Oil and Gas

NEUTRAL (Maintain)

Closure of the Strait of Hormuz

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HIGHLIGHTS

- Iran temporarily closed parts of the Strait of Hormuz alongside live-fire military exercises
- The Strait is a critical chokepoint, handling around 20% of global oil flows
- The move represents a rare escalation in Iran's posture toward the waterway
- The closure was brief, with no confirmed sustained disruption to physical oil shipments
- Military drills and rhetoric have increased tensions but remain within a deterrence framework
- Market impact has been limited to short-term volatility, with no change to underlying supply-demand fundamentals
- Maintain NEUTRAL on Oil and Gas Sector with Dialog (BUY, TP: RM2.17) as Top Pick

SECTOR RECAP

Rare Tactical Escalation - Iran's temporary closure of selected sections of the Strait of Hormuz, alongside live-fire military exercises, marks a rare escalation in its approach to a key global energy artery, though the action was limited in duration and scope.

High Strategic Sensitivity, Limited Alternatives - As a conduit for roughly 20% of global oil flows with few viable bypass routes, the Strait remains structurally sensitive to geopolitical disruptions, making even brief incidents material for market sentiment.

Elevated Tensions but Controlled Military Posture - The episode unfolds amid heightened U.S.–Iran tensions and increased military presence in the region; however, authorities have reported no confirmed interference with commercial shipping, suggesting deterrence rather than immediate escalation.

Short-Term Risk Premium, No Structural Shift- While the incident has lifted short-term geopolitical risk premiums and increased volatility in crude oil markets, underlying supply-demand fundamentals remain unchanged, indicating that price impacts are likely to be temporary unless disruptions become sustained.

Therefore, based on these developments, we continue to maintain a NEUTRAL stance on the oil and gas sector, reflecting a still-challenging macroeconomic backdrop. This outlook reinforces our view that crude oil prices are likely to remain depressed, as the market continues to grapple with a structural surplus of crude supply, which is expected to cap sustained upside despite intermittent geopolitical-driven price movements.

COMPANY *IN FOCUS*

DIALOG Group Berhad

Maintain BUY | Target Price: RM2.17
Price @ 16 Feb 2025: RM1.76

- Core midstream business is anticipated to remain a stable and robust source of income.
- Storage capacity expansions are projected to drive this segment's performance.
- Upstream business is set to contribute following the development of Baram JC.

SHARE PRICE CHART



Closure for the Straits of Hormuz

Iran announced a temporary closure of selected sections for the Strait of Hormuz, coinciding with live-fire military exercises conducted within the waterway. The Strait remains a critical global energy chokepoint, facilitating the transit of approximately 20% of global oil flows, and any disruption carries material implications for energy markets and global trade.

This closure has been described by Iranians' media as lasting several hours and implemented for "safety and maritime concerns," represents a rare escalation in Iran's posture toward the waterway. While Iran has historically engaged in harassment of commercial shipping during periods of heightened tension, a partial shutdown of the Strait has been uncommon since the Iran–Iraq war in the 1980s.

The move appears to serve as a strategic signal, highlighting Iran's ability to disrupt global energy supply chains amid escalating tensions with the United States. However, based on initial information, the action was temporary in nature, and its immediate impact on physical oil flows remains unclear.

The oil and gas sector faces renewed volatility following Iran's temporary closure of the **Strait of Hormuz** for live-fire military exercises. This rare shutdown of a vital waterway, through which **20% of global oil** transits, serves as a significant signal of potential economic fallout amid mounting tensions between the U.S. and Iran.

Strategic Importance of the Strait of Hormuz

The Strait of Hormuz spans approximately 33 kilometres at its narrowest point, linking the Persian Gulf to the Gulf of Oman and onward to global shipping lanes. Although bordered by Iranian and Omani territorial waters, it is recognised as an international waterway, supporting heavy daily traffic from major oil and gas exporters including Saudi Arabia, Iraq, the UAE, Kuwait, Qatar, and Iran itself.

While limited pipeline infrastructure in Saudi Arabia and the UAE provides partial bypass capacity, the majority of crude and LNG volumes transiting the Strait lack viable alternative routes, making the region structurally sensitive to geopolitical disruptions.

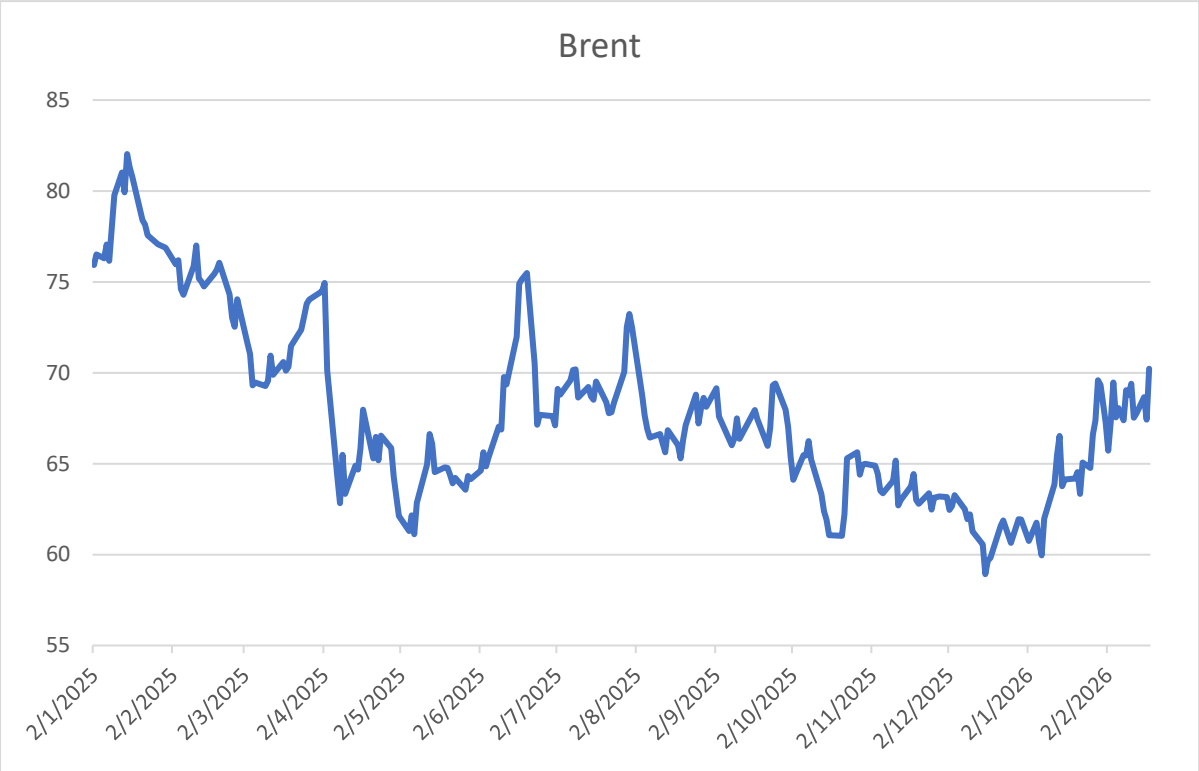
Historically, threats to the Strait have resulted in short-term spikes in energy prices, though sustained disruptions have been rare due to the economic and military consequences involved.

Broader Geopolitical Context

These developments occur against a backdrop of heightened U.S.–Iran tensions, encompassing nuclear negotiations, military posturing, and expanded naval deployments in the region. The presence of multiple U.S. aircraft carrier strike groups underscores the elevated alert level, though both sides continue to signal a preference for deterrence rather than direct conflict.

Iranian leadership has issued strong rhetorical warnings, emphasising its asymmetric capabilities in the event of military confrontation. While such statements contribute to geopolitical risk sentiment, they have thus far translated into headline-driven volatility rather than sustained supply disruption.

Chart 1: Prices for Brent Between 2025 - 2026



Bottom Line

While Iran's actions underscore the latent geopolitical risk embedded in global energy markets, the current incident appears tactical rather than structural. Unless disruptions to the Strait of Hormuz become sustained or escalate into direct military confrontation, the impact is expected to remain short-lived, consistent with prior geopolitical flare-ups observed in recent years.

Amid escalating tensions in the Middle East, Brent crude futures moved decisively higher, briefly surpassing the USD70 per barrel level. The upward momentum in crude prices has been further supported by prolonged negotiations between the United States and Iran over a potential nuclear agreement, which have contributed to heightened uncertainty around future supply dynamics and reinforced a geopolitical risk premium in the oil market.

That said, despite the recent uptick in crude prices, the broader trend indicates that oil remains range-bound, largely trading within the USD60 to USD70 per barrel band. While prices have strengthened on renewed geopolitical concerns, it continues to sit well below the one-year high of USD82.03 per barrel, suggesting that the current move reflects a risk premium rather than a structural shift in underlying supply-demand fundamentals.

Maintain NEUTRAL; TOP PICK – Dialog Group (BUY, TP: RM2.17)

Therefore, based on these developments, we continue to maintain a NEUTRAL stance on the oil and gas sector, reflecting a still-challenging macroeconomic backdrop. This outlook reinforces our view that crude oil prices are likely to remain depressed, as the market continues to grapple with a structural surplus of crude supply, which is expected to cap sustained upside despite intermittent geopolitical-driven price movements.

Our TOP PICK for the sector remains to be Dialog Group, as we favour Dialog for its defensive midstream exposure, anchored by its extensive tank terminal and infrastructure assets. The group's earnings profile is largely underpinned by long-term take-or-pay contracts and lease arrangements, providing stable and recurring cash flows that are largely insulated from short-term crude price volatility.

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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