# Oil and Gas

**POSITIVE** (Maintain)

## IEA April Report

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### HIGHLIGHTS

- The International Energy Agency has revised its 2026 oil demand outlook from +730,000 bpd to -80,000 bpd, citing the largest supply disruption in history
- With that various sectors have been experiencing clear slowdown due to higher prices and constrained supply including the Petrochemicals industry
- Asian producers have reduced operating rates due to limited access to naphtha and LPG, shifting the market from oversupply to tight risk-driven conditions
- Despite that we like Petronas Chemicals as feedstock security has emerged as a key differentiator. We maintain a BUY call on Petronas Chemicals Group with a target price of RM6.60

### SECTOR RECAP

The International Energy Agency has sharply revised its 2026 oil demand outlook from growth of 730,000 bpd to a contraction of 80,000 bpd, reflecting what it describes as the largest supply disruption in history and reinforcing a supply-driven risk premium in crude prices, which surged to above the USD110 per barrel mark.

Elevated oil prices and persistent supply constraints are increasingly weighing on downstream demand, with the petrochemical sector experiencing a material slowdown driven by affordability pressures and limited feedstock availability. Asian petrochemical producers have reduced operating rates due to restricted access to naphtha and LPG, resulting in a structural shift from oversupply to a tight risk-priced market characterised by physical scarcity.

Force Majeure declarations by key players within the region, including PT Chandra Asri Pacific and Lotte Chemical, highlighting a breakdown in the "Just-in-Time" supply model, with import-dependent markets such as South Korea, Singapore, and Indonesia remaining particularly vulnerable.

In contrast to many of its Asian peers, Petronas Chemicals Group is relatively insulated due to Malaysia's domestic natural resource base. Its primary competitive advantage lies in its heavy reliance on natural gas, which forms the backbone of its operations. As a result, Petronas Chemicals Group's share price demonstrated notable resilience during the crisis, supported by its relatively secure access to domestic feedstock. Petronas Chemicals outperformed its regional peers, delivering a strong +79.2%yoy, compared to Lotte Chemical, which rose +28.8% over the same period. In contrast, PT Chandra Asri Pacific underperformed significantly, with its share price declining -26.8%, reflecting greater exposure to feedstock disruptions and supply chain constraints.

Within this environment, feedstock security has emerged as a key differentiator, with players possessing access to domestic resources demonstrating greater resilience relative to import-dependent peers. In this regard, Petronas Chemicals Group stands out as a relative outperformer against this backdrop, we, maintain our BUY call with a target price of RM6.60.

### COMPANY *IN FOCUS*

**Petronas Chemicals Berhad**

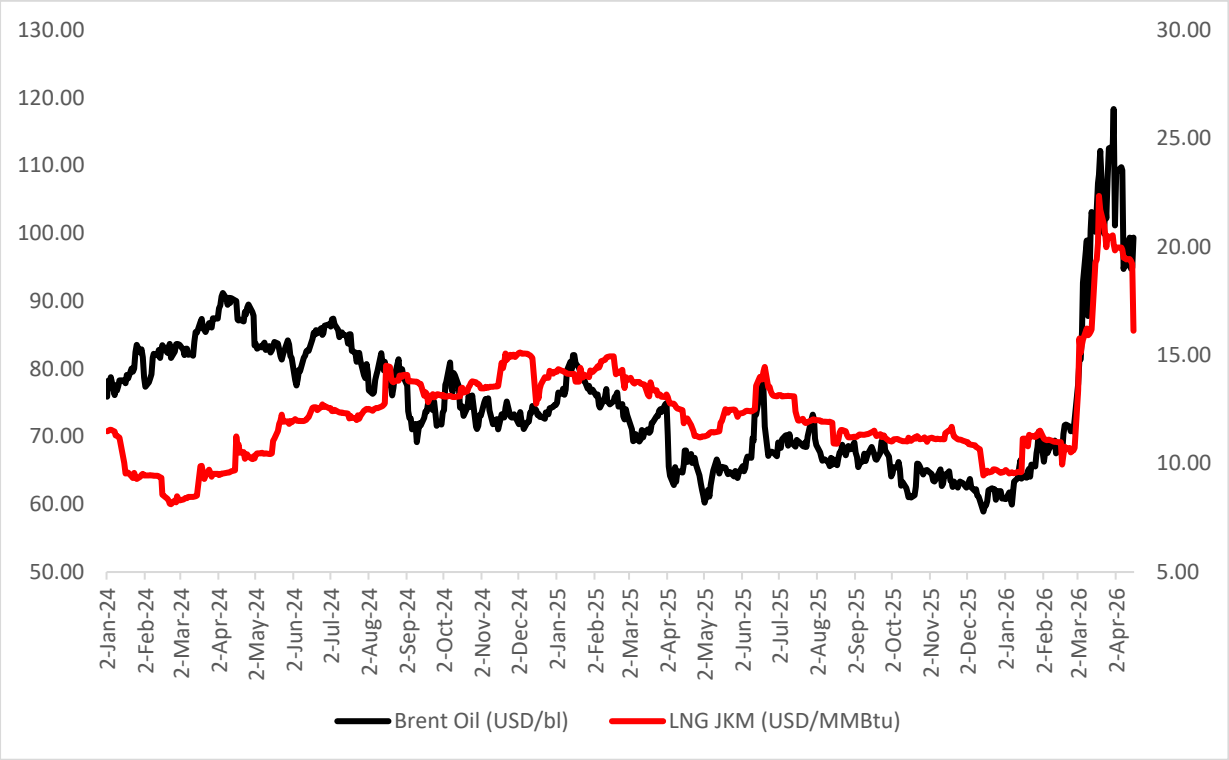
**Maintain BUY | Target Price: RM6.60**
Price @ 16 Apr 2026: RM5.64

- Supply disruption continues to plague the sector amid ongoing geopolitical tensions
- Several producers reduced output due to feedstock shortage.
- Petronas Chemicals remained insulated with access of feedstock from its parent

**SHARE PRICE CHART**



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




*Sources: Bloomberg, MBSBR*

### IEA Cuts Demand Outlook

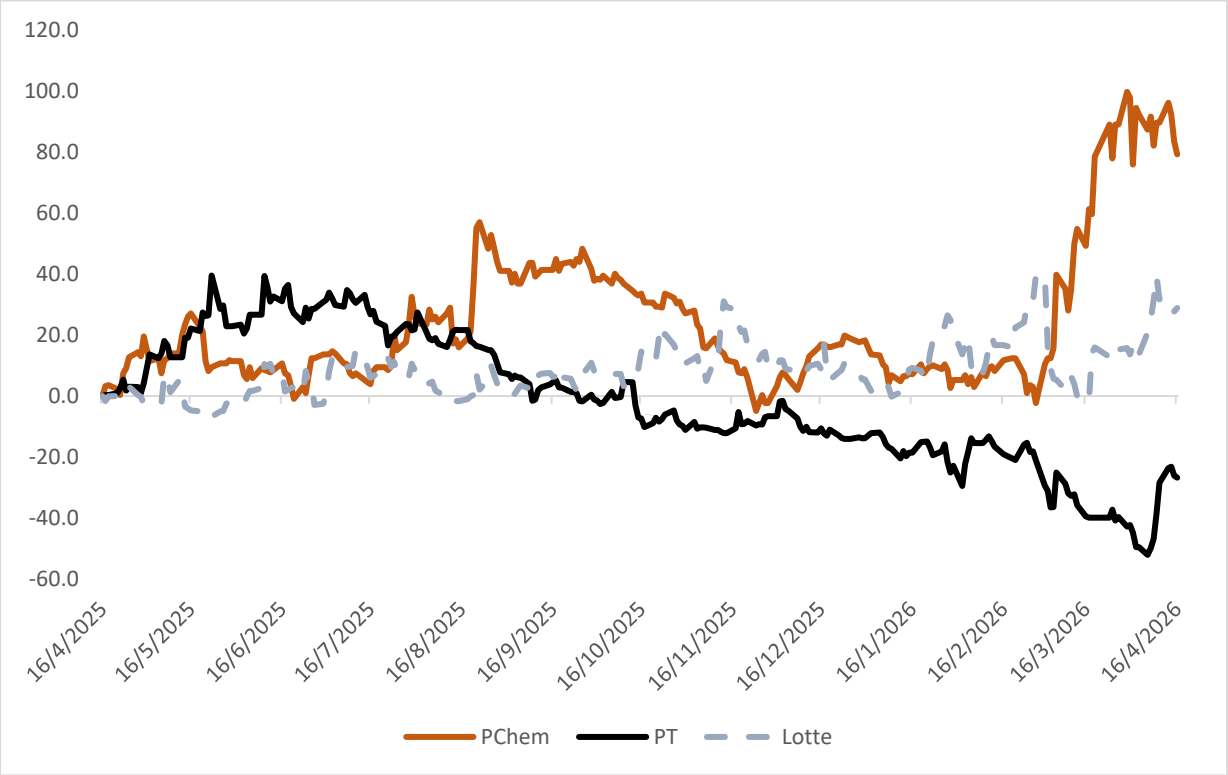
**From increase to contraction.** The International Energy Agency (IEA), in its April Oil Market Report, characterised the current environment as the largest supply disruption in history, underscoring the scale and severity of dislocations across global energy markets. In response to the evolving supply shock, the IEA has revised its 2026 demand outlook from a previously expected increase of 730,000 barrels bpd to a contraction of approximately 80,000 bpd. Concurrently, crude oil markets have transitioned into a supply-constrained regime, with prices rising sharply surpassing the USD110 per barrel during March. Current price dynamics suggest that supply-side disruptions remain the dominant driver of market conditions, reinforcing the presence of a significant risk premium.

### Impact on Petrochemicals

**Elevated prices, coupled with ongoing supply constraints**, are beginning to weigh on downstream demand, with the impact becoming increasingly visible across multiple industries. The petrochemical sector is now experiencing a material slowdown in activity, driven by both affordability pressures and physical supply limitations. With that Asian producers have reduced operating rates due to constrained access to key inputs such as naphtha and LPG, both of which are typically transported through the Strait of Hormuz. As a result, the industry has shifted from a prolonged period of oversupply to one characterized by tight supply, risk-driven pricing, and physical scarcity.

**Several major petrochemical companies have declared Force Majeure**, underscoring a breakdown in the traditional "Just-in-Time" supply model. Producers in South Korea, Singapore, and Indonesia remain particularly vulnerable, as they lack sufficient domestic crude oil to meet industrial demand and rely heavily on imported feedstock. Examples PT Chandra Asri Pacific in Indonesia declared Force Majeure on March 2, 2026, while Lotte Chemical formally notified customers on March 23, 2026, of potential supply disruptions for key products such as ethylene.

**Chart 2: 1Y Stock Movements for Asian Petrochemical Companies**




*Sources: Bloomberg, MBSBR*

**Petronas Chemicals Group is relatively insulated.** In contrast to many of its Asian peers, Petronas Chemicals Group is relatively insulated due to Malaysia's domestic natural resource base. Its primary competitive advantage lies in its heavy reliance on natural gas, which forms the backbone of its operations. As a result, Petronas Chemicals Group's share price demonstrated notable resilience during the crisis, supported by its relatively secure access to domestic feedstock. Petronas Chemicals outperformed its regional peers, delivering a strong +79.2%yoy, compared to Lotte Chemical, which rose +28.8% over the same period. In contrast, PT Chandra Asri Pacific underperformed significantly, with its share price declining -26.8%, reflecting greater exposure to feedstock disruptions and supply chain constraints.

## Maintain BUY on Petronas Chemicals (TP: RM6.60)

**Altered the operating landscape for the petrochemical sector.** In summary, the current supply-driven disruption across global energy markets has materially altered the operating landscape for the petrochemical sector, shifting the industry from a period of oversupply to one characterised by tight feedstock availability, elevated input costs, and heightened pricing volatility.

**Within this environment, feedstock security has emerged as a key differentiator**, with players possessing access to domestic resources demonstrating greater resilience relative to import-dependent peers. In this regard, Petronas Chemicals Group stands out as a relative outperformer, supported by its gas-based feedstock advantage and integrated operations, which have allowed it to better withstand supply shocks and margin pressures. Against this backdrop, Petronas Chemicals is expected to be a relative beneficiary, supported by its access to competitively priced feedstock. Accordingly, maintain our BUY call with a target price of RM6.60.

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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