Regional Oil & Gas

Overweight (Maintained)

Stay Fuelled Up; Keep OVERWEIGHT

Stocks Covered	15
Rating (Buy/Neutral/Sell):	11 / 4 / 0
Last 12m Earnings Revision Trend:	Neutral

- Keep OVERWEIGHT; Top Picks: Dialog and Dayang Enterprise (DEHB) (Malaysia), PTT Exploration & Production (PTTEP) (Thailand), and Elnusa (ELSA) (Indonesia). Premised on the expectation of stable oil prices, we continue to favour counters with upstream exposure and international diversification amidst flagging higher uncertainties between Petronas-Petroleum Sarawak Berhad (Petros) in Malaysia.
- **We maintain our Brent crude oil price forecasts for 2024, 2025, and 2026 at USD88, USD83, and USD80/bbl.** This is premised on an optimistic outlook for the global economy in 3Q24 driven by a continued economic recovery momentum in the key markets such as the US, China and selected ASEAN economies. Overall OPEC+ compliance remains fairly good, at 105% in Jun 2024, as OPEC+ has been producing 5% lesser than the required production. The theoretical supply deficit is estimated at 0.9mbpd in 2024F and 0.3mbpd in 2025F. The market is able to absorb the additional barrels to be returned by OPEC+ backed by healthy global oil demand growth. The cartel, in our view, remains intact and would choose to support the oil market whenever necessary.
- **Malaysia.** There has been increasing talk about potential capex cut by Petronas following the news of Petros taking over the buying and selling of natural gas produced in the state from Petronas whereby the transition will start from 2H24. The earnings impact to Petronas remains uncertain but may affect its ability to spend notwithstanding that it has committed to pay sizeable dividend to the Federal Government. While we may see some potential operational disruption in the near term, we still assume a resolution to be achieved between these two involved parties without jeopardising existing productions and future domestic investments to capture the rising global gas demand. For now, we prefer upstream services players with greater exposure in the maintenance-related space, as they provide greater earnings resilience coupled with corporations with international diversification.
- **Indonesia and Thailand.** With the expectation of higher oil prices of USD90/bbl in 2H24, we continue to like players with upstream exposure. ELSA is in a sweet spot amidst the rising O&G exploration activity in Indonesia and higher petroleum demand amidst undemanding valuation (0.7x P/BV), with a decent ROE and earnings growth. PTTEP is our preferred pick in Thailand. The medium-term (2024-2028) outlook remains strong as sales volume is projected to grow at a 5% CAGR.

Top Picks	Target Price
Dayang Enterprise (DEHB MK) – BUY	MYR3.58
Dialog (DLG MK) – BUY	MYR2.96
PTT Exploration & Production (PTTEP TB) – BUY	THB180
Elnusa (ELSA IJ) – BUY	IDR630

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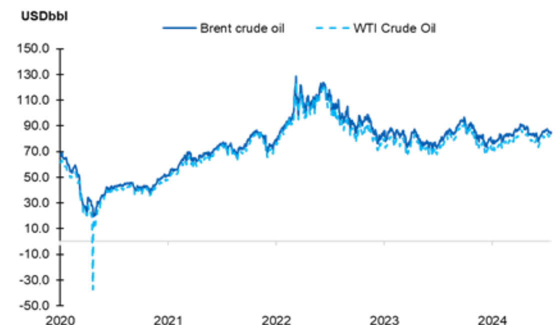
Brent and WTI crude oil price trends



Source: Company data, RHB

Company Name	Rating	Target	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
AKR Corporindo	Buy	IDR2,100	38.6	9.9	2.5	26.4	6.6
Bumi Armada	Buy	MYR0.68	19.6	4.0	0.5	13.9	-
Coastal Contracts	Neutral	MYR1.64	(11.6)	7.0	0.5	7.7	-
Dayang Enterprise	Buy	MYR3.58	24.3	13.7	1.8	12.2	1.6
Dialog	Buy	MYR2.96	23.3	25.1	2.5	10.0	1.8
Elnusa	Buy	IDR630	17.8	5.7	0.8	14.6	5.1
Malaysia Marine & Heavy Engineering	Buy	MYR0.60	28.0	19.3	0.6	3.0	-
Medco Energi Internasional	Buy	IDR1,830	42.4	5.6	0.9	18.9	5.0
MISC	Buy	MYR9.35	8.1	15.1	1.0	6.4	4.4
Perusahaan Gas Negara	Neutral	IDR1,400	(12.2)	7.7	0.9	10.2	8.1
Petronas Dagangan	Neutral	MYR20.83	23.5	16.6	2.8	17.2	4.8
PTT	Buy	THB44.00	36.4	8.1	0.8	10.5	6.7
PTT Exploration & Production	Buy	THB180.00	24.6	7.2	1.1	16.0	6.0
Wasco	Neutral	MYR1.55	23.0	9.3	1.3	14.2	3.6
Yinson	Buy	MYR3.32	38.8	13.4	1.3	11.0	1.6

Source: Company data, RHB

Crude Oil Price Forecasts

We maintain our Brent crude oil price forecasts for 2024, 2025, and 2026 at USD88, USD83, and USD80 per bbl. 1H24 crude prices have averaged at USD83 per bbl. With a slight tweak in our quarterly assumptions, we maintain our crude prices at USD88 per bbl in 2024, which implies an average of USD91-92 per bbl in the next two quarters. We see oil prices trending upwards as we continue to adopt an optimistic outlook for the global economy in 3Q24 driven by a continued economic recovery momentum in the key markets such as the US, China and selected ASEAN economies. We maintain our above-consensus forecasts for the US and China to expand 2.2% and 5% in 2024. That said, RHB Economics also advocates some degree of caution on risk appetite, following evidence of growth normalisation in key global economies.

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 27.5mbpd (+0.5mbpd YoY) in 2024F and 28.4mbpd (+0.9 mbpd YoY) in 2025F.

With these assumptions, the theoretical supply deficit is estimated at 0.9mbpd in 2024F and 0.3mbpd in 2025F. We believe the market is able to absorb the additional barrels to be returned by OPEC+ backed by healthy global oil demand growth.

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

	2021	2022	2023	1Q24	2Q24F	3Q24F	4Q24F	2024F	1Q25F	2Q25F	3Q25F	4Q25F	2025F
Crude oil price (USD/bbl)													
Brent, RHB (new)	71	99	82	82	85	91	92	88	85	85	80	80	83
Brent, RHB (old)	71	99	82	82	90	90	90	88	85	85	80	80	83
World oil demand and supply balance (mbpd)													
Total demand	97.2	99.7	102.2	103.5	103.8	104.9	105.6	104.5	105.3	105.5	107.0	107.4	106.3
YoY change	5.9	2.5	2.6	2.3	2.0	2.5	2.1	2.2	1.8	1.7	2.1	1.8	1.9
Total non-DoC* production	47.7	49.3	51.7	52.6	52.8	53.0	53.4	53.0	54.0	53.7	54.0	54.6	54.1
DoC NGLs	7.6	7.9	8.2	8.4	8.3	8.2	8.3	8.3	8.3	8.4	8.2	8.3	8.3
Total non-DoC and DoC NGLs	55.3	57.2	59.9	61.0	61.1	61.2	61.7	61.3	62.3	62.1	62.2	62.9	62.4
YoY change	0.6	1.9	2.7	2.0	1.8	1.2	0.5	1.4	1.4	1.0	0.9	1.2	1.1
OPEC	25.2	27.7	27.0	26.6	28.3	27.6	27.4	27.5	27.4	28.5	28.8	28.8	28.4
Non-OPEC Doc crude production	15.0	15.1	15.0	14.7	14.7	15.0	15.1	14.9	15.1	15.2	15.3	15.4	15.3
Total production	95.5	100.1	101.9	102.3	104.1	103.8	104.2	103.6	104.8	105.8	106.3	107.1	106.0
Balance	-1.6	0.4	-0.3	1.2	-0.3	1.1	1.4	0.9	0.5	-0.3	0.7	0.3	0.3

*Note: Data as at Jun 2024. *Declaration of Cooperation (DOC) refers to OPEC+*
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.

Global oil demand projections remain healthy. As per OPEC's monthly report for July, 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 2.9% YoY). 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. For 2025, OPEC expects global oil demand to grow by 1.8 mbpd. We have seen a slight downward adjustment in projections of other international agencies ie the US Energy Information Administration (EIA) and International Energy Agency (IEA), which are still projecting positive growth of 1.0-1.1 mbpd this year with lower economic growth assumptions, greater energy efficiencies and vehicle electrifications.

OPEC+ decided to extend its production cuts, including voluntary and group-wide cuts, until 2025 with a gradual ramp-up plan. Note: The United Arab Emirates (UAE) baseline required production has been increased by 300kbpd starting from Jan 2025 to Sep 2025. Despite extending the baseline production cut of 3.66mbpd till the end of Dec 2025, eight OPEC+ countries have extended their additional voluntary cuts from June till September this year and indicated a phasing out of such voluntary production cuts starting from 4Q24 till end 2025.

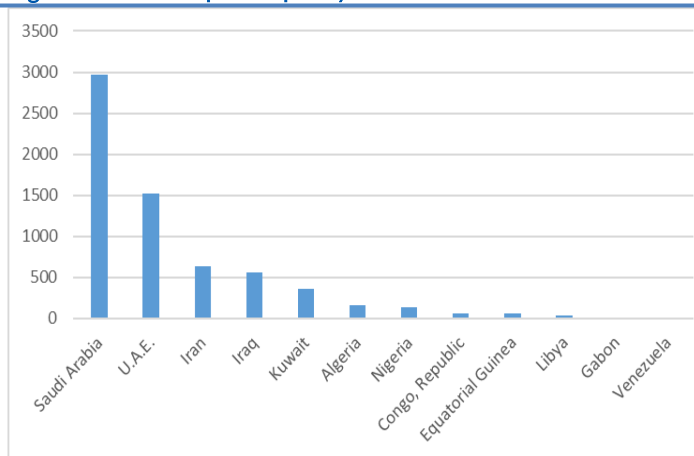
A relatively clear production cut unwinding plan somewhat indicated that OPEC+ members have demonstrated their eagerness to increase production after a relatively long period of production cuts. This was also against some of the market's earlier expectations that OPEC+ would continue to extend its additional voluntary cuts – at least until the end of the year – without a clear production ramp-up plan. However, we note this monthly increase can still be paused or reversed – subject to market conditions. The actual impact to the oil market may not be very significant, especially when the UAE and Iraq have been producing higher than what had been required. Therefore, with the meeting outcome allowing some countries to lift production gradually, we are still of the view that the cartel remains intact and would choose to support the oil market whenever necessary. **Overall OPEC+ compliance remains fairly good**, at 105% in June, as OPEC+ has been producing 5% lesser than the required production. Most OPEC+ members have been producing less than what is required, except Russia, Oman, Kazakhstan, and Iraq.

Figure 2: OPEC's latest production adjustments table for 2024-2025

	2024				2025										Required Production Level as per 37th ONOMM
Country	Jun-Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct-Dec	
Algeria	908	912	917	921	925	929	934	938	942	946	951	955	959	959	**1,007** (1)
Iraq	4,000	4,018	4,037	4,055	4,073	4,092	4,110	4,128	4,147	4,165	4,183	4,202	4,220	4,220	**4,431** (1)
Kuwait	2,413	2,424	2,436	2,447	2,458	2,469	2,481	2,492	2,503	2,514	2,526	2,537	2,548	2,548	**2,676** (1)
KSA	8,978	9,061	9,145	9,228	9,311	9,395	9,478	9,561	9,645	9,728	9,811	9,895	9,978	9,978	**10,478** (1)
UAE	2,912	2,926	2,939	2,953	3,000	3,047	3,094	3,140	3,187	3,234	3,281	3,328	3,375	3,375	**3,519** (1)(2)
Kazakhstan	1,468	1,475	1,482	1,489	1,495	1,502	1,509	1,516	1,523	1,530	1,536	1,543	1,550	1,550	**1,628** (1)
Oman	759	763	766	770	773	777	780	784	787	791	794	798	801	801	**841** (1)
Russia	8,978	9,017	9,057	9,096	9,135	9,174	9,214	9,253	9,292	9,331	9,371	9,410	9,449	9,449	**9,949** (1)(3)

Note: (1)Required production levels as per the 37th ONOMM before applying the additional voluntary cuts announced in Apr 2023 and Nov 2023
Note 2: (2)UAE required production has been increased by 300kbpd. This increase will be phased in gradually starting Jan 2025 till end Dec 2025
Note 3: (3)This is the required production level as per the 37th ONOMM as assessed by the secondary sources and Russia is working with secondary sources to update these figures
Source: OPEC

Figure 3: OPEC's spare capacity



Source: Bloomberg

Figure 4: OPEC – crude oil production

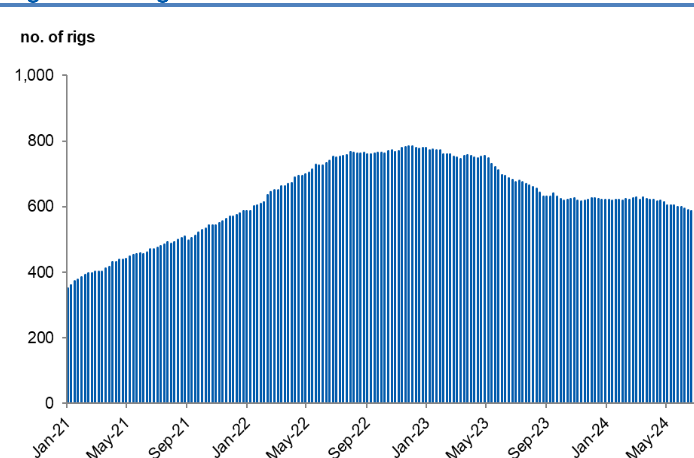
*Note: *OPEC supply excludes that from Angola starting Jan 2024*
Source: Bloomberg

Note that US crude oil production remained flat in the past few months, hovering slightly above 13mbpd. EIA expects production to average at 13.3mbpd (+2% or +0.3mbpd YoY) in 2024 before production levels surge to a new record high in 2025. The recent higher production levels were mainly led by better productivity at the oil wells. The US rig count is still on a downtrend, hovering at c.584 units (-13% YoY; -6% YTD).

Despite being on a decreasing downtrend for rig count, the drilled but uncompleted wells in the US have demonstrated a marginal two-month increase in March and April this year after a consecutive 13-month decline. This could be a sign that US producers are more keen to drill new wells, rather than focus on the remaining low hanging fruits. If such a reversing trend continues, we see a higher possibility for US production to achieve EIA's projection of 13.8mbpd (+4% or +0.5mbpd YoY).

According to IEA, global observed oil inventories rose for a fourth consecutive months by 23.9m bbls in May due to a surge in land stocks offsetting a decline in offshore stocks. Preliminary data show global oil stocks falling by 18.1m bbls dominated by lower crude oil stocks masking a built up in petroleum products.

Figure 5: US rig count



Source: Bloomberg

Figure 6: US crude oil production

Source: Bloomberg

Malaysia

Petros taking over sole gas aggregator in Sarawak. Based on our channel checks, there has been increasing talk about potential capex cut by Petronas following the news of Petros taking over the buying and selling of natural gas produced in the state from Petronas whereby the transition will start from 2H24. The appointment of Petros as a sole gas aggregator, as mentioned by Datuk Seri Julaihi Narawi, the Sarawak minister of utilities and telecommunication quoted in the news report, also means that Petros will undertake all activities related to the acquisition, supply and distribution of natural gas produced in Sarawak as well as be responsible for the monitoring of development, operation and maintenance of the distribution of the natural gas system in Sarawak.

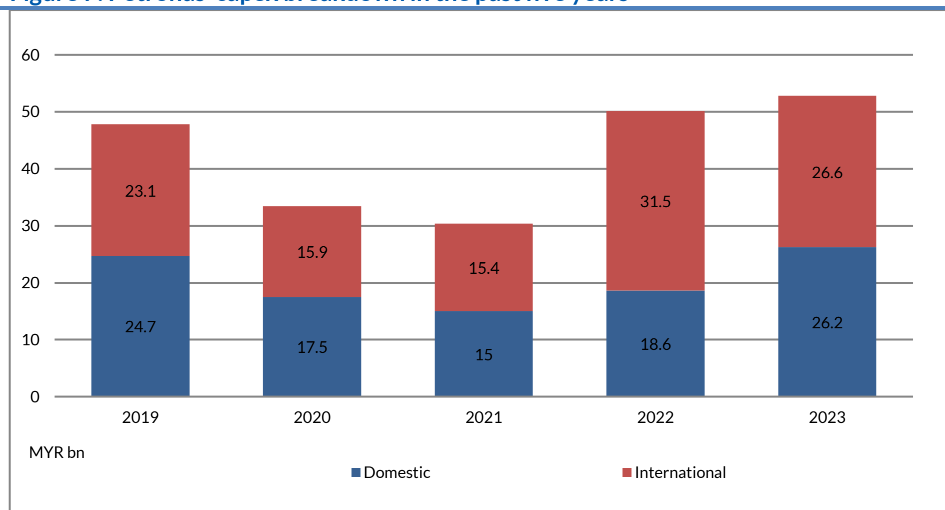
Uncertainties to rise again. The earnings impact to Petronas remains uncertain but Petronas is expected to lose a portion of revenue for not being the sole gas aggregator in Sarawak. The gas segment contributed c.MYR101bn revenue and MYR30bn profit in FY23, which is c.30% and 38% of Petronas' total topline and headline profit in FY23. Meanwhile, Petronas also delivered 403 LNG cargoes from its LNG complex and 38 LNG cargoes from two FLNG and delivered 2214 mmscfd of average sales gas volume in Peninsular Malaysia. Depending on the magnitude of revenue/earnings loss from the transfer, this could affect its ability to keep up the capex spending in the long term although its current balance sheet remains solid notwithstanding that it has committed to pay sizeable dividend to the Federal Government.

We may see some potential operational disruption in the near term before much clarity or a clear resolution is achieved between Petros and Petronas. However, we believe ultimately, both parties would want to maximise production, especially when oil prices are expected to remain stable. A drastic domestic capex cut by one party, in our view, is not sustainable in the long run as it would eventually jeopardise Malaysia's oil & gas position in the region.

Production target could retain. Note that Petronas recorded production of 2,587kboepd (+4% YoY, +1% QoQ) in 1Q24, with Malaysia's production exceeding 2,000kboepd, which is quite on track to achieving a total production of 2.7mboepd by this year (2mboepd from the domestic portfolio) and sustain these numbers until 2030. We think such a target is likely to be retained assuming there is no major transfer of Sarawak's exploration & production (E&P) business to Petros.

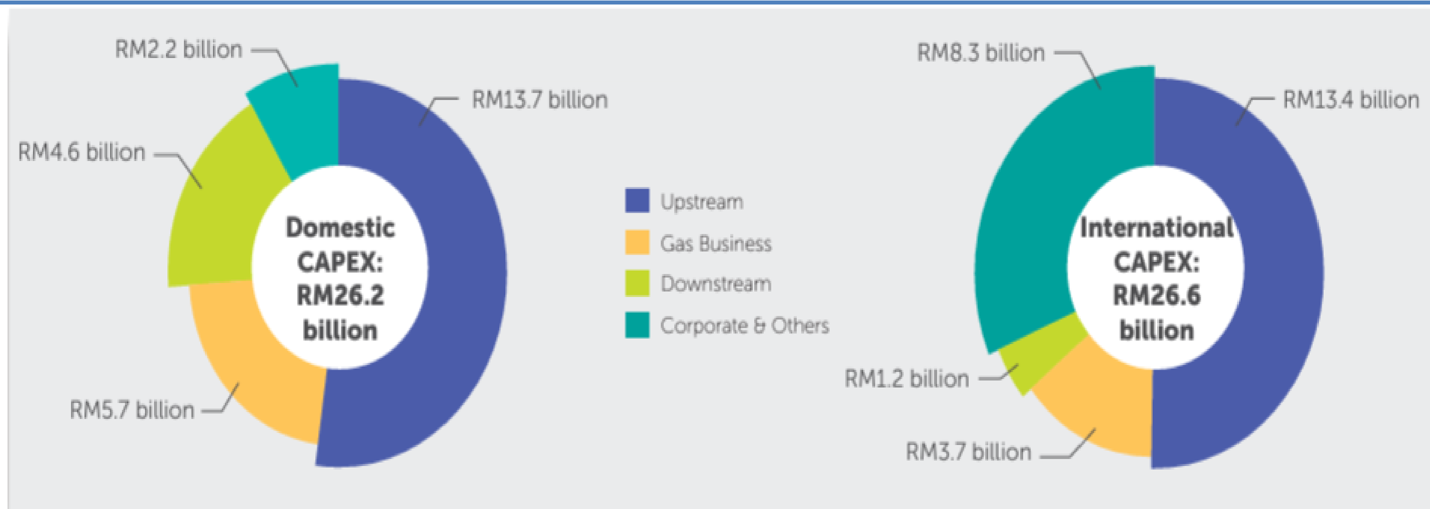
Potential capex cut? Capex wise, Petronas previously has guided to spend MYR300bn capex between 2023-2027 (MYR50bn pa) which includes a domestic average capex spending of c.MYR22.6bn pa (5-year capex of MYR113bn. Petronas spent MYR52.8bn capex in FY23, of which there is almost an equal split between its domestic and international portfolio. The upstream and gas segments accounted for 52% and 22% of the domestic capex and the transfer of the sole gas aggregator to Petros may lead to a more prominent capex cut in the gas segment.

Figure 7: Petronas' capex breakdown in the past five years



Source: Petronas

Figure 8: Petronas' business and geographical segments in FY23

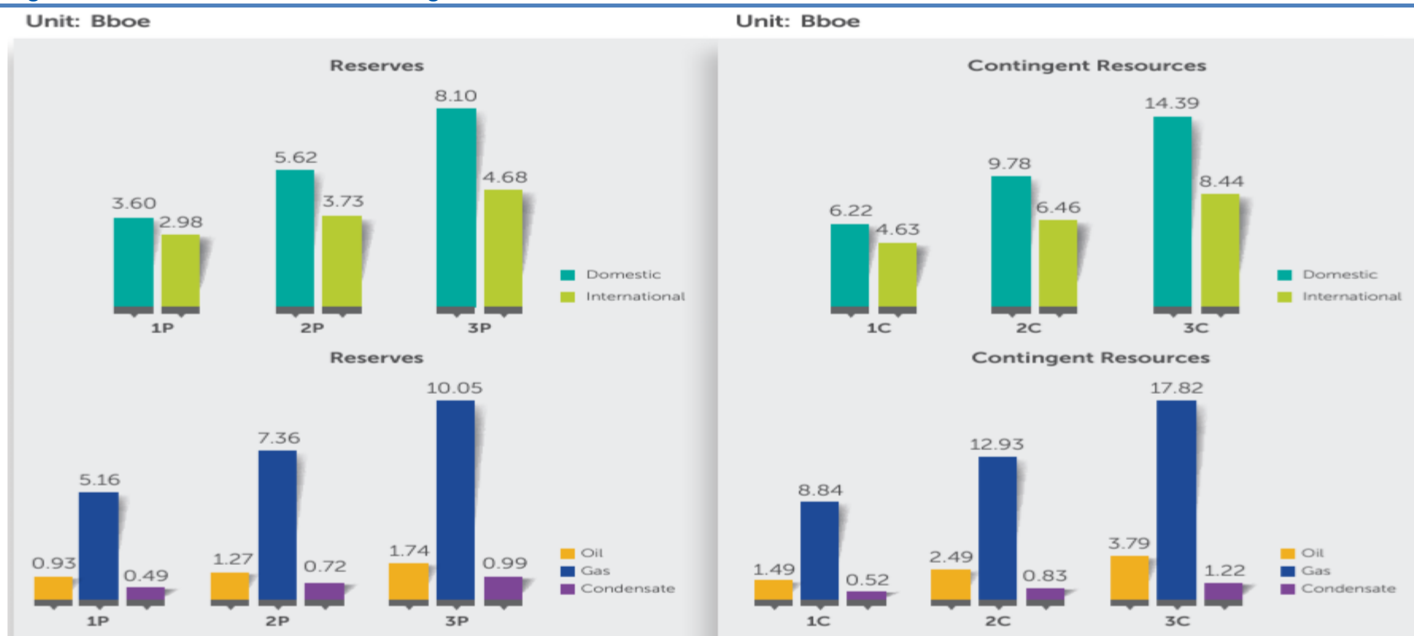


Source: Petronas

Healthy global gas demand to entice continuous gas investment domestically. As of 1 Jan, Petronas' total petroleum 2P reserves stood at 9.35bn boe (+1% YoY) and total 2C contingent resources of 16.25bn boe (+5% YoY), of which 60% is domestic and close to 80% is gas. While there is no disclosure as to how much of these reserves and resources related to Sarawak gas, we believe Sarawak gas contributed a sizeable portion to Petronas' total portfolio. Essentially, in order to sustain the production targets, there has to be continuous development in these gas projects. This is largely justified by healthy global gas demand growth in the long term driven mainly by power sector.

Additionally, we may see further power demand arising from mushrooming data centre development going forward. IEA projects global data centre electricity demand will more than double to over 1000TWh from 2022 to 2026. Artificial intelligence (AI) will key one of the key factors in this surge, as training large language models and other AI applications require immense computational power. Natural gas has been stepped up to fill up the gap following coal plant retirement while renewable energy (RE) could still be rather instable without significant commercialisation of battery energy storage in place. In short, we believe Malaysia needs to position itself to capture such demand with sufficient supply to avoid losing its competitive edge.

Figure 9: Petronas' reserves and contingent resources



Source: Petronas

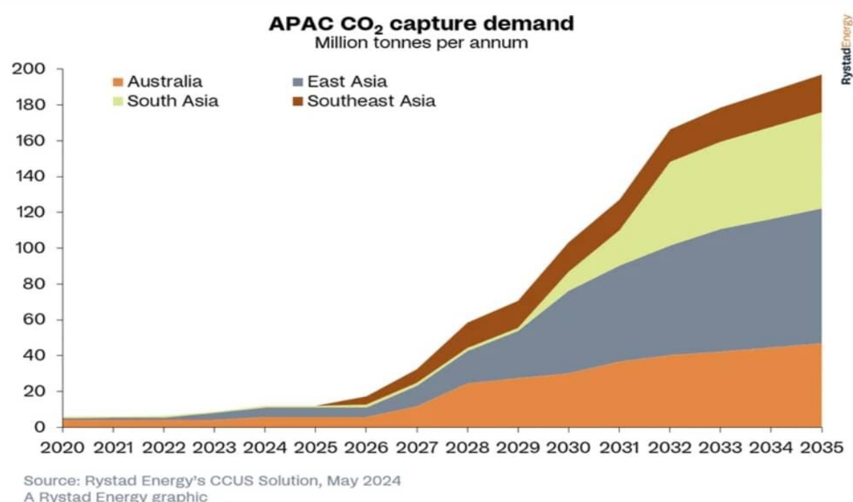
Assessing the worst-case scenario. In the event Petronas decides to scale back capex substantially, exploration and green field development projects, in our view, are likely to take a more prominent hit while brownfield projects and maintenance activities will be of lesser impact given its importance to maintain current production for current operating cash flow generation purposes. Domestic drilling activities, greenfield offshore fabrication works, greenfield HUCs and OSV demand supporting drilling projects will be reduced accordingly.

Given such uncertainties, we prefer upstream services players with greater exposure in the maintenance-related space. 3Q24 is likely to be the strongest quarter with activities ramping up. A new maintenance contract cycle round is expected to be rolled out by end-2024. Meanwhile, the OSV market is expected to be rosy, as there are still potential improvements in daily charter rates due to tight vessel supply. Long-term contract tenders have been submitted by various OSV players, and we expect these contract renewals to be awarded in the near term.

FPSO job pipeline to stay robust. Global FPSO demand remains robust and players like Yinson, Bumi Armada and MISC are still actively bidding for new projects. As it is currently a vendor's market, some of the clients will negotiate directly with contractors and upfront payment will be offered to reduce its equity outlay. Some of the upcoming tenders are the Balaine, Paon projects in Ivory Coast, Barracuda Caratinga and Albacora projects in Brazil, WL-400 project in Malaysia and Dorado project in Australia. Yinson expects monetisation of the FPSO projects to materialise by this year, allowing it to fund new projects without having to turn to equity fund raising. We believe it will be a positive catalyst to unlock its value and enable further recycling of capital.

Carbon capture and storage (CCS) gaining traction. Meanwhile, the new business and net zero carbon emissions-related capex accounted for about only 10% of Petronas' total capex in 1Q24. Almost two-thirds of it was spent on RE while the remaining one-third was for CCS. The national oil major's RE capacity in operations and under-development projects remained unchanged QoQ, at 2.9GW. We believe capex spending for both RE and CCS will continue to rise in the long run. As highlighted by Rystad Energy, the Asia-Pacific (APAC) region is growing rapidly as a key player in the CCS sector, with Malaysia, Australia and Indonesia being the emerging hubs within the region and spurring cross-border solutions with countries like Japan and South Korea.

Figure 10: APAC CO2 capture demand



Source: Rystad Energy

Expect a modest recovery in petrochemical prices in 2H24. In Asia, substantial overcapacity and weak demand led to negative margins for major value chains, such as ethylene, polyethylene (PE), and polypropylene (PP). We expect to see a modest recovery in 2H24 following the tail-end of destocking activities, coupled with stronger demand on the back of more robust China economic growth assumptions. That said, we are not seeing a major upcycle – given the pressures from new capacity additions and persistent market share battles for certain petrochemical products (ie olefins and polyolefins).

Maintain OVERWEIGHT on the sector with Dialog, DEHB and Yinson being the preferred picks. Despite the rising uncertainties over Petronas' direction and strategy, we still maintain OVERWEIGHT call on the sector as we still assume a resolution to be achieved between these

two involved parties without jeopardising the domestic oil & gas industry in the long run. For now, we would prefer upstream services players with greater exposure in the maintenance-related space, as it provides greater earnings resilience. We also like companies with strong international diversification such as Yinson, MISC and Bumi Armada.

Our sector Top Picks remain unchanged and DEHB is still our preferred pick within the domestic upstream services maintenance space. For large cap, we like Dialog for its earnings recovery being the near-term catalyst while part of the Johor-Singapore Special Economic Zone (JS-SEZ) to be developed in Pengerang could further enhance its long-term footing in that area. Lastly, Yinson is our Top Pick within the FPSO segment for its strong growth trajectory backed by the maiden contribution from three new vessels and potential monetisation of its FPSO units as a potential near-term catalyst for capital recycling.

Indonesia

As US O&G companies focus on paying debts and boosting shareholder returns over output expansion (except for the upstream business), Indonesian O&G companies are also pursuing a similar trend.

Aside from the upstream business, O&G companies under our coverage are planning to deleverage their debts. With Pertamina Hulu Energi (PHE) targeting 3%, lifting growth in 2024-2025, we believe ELSA will benefit from higher well servicing activities. The commissioning of Freeport Indonesia's smelter in June and higher coal production in 2H should propel AKR Corporindo's (AKRA) earnings.

As a net oil importer, the Government sees the urgency in raising Indonesia's oil lifting amidst the commodity's natural decline and no new substantial oil reserves discovery. Hence, the Special Taskforce for Upstream Oil & Gas Business Activities (SKK Migas) and Ministry of Energy and Mineral Resources (ESDM), have set Indonesia's oil and gas lifting target at 1mbpd and 12bcfpd by 2030 (current oil lifting is at 562kbpd). Several incentives have been put in place, eg allowing gross split scheme back to cost recoveries and tax holidays. SKK Migas has set an 18% YoY upstream investment to USD16.1bn, with cost recovery at USD8.3bn. Riding on more national scale exploration and exploitation activities, we select ELSA as our Top Pick, with its net profit estimated to grow 37% YoY for 2024. Another Top Pick is AKRA, as it stands to benefit from Indonesia's economic expansion, which would lure more diesel demand and land sales in the Java Integrated Industrial and Ports Estate or JIIPE.

Top Picks

ELSA is well-positioned to benefit from the increasing oil and gas exploration activities in Indonesia and rising demand for petroleum. Since PHE acquired a majority share in late 2021, ELSA has experienced a dynamic synergy, (+35% YoY on upstream segment revenue in 2022). We see this continuing in the years ahead, following PHE's 3% annual lifting growth target. In the downstream segment, perpetual Indonesia petroleum demand will fuel downstream earnings going forward. Despite its promising prospects, the stock is undervalued, at 0.7x P/BV, with a forecasted ROE of 14% for FY24. We expect 37% YoY earnings growth in 2024.

AKRA. On 28 Jun, Freeport's smelter was officially operational to process copper and gold. This should help support management's 130ha land sales target for FY24 (our estimate: 100ha land sales). In total, JIIPE potentially generates IDR4.6trn for AKRA, representing 10% of our 2024F total revenue. In 1H24, AKRA booked 5-10ha land sales. For its petroleum business, with c.50% of AKRA's petroleum volume distributed to coal mining companies, more coal output in 2H24 should expand diesel demand and support management's petroleum target of 8% YoY growth to 3m kl. An additional catalyst is the possibility of AKRA selling the Freeport smelter's by-product – sulfuric acid – to nickel smelters in Sulawesi. We have not included the additional chemical sales to our current projection.

Key risks: Lower-than-expected oil prices could delay projects and result in lower earnings expectation for ELSA, and lower-than-expected economy growth would stall diesel demand for AKRA.

Thailand

(+) Upstream: Despite the reduced risk premium from the diminished conflicts between Israel-Hamas and Russia-Ukraine, Brent crude prices are expected to remain around USD90 per bbl for the rest of 2024. This stability is driven by a projected 2.2 mbpd increase in global oil demand, predominantly from non-OECD countries such as China and India (OPEC). OECD oil inventories are currently near the lower bound of their recent five-year range due to OPEC+ production cuts, with a 2.2 mbpd curb extension until at least September is likely to further reduce inventories and support higher prices. While the market may experience temporary pressure from renewed hopes of a ceasefire in Gaza (Israel-Hamas), a stronger USD, and lower-than-expected Chinese economic growth in 2Q will sustain the overall positive outlook. In 2Q, the reference Dubai crude oil price ramped up 5% QoQ to USD85 per bbl, and the continued elevated oil price outlook is projected to support robust earnings for E&P firms. We remain positive on PTTEP.

(+) Refinery: The mid-stream refinery outlook for the 2H24 remains positive after a weak performance in 2Q. The reference Singapore refinery margin (GRM) fell nearly by half to USD3.50 per bbl in 2Q, down from USD7.30 per bbl in 1Q. This decline was due to depressed spreads for gasoline, jet, and diesel caused by an oversupply from new refineries in the Middle East and Africa. However, GRM has shown signs of recovery, inching up to USD3.90 per bbl in 3Q24 (TD), supported by better spreads from increased US summer demand and inventory draws. We expect GRM to continue improving from below-average levels and normalise in 2H24-2025. We hold a positive view on Star Petroleum Refining (Under Review) and Thai Oil (Under Review).

(+/-) Petrochemical: The earnings outlook for petrochemical stocks (PTT Global Chemical (PTTGC TB, NR), Indorama Ventures (IVL TB, NR)) remains weak for 2Q-3Q24, with potential losses driven by weak margins, a subdued demand outlook, and impairments. However, we anticipate a recovery by 2025, following the end of the capex cycle and the easing of the US Federal Funds Rate. With valuations nearing -2SD of P/BV, these stocks present appealing entry opportunities by early 2025, poised to benefit from the anticipated 3-5year petrochemical upcycle.

Top Pick: PTTEP

2Q24 earnings are expected to be strong, reaching a multi-quarter high of c.THB22.9bn (+9% YoY, +22% QoQ). This is bolstered by a 7% QoQ increase in sales volume following the G1/61 (Erawan) project's ramp-up to full capacity of 800 mmscfd. The outlook for 2H24 also remains robust, supported by strong sales volume from G1/61 and higher ASP due to elevated liquid and gas prices. The long-term (2024-2028) outlook remains strong as sales volume is projected to grow at a 5% CAGR, driven by the launch of major projects such as SK410B (Lang Lebah) and lower unit costs from the ramp-up of G1/61 production. The stock is trading at discounted valuations of 1.2x P/BV and 7.8x P/E for 2024F, which are below the historical averages, and offers an attractive dividend yield of over 5%.

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