii) optimised activities to manage operational costs, and (iv) scheduled maintenance.

Warnings from major players. The anticipation of the performance decline for 2QFY25 was forewarned by major oil companies. ExxonMobil (NYSE: XOM) had highlighted a potential USD1.5b hit (approx. RM4.3b) in its 2QFY25 earnings, due to lower liquids prices (-11%mom; with USD800m-1.2b impact) and lower natural gas prices (-9%mom, with USD300m-700m impact). Meanwhile, Shell (NYSE: SHEL) expected that its earnings will remain in the negative (approx. USD400m-600m in deficit, or RM1.7b-2.5b) due to weaker trading performance and scheduled maintenance in its Integrated Gas and Upstream productions. These downgrades were premised on several headwinds, including: (i) lower crude oil (average 2QCY25: USD67pb, -22%yoy), (ii) reduced trading and upstream activities due to maintenance, and (iii) geopolitical tensions and economic uncertainties. This is despite a temporary surge in mid-June (maximum USD79pb), attributed to the escalation of the Israel-Iran conflict which had since been under a ceasefire.

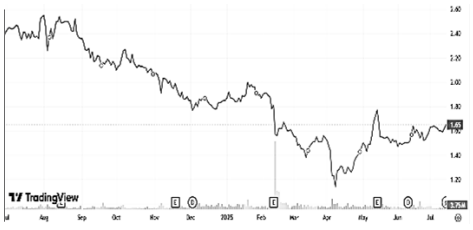
COMPANY *IN FOCUS*

Dialog Group Bjd

Upgrade to BUY (previously NEUTRAL) | Target Price: RM1.85
Price @ 14 July 2025: RM1.65

- Robust earnings growth
- Long-term storage contract stability
- Fee-based revenue
- Continuous expansion in upstream and midstream

SHARE PRICE CHART



Petronas Gas Bhd

Maintain NEUTRAL | Target Price: RM18.67
Price @ 14 July 2025: RM17.70

- Regulated gas assets
- Strong balance sheet, orderbook
- Volume-centric operations
- Expected dividend >+4%
- Long-term LNG exposure

SHARE PRICE CHART



Midstream likely to pull through. Fundamentals in 2QCY25 favours the midstream players. Oil and gas players operating gas pipelines and utilities, as well as storage farms and tankers, are expected to leverage on long-term, fee-based/tariff-based contracts which could insulate these companies from the short-term volatile fossil fuel prices. The relatively stable and lower crude oil prices in 2QCY25 also prompted demand growth for storage, supported by the need to replenish global oil inventories and secure energy resources amid the pursuit of energy transition, consequently encouraging more production. Duke Energy Corp. (NYSE: DUK), a utilities and gas giant, guided that its 2QFY25 earnings are expected to add about +9%-10%yoy to USD1b, indicating confidence in the benefit from the increased volumes of natural gas and LPG on its financial performance. Overall, we expect this resilience to persist, under the condition that any future upward shock in crude oil prices remain temporary.

TABLE 1: S&P 500 Energy Gainers and Laggards (2QCY25)

Gainers	Points	Move %	Laggards	Points	Move %
Marathon Petroleum (Midstream: Refinery)	+41.94	+30.41	ONEOK Inc (Midstream: Gas Pipeline) *	-16.76	-17.08
Valero Energy Corp (Midstream: Refinery)	+32.48	+26.93	Halliburton (Upstream: OGSE)	-3.69	-13.80
EQT Corp (Midstream: Gas Pipeline)	+9.49	+20.71	Diamondback Energy Inc (Upstream: E&P)	-17.23	-10.66
Hess Corp (Integrated)	+21.12	+15.99	APA Corp (Upstream: E&P)	-2.37	-10.53
Phillips 66 (Midstream: Refinery)	+19.88	+17.77	Occidental Petroleum Corp (Upstream: E&P)	-2.58	-5.27

Sources: Bloomberg, MIDFR

**Note: ONEOK's lag in share price movement is largely due to a lower-than-expected 1QFY25 earnings*

OUR VIEWS

Local companies likely to echo similar trend. Malaysia's oil and gas sector is expected to see similar trends in the upcoming 2QCY25 earnings season. Profitability in companies involved in exploration and production (E&P) is tied to the oil and gas prices, making these companies more vulnerable to selling price pressures despite an increase in production and sales volume in 2QCY25. Meanwhile, OGSE players, which have often shown sanguine performance, are at risk of a reduction in upstream capex for new projects and maintenance work. While OPEC+'s returning supplies to the market and the US and Europe working to add into its oil inventories are anticipated to increase production for the long term, offshore projects are likely to be few. Nevertheless, we opine that OGSE companies will keep leveraging on ongoing, long-term contracts, while PETRONAS's continuous domestic spending is expected to provide a partial buffer from any external impact on OGSEs.

Midstream drivers: LNG exports and data centers. Globally, the demand for LNG is significantly boosted by the continued build-out and operation of LNG export capacity. In Asia, LNG demand is projected to nearly double over the next 25 years, from 270mTpa in CY24 to 510mTpa in CY50. As such, midstream companies are crucial for refining and transporting this gas to export terminals. Another significant driver for the midstream players is the surge in power-intensive data centers, which creates new, substantial demand for natural gas, further supporting the need for midstream infrastructure. In contrast to the expected decline in overall energy sector earnings (driven by upstream and downstream divisions which are susceptible to unfavorable oil and gas price movements), midstream – particularly natural gas-focused midstream – is anticipated to see a better relative performance. While the broader energy sector faces headwinds from lower commodity prices, the midstream segment's business model, tied to volumes and long-term contracts rather than price, coupled with strong demand drivers like LNG exports and data centers, positions it favorably in 2QCY25. We opine this will project positively for the 2QCY25 earnings of local midstream companies.

TABLE 2: FBM KLCI Energy Index Gainers and Laggards (2QCY25)

Gainers	Points	Move %	Laggards	Points	Move %
Yinson (Upstream: FPSO)	+9.36	+41.23	Bumi Armada (Upstream: FPSO)	-12.23	-53.86
Solarvest (Renewables: Solar) *	+6.99	+30.81	Keyfield International (Upstream: OSV)	-7.73	-34.06
Dialog Group (Midstream: Storage)	+5.77	+25.42	T7 Global (Integrated)	-4.63	-20.39
Velesto Energy (Upstream: E&P)	+4.18	+18.43	Hibiscus Petroleum (Upstream: E&P)	-4.57	-20.14
Cypark Resources (Renewables: Solar) *	+3.18	+14.01	Dayang Enterprise (Upstream: OGSE)	-2.90	-12.78

Sources: Bloomberg, MIDFR

**Note: Renewables showed positive share price movements in 2QCY25, further emphasizing the power generation demand for domestic, commercial and industrial use, including emerging data centers*

MAINTAIN NEUTRAL

Differing optimism calls for a cautious expectation. Despite the positive 2QCY25 outlook for the midstream players, upstream and downstream operators are likely to see headwinds perpetrated by: (i) the ongoing geopolitical conflicts in the Middle East and Eastern Europe, (ii) the uncertainties in the macroeconomic ecosystem following the US trade tariffs and (iii) the increased crude oil supply by OPEC+ and non-OPEC+ members which could lead to a surplus. As such, oil and gas prices will remain a determining factor in the local oil and gas players for the upcoming 2QCY25 earnings season. The volatile price movement could prompt the major oil players to prioritize cost optimization, risking new contracts for OGSEs, FPSOs, OSVs and E&Ps. Meanwhile, midstream players are expected to ride on the lower crude prices, benefitting refinery margins and storage demand. LNG is also expected to remain sanguine from regional and domestic demands, notably for energy transition and for cooling over the summer weather.

All in all, recovery is expected to be gradual amid constraints by external challenges and company-specific headwinds. We expect stabilization post-2QCY25, in tandem with a more consolidated outlook based on the reduced risk premiums from the end of the trade tariffs deals and further de-escalation of conflicts in oil and gas-prone regions. Hence, we maintain **NEUTRAL** on the overall sector.

Our TOP PICK is Dialog Group (upgrade to BUY, TP: RM1.85).

We like Dialog for its strength in its midstream infrastructure and services, particularly its tank terminals, which provides long-term storage services for crude oil, petroleum products, and petrochemicals. Dialog's revenue is largely based on take-or-pay or long-term lease agreements, regardless of commodity price fluctuations or actual throughput, providing highly stable and recurring income. While Dialog also has upstream interests and EPCC (Engineering, Procurement, Construction & Commissioning) services, its tank terminals are the bedrock of its stability. Even with temporary setbacks in upstream due to maintenance or cost provisions in EPCC, the stronger midstream earnings are expected to mitigate the impact. With recent storage rates for midstream terminals having shown slight improvements, due to increased storage demand from oil traders amid higher crude oil supply and falling prices, we expect Dialog to leverage on the global market conditions in the near- to mid-term.

As such, we upgrade our **NEUTRAL** call for Dialog to a **BUY**, and maintain the target price at RM1.85, pending its 2QFY25 results.

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

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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