

# Oil and Gas

**NEUTRAL** (Maintain)

## Geopolitics, Weather and Caution

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### HIGHLIGHTS

- Brent crude saw a modest, sentiment-driven rebound in January 2026, briefly touching approximately USD70 per barrel but remaining range-bound within the USD60–70 per barrel level.
- Natural gas prices experienced extreme weather-driven volatility, surging above USD7.40pMMBtu to a two-year high on cold-weather supply constraints before rapidly retracing to approximately USD3.20pMMBtu as conditions normalised.
- Dirty tanker rates continued to outperform, surpassing the 1,700 mark and reaching a two-year high, supported by geopolitical instability, longer shipping routes, rising insurance costs, and increased tonne-mile demand.
- We maintain a NEUTRAL stance on the Oil & Gas sector, with a preference for midstream segment that offer defensive cash flows and limited direct commodity price exposure.

### SECTOR RECAP

**Brent saw a reversal during the month after touching USD70 per barrel.** Brent's January recovery was sentiment-driven and range-bound, with prices briefly testing the USD70 per barrel level on geopolitical and marginal supply disruptions but lacking demand-led conviction and failing to signal a structurally tighter oil market. Compared to the previous month, the average price for Brent during January managed to appreciate approximately +5.3%mom.

**Natural gas prices were volatile due to extreme weather patterns.** Natural gas prices exhibited extreme, weather-driven volatility, spiking to a two-year high above USD7.40pMMBtu on cold-weather supply disruptions before rapidly retracing to approximately USD3.20pMMBtu as conditions normalised, underscoring the market's sensitivity to short-term shocks. Compared to the previous month, if we were to exclude the sudden spike in its price, natural gas would be trading range bound between USD3.60 – USD5.30pMMBtu.

**Midstream outshone the res.,** Midstream logistics outperformed amid geopolitical dislocation, with dirty tanker rates reaching a two-year high above the 1,700 mark due to longer shipping routes and higher insurance costs. Ongoing tensions have forced vessels to adopt longer and less efficient shipping routes, increasing tonne-mile demand. Aside from that, as insurance premiums have risen, this further contributed to the increase in rates.

**Our top pick is Dialog with a target price of RM2.17.** Supporting a defensive stance on the sector and reinforcing our preference for stable, contract-backed midstream exposure, our Top Pick would be Dialog Group. Our preference in the oil and gas space is the midstream due to its recurring business model, which translates into stable earnings and predictable cash flow insulated from the direct impact of volatile commodity prices.

### COMPANY IN FOCUS

**DIALOG Group Berhad**

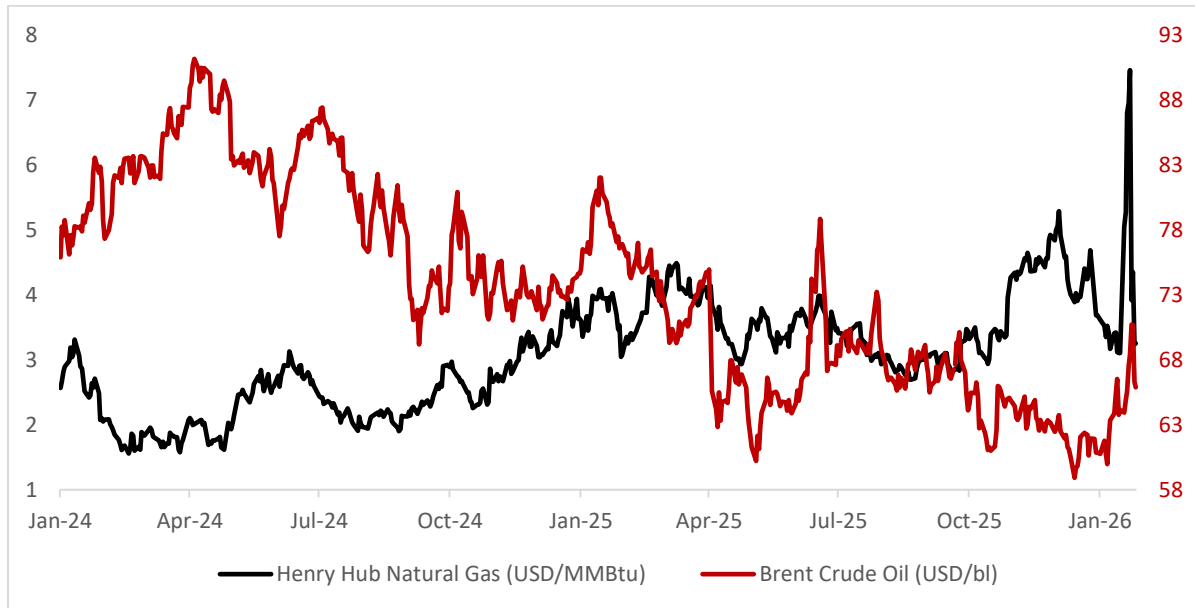
**Maintain BUY | Target Price: RM2.17**  
Price @ 3 Feb 2025: RM1.64

- Core midstream business is expected 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



**Chart 1: Brent Crude Oil Price vs Natural Gas Trend between 2024 - 2026**



Sources: Bloomberg, MBSBR

**Brent Crude in January: Sentiment Driven Support**

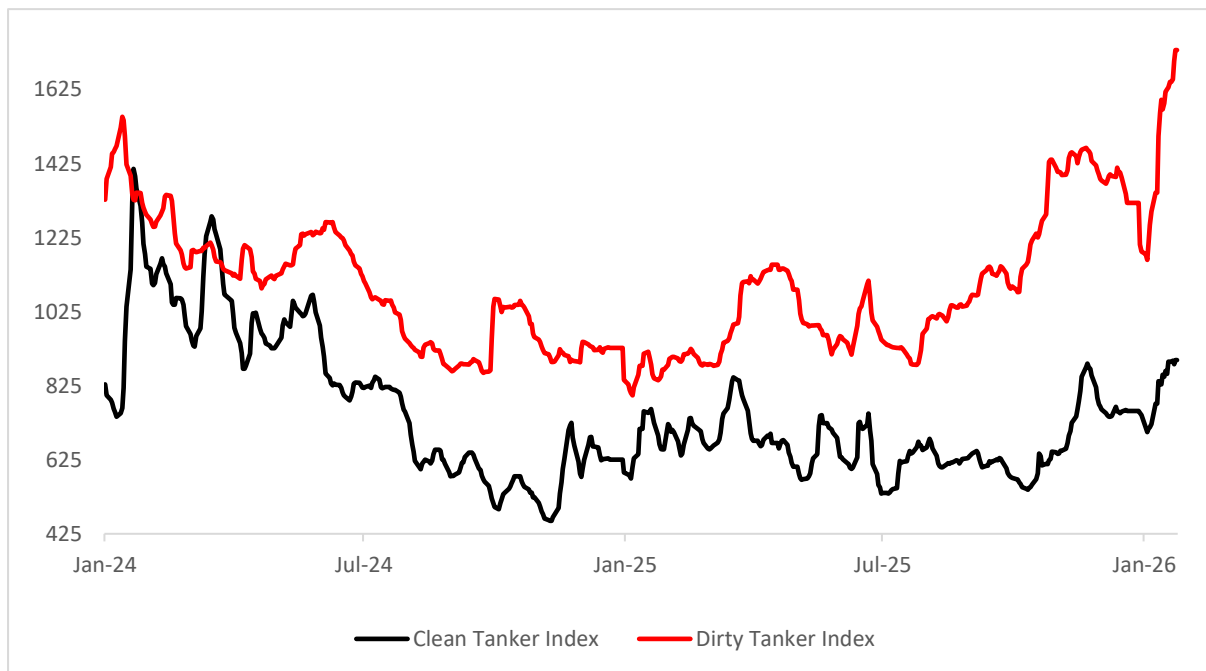
January 2026 marked a modest but notable reversal in Brent crude prices, following a weak close to 2025. Brent briefly touched a high of around USD70 per barrel during the month, recovering from earlier softness but ultimately remaining range bound. The price action in January was driven less by demand optimism and more by supply-side and geopolitical developments, which temporarily boost sentiment without fundamentally altering the broader balance. One key factor was a decline in Venezuelan crude exports during the period. Logistical challenges and ongoing structural limitations reduced export volumes, removing some marginal supply from the market.

Geopolitical risk also played an important role in shaping January’s price behaviour. The increased presence and maneuvering of U.S. naval forces in the Middle East heightened investor sensitivity to potential supply disruptions, even though no physical flows were materially affected. This was compounded by renewed rhetoric surrounding Iran and the Strait of Hormuz, a critical chokepoint through which a significant portion of global oil supply transits. Although the rhetoric did not translate into direct disruption, it elevated the geopolitical risk premium embedded in prices. Compared to the previous month, the average price for Brent during January managed to appreciate approximately +5.3%mom.

**Extreme Weather Patterns Impacted Prices for Natural Gas**

Natural gas prices experienced exceptional volatility during the month, underscoring the market’s growing sensitivity to short-term supply disruptions and weather-driven demand shocks. Prices surged sharply early in the month, briefly breaking above the USD7.40pMMBtu level, marking a two-year high. This rally was primarily driven by extreme and rapidly shifting weather patterns, which disrupted both production and distribution across key gas-producing and consuming regions. Cold-weather events constrained supply flows while simultaneously driving heating demand higher, creating a short-term imbalance that pushed prices sharply upward. Given the relatively low elasticity of gas supply in the near term, even modest disruptions translated into outsized price movements. However, the strength proved unsustainable, as when weather conditions improved and supply constraints eased, gas prices retraced rapidly, falling back toward the USD3.20pMMBtu range. When compared to the previous month, if we were to exclude the sudden price spike, natural gas was trading range bound between USD3.60 – USD5.30pMMBtu

**Chart 2: Clean Tanker and Dirty Tanker Index between 2024 - 2026**



Sources: Bloomberg, MBSBR

### Dirty Tanker Rates Continue to Climb

During the month, the Dirty Tanker rates continued its upward trajectory surpassing the 1,700 marks, reaching its highest level in the past two years. This strength was primarily driven by heightened geopolitical instability, which has materially disrupted normal trading patterns. Ongoing tensions have forced vessels to adopt longer and less efficient shipping routes, increasing tonne-mile demand. Aside from that, as insurance premiums have risen, this further contributed to the increase in rates. Should geopolitically tensions in the Middle East persist, these dynamics are expected to keep dirty tanker rates elevated over the short to medium term, supported by structural inefficiencies rather than underlying oil price strength.

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

Despite Brent prices seeing a modest recovery during the month, briefly testing the USD70 per barrel level, the move was largely sentiment-driven and underpinned by geopolitical factors rather than a meaningful improvement in demand fundamentals. Persistent global supply growth and a modest demand expansion continue to point toward a surplus-prone market.

Aside from that, as structural uncertainties persist, including the lack of sustained upstream capex visibility, and the unresolved Petronas–Petros overhang, which continues to weigh on investment appetite. Therefore, we believe the sector has yet to present a sufficiently compelling risk-reward profile to justify broad accumulation, and we therefore retain a wait-and-see approach.

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