

22 April 2024

Energy & Petrochemicals | Regional Oil & Gas

## Regional Oil & Gas

## Overweight (Maintained)

### Geopolitical Uncertainties To Stay; Keep O/W

Stocks Covered 15  
 Rating (Buy/Neutral/Sell): 12 / 1 / 2  
 Last 12m Earnings Revision Trend: Neutral

- **Keep OVERWEIGHT; Top Picks: Dialog and Dayang Enterprise (Malaysia), PTT Exploration & Production (PTTEP) (Thailand), and Medco Energi Internasional (Indonesia).** We lift our 2024F-2025F Brent oil prices to USD88 and USD83/bbl as the uncertainties arising from recent geopolitical conflicts could support prices in the near term.
- **Deepening conflict in the Middle East?** It was reported that Israel has struck back last Friday, hitting a military site in a drone operation that was limited in scale and seemed to have caused little damage following Iran's drone and missile attack on Israel on 14 Apr. However, according to CNN, the scope of Israel's military response to Iran's first-ever direct attack on the country remains unclear and Israeli officials have yet to publicly acknowledge responsibility for the reported overnight explosions in parts of Iran.
- **Our stance:** The recent escalation in Middle East tensions spells two probable scenarios in the coming months. We think the base case scenario is for tensions to stay isolated within selected countries in the Middle East, suggesting that the collateral damage may be limited to the broader region and the Group of Seven (G7) members. In this scenario, we discount the possibility of a further escalation between Israel and Iran, with both sides taking a defensive (rather than offensive) stance in the current conflict. We view the second scenario – further escalation of current tensions – to be a tail-end risk at this point, defined as tensions spreading into the broader Middle East region, which may be further exacerbated should the G7 region use military intervention. We see upside risks for Brent crude at a high of USD140 per bbl should tensions escalate (note Brent edged towards USD140 per bbl in 2022 during the onset of the Russo-Ukrainian (RU-UK) conflict). Prices could stay elevated for longer, depending on the magnitude of the event.
- **Impact to the oil market.** The disruption to the oil market at this stage is rather manageable assuming there is no further escalation between these two countries. Iran's crude oil production was at 3.2mbpd in 1Q24 and any supply disruption should be well covered by OPEC's spare capacity (6.6mbpd), of which Saudi Arabia and UAE account for the largest portion at 3.0mbpd and 1.5mbpd. Meanwhile, the recent re-imposition of US sanctions on Venezuela oil is likely to have rather minimal effect on the oil market given the latter's oil production was only at 0.8mbpd in 1Q24 and we may see the trading pattern shift towards China at discounted prices.
- **Beneficiaries.** Companies with exploration and production exposure (ie PTTEP, Dialog and Hibiscus Petroleum) should benefit from stronger commodity prices while we continue to like upstream service providers, benefiting from robust activities, solid charter rates amidst increased domestic capex allocations.

#### Top Picks

Top Picks	Target Price
Dayang Enterprise (DEHB MK) – BUY	MYR2.95
Dialog (DLG MK) – BUY	MYR2.79
PTT Exploration & Production (PTTEP TB) – BUY	THB191
Medco Energi Internasional (MEDC IJ) – BUY	IDR1,830

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Company Name	Rating	Target	% Upside (Downside)	P/E (x) Dec-25F	P/B (x) Dec-25F	ROAE (%) Dec-25F	Yield (%) Dec-25F
AKR Corporindo	Buy	IDR2,000	8.4	12.1	2.9	24.5	5.8
Bumi Amada	Buy	MYR0.68	17.5	5.8	0.5	8.8	-
Coastal Contracts	Sell	MYR1.25	(16.7)	8.0	0.4	5.3	-
Dayang Enterprise	Buy	MYR2.95	15.7	11.9	1.5	11.6	1.8
Dialog	Buy	MYR2.79	16.7	25.0	2.3	9.5	1.6
Malaysia Marine & Heavy Engineering	Buy	MYR0.57	20.5	14.3	0.6	3.9	-
Medco Energi Internasional	Buy	IDR1,830	17.7	6.9	1.0	16.7	4.0
MISC	Buy	MYR8.94	11.6	14.8	0.9	6.0	4.7
Perusahaan Gas Negara	Buy	IDR1,440	6.7	5.9	0.7	11.3	9.7
Petronas Dagangan	Neutral	MYR22.58	4.3	20.8	3.5	17.0	3.8
PTT	Buy	THB44.00	31.3	7.9	0.8	10.2	5.7
PTT Exploration & Production	Buy	THB191.00	19.4	8.7	1.1	13.0	4.6
Sapura Energy	Sell	MYR0.02	(55.6)	na	na	7.0	-
Wasco	Buy	MYR1.43	5.9	9.6	1.1	12.6	-
Yinson	Buy	MYR2.96	26.0	9.1	1.1	12.9	0.9

Source: Company data, RHB

## Crude Oil Price Forecasts

We lift our Brent crude oil price forecasts for 2024 and 2025 at USD88 and USD83 per bbl. The recent escalation in Middle East tensions spells two probable scenarios in the coming months. We think the base case scenario is for tensions to stay isolated within selected countries in the Middle East, suggesting that the collateral damage may be limited to the broader region and the G7 members. In this scenario, we discount the possibility of a further escalation between Israel and Iran, with both sides taking a defensive (rather than offensive) stance in the current conflict. We view the second scenario – further escalation of current tensions – to be a tail-end risk at this point, defined as tensions spreading into the broader Middle East region, which may be further exacerbated should the G7 region use military intervention. We see upside risks for Brent crude at a high of USD140 per bbl should tensions escalate (note Brent edged towards USD140 per bbl in 2022 during the onset of the RU-UK conflict). Prices could stay elevated for longer, depending on the magnitude of the event.

Our main assumptions are:

- i. Global oil demand will grow by 2.2mbpd to 104.4mbpd in 2024F, and by another 1.8mbpd to 106.2mbpd in 2025F;
- ii. Russia's oil and condensate production will remain at 9.57mbpd in 4Q23 and the country will sustain its voluntary production cut until 2Q24. The full-year average is estimated at 9.7mbpd for 2024;
- iii. Saudi Arabia-led OPEC may gradually unwind production cuts from 2H24 onwards, and its production should average at 27.2mbpd (+0.2mbpd YoY) in 2024F and 28.4mbpd (+1.2 mbpd YoY) in 2025F.

With these assumptions, the theoretical supply deficit is estimated at 1.3mbpd in 2024F and 0.6mbpd in 2025F.

**Figure 1: Demand, supply and crude oil prices and forecasts**

	2021	2022	2023	1Q24	2Q24F	3Q24F	4Q24F	2024F	1Q25F	2Q25F	3Q25F	4Q25F	2025F
<b>Crude oil price (USD/bbl)</b>													
Brent, RHB (new)	71	99	82	82	90	90	90	88	85	85	80	80	83
Brent, RHB (old)	71	99	82	82	86	86	86	85	80	80	80	80	80
<b>World oil demand and supply balance (mbpd)</b>													
Total demand	97.2	99.7	102.2	103.5	103.8	104.9	105.6	104.5	105.4	105.6	107.0	107.3	106.3
YoY change	5.9	2.5	2.5	2.2	2.1	2.6	2.1	2.2	1.8	1.7	2.1	1.8	1.8
Total non-OPEC	65.1	67.0	69.4	70.1	69.8	70.6	71.3	70.4	71.7	71.4	71.6	72.3	71.7
OPEC NGLs	5.3	5.4	5.4	5.5	5.5	5.5	5.5	5.5	5.6	5.6	5.6	5.6	5.6
Total non-OPEC +OPEC NGLs	70.3	72.3	74.8	75.5	75.3	76.0	76.8	75.9	77.3	77.0	77.2	77.8	77.3
YoY change	0.8	2.0	2.4	1.3	1.1	1.1	0.7	1.1	1.7	1.7	1.1	1.1	1.4
OPEC	25.2	27.7	27.0	26.5	27.2	27.6	27.6	27.2	27.4	28.5	28.8	28.8	28.4
Total production	95.5	100.1	101.8	102.1	102.5	103.6	104.4	103.1	104.7	105.5	106.0	106.6	105.7
Balance	-1.7	0.4	-0.4	0.4	-0.1	-0.8	1.2	1.3	0.7	0.0	1.0	0.7	0.6

Note: Data as at Mar 2024. \*OPEC supply excludes that from Angola  
Source: OPEC, RHB

**Upside for crude oil prices rising** above and beyond our revised forecasts could come from:

- i. OPEC+ being unable to increase production on time;
- ii. Global oil demand growing higher than expected;
- iii. Unexpected geopolitical events heightening the risk premium.

**Further downside** to our crude oil price assumptions could stem from:

- i. Weaker-than-expected crude oil demand;
- ii. Higher-than-expected production from the US;
- iii. Slowdown in the global economy.

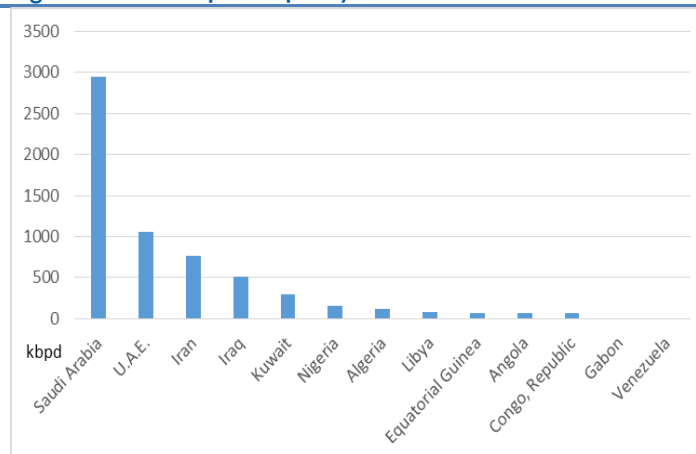
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**Impact to the oil market.** The disruption to the oil market at this stage is rather manageable assuming there is no further escalation between the two countries. However, price reaction would very much depend on the magnitude of events. We believe oil prices could trade in the range of USD90-100 per bbl if there is an attack towards Iran's oil export or production facilities. Iran's crude oil production was at 3.2mbpd in 1Q24 and any supply disruption should be well covered by OPEC's spare capacity (6.6mbpd), of which Saudi Arabia and UAE account for the largest portion at 3.0mbpd and 1.5mbpd. In the event of such tensions spreading into the broader Middle East region, where the Strait of Hormuz is affected, we see oil prices to trade well above USD100 per bbl. The US Energy Information Administration (EIA) estimated about 21% of the global daily oil consumption travels through this narrow waterway between Iran and Oman. In the worst case scenario where it is being further exacerbated to involve intervention from G7 region from a military approach, we see upside risks for Brent crude at a high of USD140 per bbl should tensions escalate (note Brent edged towards USD140 per bbl in 2022 during the onset of the RU-UK conflict).

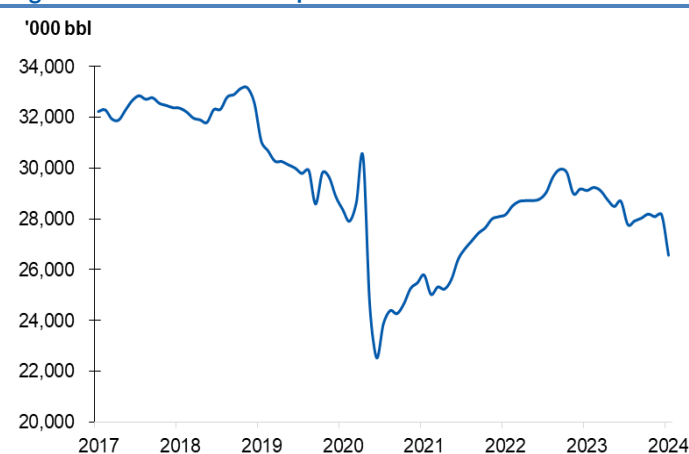
Meanwhile, the recent re-imposition of US sanctions on Venezuela oil is likely to have rather minimal effect to the oil market given the latter's oil production was only at 0.8mbpd in 1Q24 and we may see trading pattern shift towards China at discounted prices.

Figure 2: OPEC's spare capacity



Source: Bloomberg

Figure 3: OPEC - crude oil production



Note: \*OPEC supply excludes that from Angola starting Jan 2024  
Source: Bloomberg

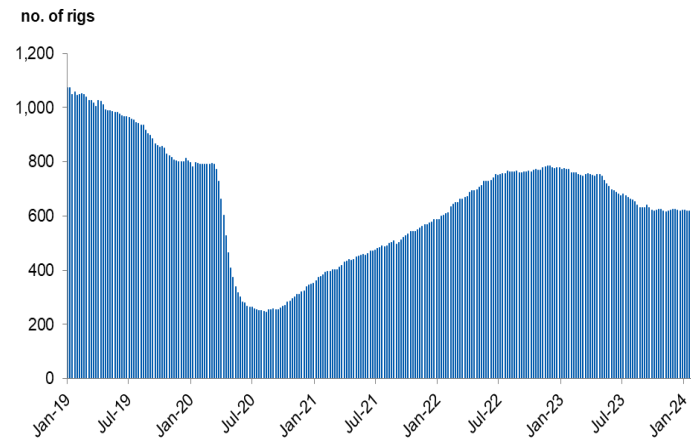
**No major cut in global oil demand projection.** As per OPEC's monthly report for Apr 2024, global oil demand growth is still estimated at 2.2mbpd YoY, taking total demand to 104.5mbpd for 2024F (premised on global GDP growth of 2.8% YoY). Other international agencies such as EIA and International Energy Agency (IEA) are also seeing another year of positive growth, ie up by 1.0-1.2 mbpd. This moderation is largely due to tighter efficiency standards and expanding EV numbers across the globe compounding the baseline effect. The moderation would also be very much dependent on the strength of China's economic recovery. Non-OECD areas have the highest growth demand projection of 2.0mbpd in 2024 – led by China, India, the Middle East, and other parts of Asia.

**More room for SPR to go lower?** If supply continues to tighten, one of the ways for US to counter is to release its strategic petroleum reserves again to stabilise oil prices. The Strategic Petroleum Reserve (SPR) currently holds more than 360m bbls of oil but it is close to a 40-year low due to the sales in 2022. The US does not have a legally mandated minimum level for its SPR but IEA requires member countries to maintain oil reserves equivalent to at least 90 days of net oil imports. The current SPR translates to about 187 days of inventory level according to 1.9mbpd of net import as of Jan 2024. This means that the SPR is still way above the minimum required level by IEA. For now, we think the US is neither pursuing an aggressive buyback to avoid pushing up oil prices, nor does it want to release the SPR further to cool down oil prices.

Note that US crude oil production remained at a high of 13.3mbpd in Dec 2023. EIA expects production to average at 13.2mbpd (+2% YoY, +0.3mbpd) in 2024. This is on the assumption that there would be a slight moderation from Dec 2023's data, before production levels surge to a new record high in Feb 2025. The recent higher production levels were mainly led by better productivity at the oil wells. The US rig count has been stabilising at c.6219 units since 4Q24, but investors should also take note that it also pointed to a 17% YoY decline.

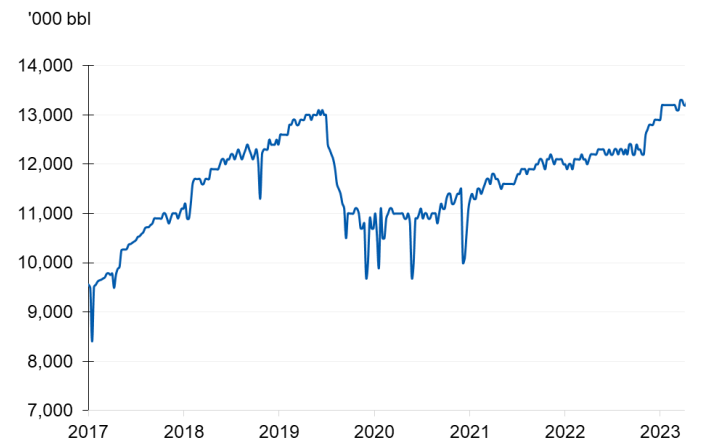
According to IEA, global observed oil inventories surged by 47.1m bbl in February from a 16-month low in January. There has been an uptick in offshore stocks no thanks to seaborne exports reaching an all-time high amidst shipping disruptions through the Red Sea.

Figure 4: US rig count



Source: Bloomberg

Figure 5: US crude oil production



Source: Bloomberg

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