Oil and Gas

NEUTRAL (Maintain)

Volatile Crude Oil

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HIGHLIGHTS

- Crude oil prices have been volatile following recent attacks on oil and gas facilities in the Middle East, briefly surging to nearly USD120 per barrel before retracing to around USD90 per barrel after indications that the conflict may be short-lived
- Despite the recent correction, uncertainty remains elevated as several energy facilities were damaged and the full impact on regional production capacity and infrastructure has yet to be fully assessed
- Given limited visibility on how the situation may evolve, our outlook is framed through a scenario-based approach, with our base case assuming targeted military strikes lasting for weeks alongside intermittent disruption to shipping activity through the Strait of Hormuz. Under this assumption, crude oil prices are expected to hover within the USD90–100 per barrel range, which could encourage higher upstream investment activity and benefit players such as Malaysia Marine and Heavy Engineering Holdings Berhad, Deleum Berhad and Bumi Armada Berhad

SECTOR RECAP

Crude oil prices have remained volatile in recent weeks, initially surging to nearly USD120 per barrel following attacks on multiple oil and gas facilities in the Middle East. Prices later retraced to around USD90 per barrel after statements suggested that the conflict may be short-lived, easing concerns over prolonged supply disruptions.

But uncertainty persists. Despite the recent pullback, uncertainty persists as several oil and gas facilities were damaged and the full extent of the impact on infrastructure and production capacity remains unclear. In addition, shipping risks remain elevated as military activity around the Strait of Hormuz will continue to increase shipping costs, insurance premiums, and logistical challenges for global energy supply chains.

Framing outlook using a scenario-based approach. Given the evolving situation, we continue to frame our outlook using a scenario-based approach. Our base case assumes Scenario 2, where military activity remains limited to targeted strikes on strategic assets and the conflict lasts for a couple weeks, accompanied by sustained disruption or intermittent closure of the Strait of Hormuz. Under such conditions, crude oil prices may remain supported by a persistent geopolitical risk premium.

Crude oil prices to trade within the USD90–100 per barrel range. Accordingly, under our current assumptions, we expect crude oil prices to trade within the USD90–100 per barrel range, reflecting both the partial easing of tensions and the continued uncertainty surrounding regional energy infrastructure and key shipping routes.

Upstream oil and gas activity could gradually increase. Should crude oil prices remain within this range, upstream oil and gas activity could gradually increase, benefiting service providers such as **Malaysia Marine and Heavy Engineering Holdings Berhad (BUY, TP: RM0.55), Deleum Berhad (BUY, TP: RM1.92), and Bumi Armada Berhad (BUY, TP: RM0.44)**, which are well positioned to capture increased demand for offshore engineering, maintenance, and production support services.

COMPANY *IN FOCUS*

MMHE Berhad

Maintain BUY | Target Price: RM0.55
Price @ 11 Mar 2026: RM0.41

- 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



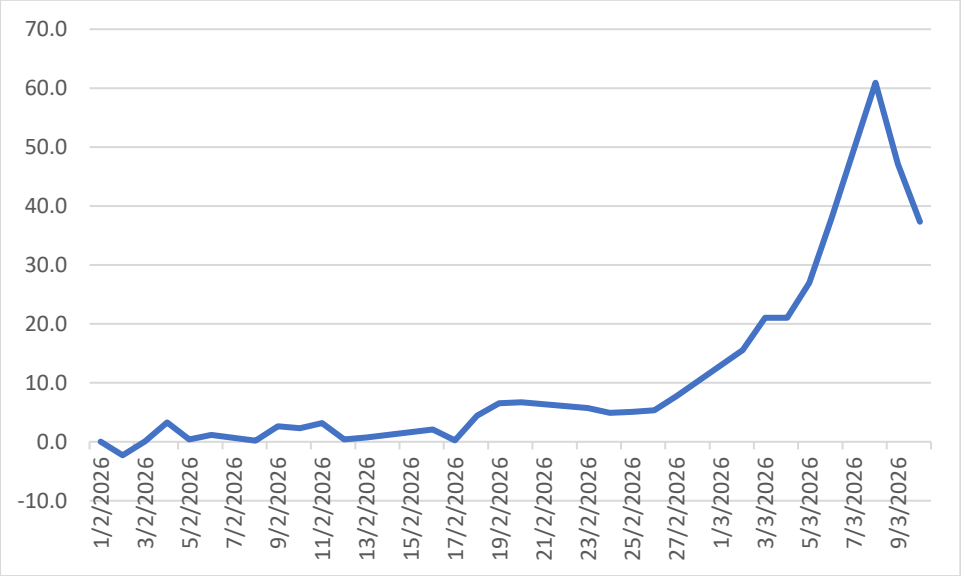
VOLATILE MOVEMENT FOR THE PRICE OF CRUDE

Recent developments in the Middle East have resulted in sharp movements across the crude oil market, highlighting once again the sensitivity of energy prices to geopolitical developments. Crude oil prices initially surged close to USD120 per barrel following a series of attacks targeting multiple oil and gas facilities across the region. Among the installations affected were several strategic export terminals, including one facility with the capacity to move millions of barrels of crude per day, raising immediate concerns regarding supply disruptions within the global energy market.

The situation was further compounded by the temporary closure of the Strait of Hormuz, one of the most critical maritime chokepoints for global energy flows. Approximately one-fifth of global oil trade passes through this narrow shipping corridor, and any disruption to its operations typically introduces a significant geopolitical risk premium into crude oil prices.

However, prices have since retraced sharply, declining to approximately USD90 per barrel. This adjustment followed public remarks from the US President indicating that the conflict would be a short-duration military campaign, signalling a potentially limited timeframe for the escalation. Markets interpreted these statements as an indication that the risk of prolonged supply disruption may be lower than initially feared. As a result of that, the earlier surge in crude oil prices has moderated, demonstrating the rapid repricing dynamics.

Chart 1 : Brent Prices During Conflict



Source: Bloomberg, MBSBR

SITUATION REMAINS FLUID

Despite the recent correction in crude oil prices, the overall situation remains fluid. Several oil and gas facilities across the region were damaged during the initial stages of the conflict, and the full extent of the disruption to infrastructure remain unclear. The destruction of production assets, storage facilities, and export infrastructure may place structural upward pressure on oil prices over the medium term.

In addition, the temporary closure of the Strait of Hormuz underscores the vulnerability of global energy supply chains to geopolitical developments. Even if shipping lanes reopen quickly, the presence of military activity in the region may continue to elevate shipping costs, insurance premiums, and logistical risks.

Given that tensions within the region have yet to fully subside, near-term visibility on the trajectory of crude remains limited. As such, the current environment continues to warrant a cautious approach when assessing crude oil price expectations.

SCENARIO ANALYSIS

In light of ongoing uncertainty, we continue to frame our outlook through a scenario-based approach. For reference, we outline the three scenarios that guide our current assessment of developments within the region:

Scenario 1: Short kinetic conflict lasting approximately 2–3 weeks, with no sustained disruption to the Strait of Hormuz. Under this scenario, geopolitical tensions remain contained and crude oil prices would likely retrace once markets gain confidence that global supply flows remain intact.

Scenario 2 (Adverse): Military activity remains limited primarily to targeted strikes on strategic assets, with the conflict still lasting 2–3 weeks but accompanied by sustained disruption or intermittent closure of the Strait of Hormuz. In this case, crude oil prices may remain elevated due to the persistence of a geopolitical risk premium within the market.

Scenario 3 (Severe Adverse): A multi-week conflict with sustained impairment to Hormuz shipping lanes, resulting in significant supply disruptions. Under such conditions, oil prices could spike sharply while global equity markets experience a broad de-rating amid heightened risk aversion.

Given recent developments, crude oil prices have moderated from earlier highs while tensions appear to have partially dissipated following signals that the conflict may be contained. Nevertheless, we continue to adopt Scenario 2 as our base case as the Strait of Hormuz remains subject to intermittent closure, and several affected countries are still dealing with the operational and logistical impact of damaged oil and gas facilities across the region.

These developments suggest that supply risks have not been fully resolved, and the geopolitical risk premium embedded in crude oil prices may persist in the near term. Accordingly, under our current assumptions we expect crude oil prices to hover within the USD90–100 per barrel range, reflecting both the partial easing of tensions and the ongoing uncertainty surrounding energy infrastructure and shipping routes in the region.

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

Given our current crude oil price assumption of USD90–100 per barrel, we believe the supply-side dynamics within the global energy market may begin to shift in response to recent developments. The destruction of several oil and gas facilities across parts of the Middle East has introduced additional uncertainty into global crude supply, particularly as some affected infrastructure may require time to return to full operational capacity.

While the broader conflict appears to remain contained for now, the damage to key facilities and logistical networks may tighten near-term supply conditions. In such an environment, sustained crude oil prices within the USD90–100 per barrel range would likely incentivise major oil producers to accelerate investment and development activities to compensate for the shortfall created by the disruption.

Historically, periods of elevated oil prices tend to encourage producers to increase exploration, production and field development spending. This typically results in stronger activity levels across the upstream segment of the oil and gas value chain, alongside increased demand for engineering, maintenance and offshore support services.

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 revised target price of RM0.55** pegging it to a 5 Year +1 SD PER of 11x to its EPS26 of 5.0sen, **Deleum Berhad with a TP of RM1.92**, and **Bumi Armada Berhad with a TP of RM0.44** 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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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