Oil and Gas

NEUTRAL (Maintain)

Crude Oil Prices Trending Upwards

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HIGHLIGHTS

- Crude rose from an average of USD65 per barrel in January 2026 to above USD100per barrel recently, driven by escalating Middle East tensions, shifting the market from range-bound to risk premium pricing
- Initial expectations of a short-lived conflict were overturned following the closure of the Strait of Hormuz and the broader escalation of the war across the region involving multiple countries
- As key gas facilities across the region were hit, supply concerns intensified, pushing gas prices higher to around USD19/MMBtu
- Elevated crude prices are likely to incentivise increased upstream investment, benefiting offshore service providers such as Bumi Armada (TP: RM0.44), Deleum (TP: RM1.92), and MMHE (TP: RM0.55)

SECTOR RECAP

Crude prices trended higher from an average of USD65 per barrel in early February to above the USD100 per barrel recorded recently, driven primarily by escalating Middle East tensions rather than demand strength, reflecting a shift from range-bound trading to a supply risk premium market.

At the onset, market expectations were largely anchored on the assumption that the conflict would remain contained and relatively short-lived. However, developments on the ground evolved more rapidly than anticipated, altering the market's perception of both the duration and severity of the conflict. A key inflection point emerged with the disruption and effective closure of the Strait of Hormuz.

LNG prices trended higher during the period, supported by concerns over potential disruptions to supply chains and export flows. Prices for LNG moved upward, hovering around USD16 – 19pMMBtu, indicating heightened sensitivity within the gas market to regional instability, particularly given the concentration of key export infrastructure within affected areas.

Similarly to the upward movement in crude oil and LNG prices, tanker rates also trended higher during the same period as the closure of the Strait of Hormuz stranded vessels and reduced effective fleet supply, while insurance withdrawals and route inefficiencies further amplified freight costs and risk premiums.

Given that the ongoing conflict has resulted in damage to key energy infrastructure, thereby impacting the supply of both oil and gas, we maintain our current crude oil price assumption of USD90–100 per barrel. Elevated crude prices are likely to incentivise increased upstream investment, benefiting offshore service providers such as Bumi Armada (TP: RM0.44), Deleum (TP: RM1.92), and MMHE (TP: RM0.55), which are positioned to capture rising demand.

COMPANY *IN FOCUS*

MMHE Berhad

Maintain BUY | Target Price: RM0.55
Price @ 19 Mar 2025: RM0.38

- Higher crude prices could be a catalyst for more upstream activities
- Marine repair and maintenance services are expected to provide stable source of income
- A healthy orderbook of RM4b and tender book provides earnings visibility for the company

SHARE PRICE CHART

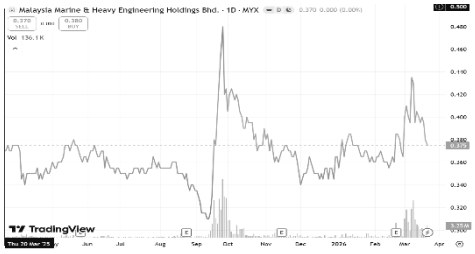
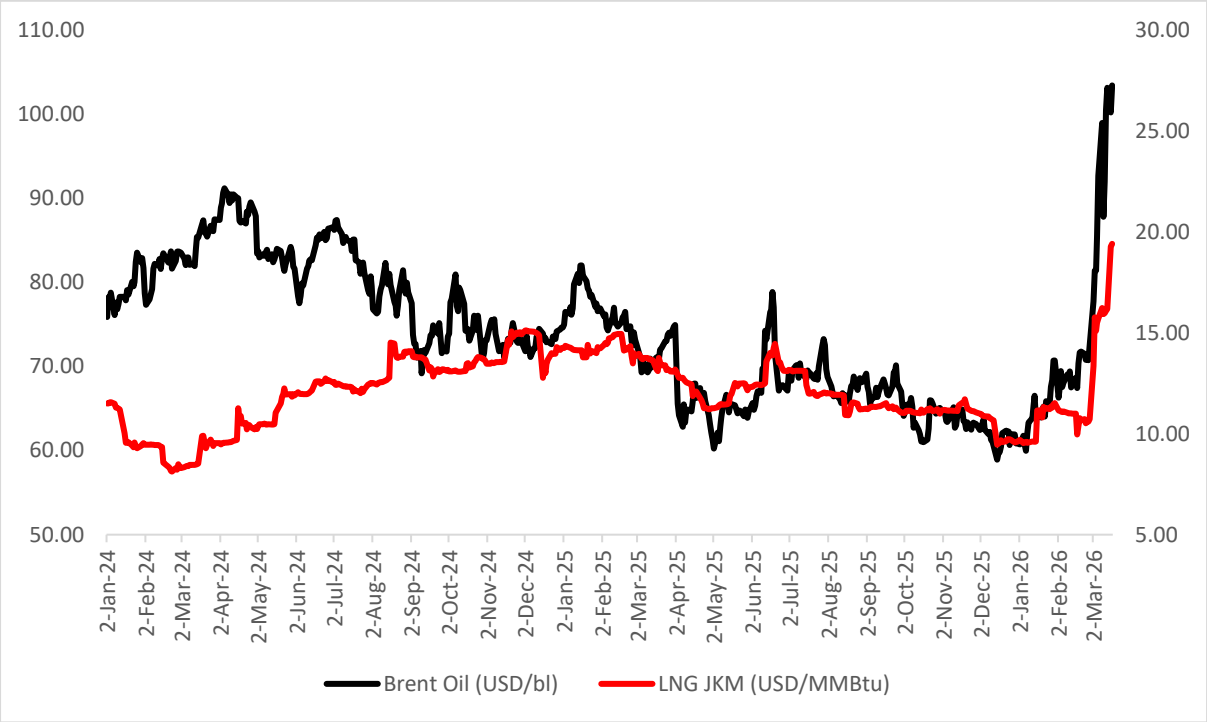


Chart 1: Brent Crude Oil Price vs Natural Gas Trend between 2024 - 2026



Sources: Bloomberg, MBSBR

Geopolitics Was the Catalyst for the Spike

Throughout February and March 2026, crude oil prices exhibited a clear upward trajectory, primarily driven by escalating geopolitical developments rather than a meaningful shift in underlying demand fundamentals. The price movement over the period reflects a transition from a relatively stable, range-bound environment into a more risk-premium-driven market, as tensions in the Middle East intensified.

In the early part of February, Brent crude began to trend higher from its January average of approximately USD65 per barrel. This upward movement coincided with the increased presence and mobilisation of U.S. military assets into the Middle East, which heightened market sensitivity to potential supply disruptions. While no immediate physical supply outages were observed during this phase, the evolving geopolitical backdrop was sufficient to introduce a modest risk premium into prices. As a result, crude prices broke above the USD70 per barrel level during February, subsequently stabilising around an average of approximately USD69 per barrel during the month.

Crude Spiked Higher During March

Despite the elevated level of crude oil prices observed in February, prices moved significantly higher in March as geopolitical tensions in the Middle East escalated into an active conflict. The shift marked a transition from precautionary, sentiment-driven pricing into a more pronounced supply risk premium, as market participants began to reassess the potential for sustained disruptions to global energy flows.

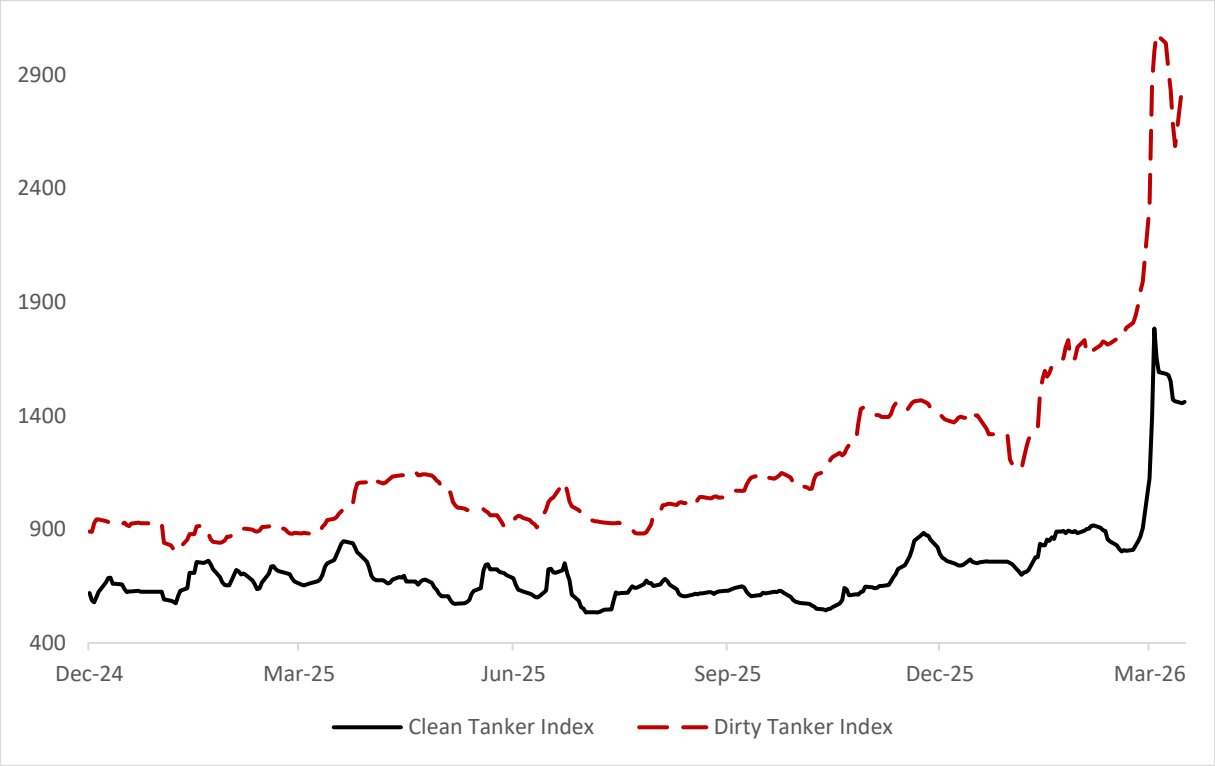
At the onset, market expectations were largely anchored on the assumption that the conflict would remain contained and relatively short-lived. However, developments on the ground evolved more rapidly than anticipated, altering the market's perception of both the duration and severity of the conflict. A key inflection point emerged with the disruption and effective closure of the Strait of Hormuz, a critical chokepoint for crude oil and liquefied natural gas (LNG) within the Middle Eastern region, particularly impacting vessels perceived as unfriendly to Iran.

This was further compounded by targeted attacks on several key oil and gas assets within the region, heightening immediate concerns over the resilience of supply infrastructure and the continuity of export capacity. These developments materially increased the risk of supply interruptions across both crude oil and natural gas markets. In response, Brent crude prices surged and subsequently stabilised at elevated levels, hovering around the USD100 per barrel mark.

Similarly, LNG prices trended higher during the period, supported by concerns over potential disruptions to supply chains and export flows. Prices for LNG moved upward, hovering around USD16 – 19pMMBtu, indicating heightened sensitivity within the gas market to regional instability, particularly given the concentration of key export infrastructure within affected areas.

Overall, the price strength observed in both crude oil and LNG during March appears to be primarily driven by geopolitical developments and supply-side uncertainties. While the market continues to monitor the evolution of the conflict, current price levels suggest that risk premiums are likely to remain embedded in the near-term, contingent on the stability of critical energy infrastructure and the accessibility of key transit routes.

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



Sources: Bloomberg, MBSBR

Tanker Rates Continue to Climb

Both clean and dirty tanker rates experienced a sharp spike over the same period, reflecting a significant tightening in vessel availability amid escalating geopolitical tensions. The magnitude of the increase suggests that the movement was not demand-led but rather driven by disruptions to the effective supply of the global tanker fleet.

A primary driver was the closure of the Strait of Hormuz, which resulted in hundreds of vessels stranded within the region. This effectively removed a substantial portion of the global fleet from active circulation, reducing

available shipping capacity and creating immediate upward pressure on freight rates. The inability of vessels to transit through this critical chokepoint led to delays, congestion, and a sharp increase in voyage inefficiencies. This was further exacerbated by developments in the insurance market. During the start of the war, a number of insurers withdrew coverage for vessels operating within the Gulf region.

Overall, the spike in both clean and dirty tanker rates can be attributed to a combination of physical disruption, elevated operational risk, and a contraction in effective fleet supply. These dynamics have introduced a significant risk premium into tanker markets, with rates likely to remain elevated in the near term, contingent on the stability and accessibility of key maritime routes.

Maintain NEUTRAL with TOP PICK being – Bumi Armada (TP: RM0.44) & Deleum (TP: RM1.92) MMHE (TP: RM0.55)

Given that the ongoing conflict has resulted in damage to key energy infrastructure, thereby impacting the supply of both oil and gas, we maintain our current crude oil price assumption of USD90–100 per barrel. The destruction of several oil and gas facilities across parts of the Middle East has introduced additional uncertainty into global supply, particularly as some affected assets may require an extended period to return to full operational capacity, reinforcing the persistence of a geopolitical risk premium in prices. In such an environment, sustained crude oil prices within this heighten range would likely incentivise major oil producers to accelerate investment and development activities in order to compensate for the shortfall created by the disruption.

Against this backdrop, we are of the view that upstream-support players would benefit from a potential pickup in industry activity should oil prices remain elevated. Our preferred exposures within this space include Malaysia Marine and Heavy Engineering with a target price of RM0.55, Deleum Berhad with a TP of RM1.92, and Bumi Armada Berhad with a TP of RM0.54 which we believe are well positioned to capture increased demand across offshore engineering, maintenance services and floating production operations as upstream investment activity gains momentum.

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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