Regional Sector Update

11 December 2024

Energy & Petrochemicals | Regional Oil & Gas

Regional Oil & Gas

More Uncertainties Lie Ahead; Still OVERWEIGHT

Overweight (Maintained)

Stocks Covered	17
Rating (Buy/Neutral/Sell):	14 / 3 / 0
Last 12m Earnings Revision Trend:	Neutral

- **Keep OVERWEIGHT; Top Picks: Yinson and Dayang Enterprise (DEHB) in Malaysia, PTT in Thailand, and Elnusa (ELSA) in Indonesia.** Post cutting our Brent crude oil price forecasts for 2025-2026, we think the oil market will continue to face uncertainties in 2025, amidst rising supply and a moderation in the growth of demand. We prefer upstream service providers with greater exposure in the maintenance-related space – as they should have more resilient earnings – and corporations with international diversification.
- **We cut our Brent crude oil price forecasts for 2025 and 2026 to USD75/bbl each year (from USD80/bbl)** in view of the weaker demand outlook and persistent supply led by non-OPEC regions. OPEC expects 2025 global oil demand to grow by 1.5mbpd YoY (2024F: 1.8mbpd), taking total demand to 105.6mbpd next year – premised on a global GDP growth forecast of 3.0% YoY. Agencies such as the US Energy Information Administration (EIA) and International Energy Agency (IEA) are still projecting positive growth of 1.0-1.2 mbpd this year. The moderation in OPEC's estimate reflects the end of the post-pandemic pent-up demand and below-par underlying global economic conditions, coupled with clean energy technology deployment.
- **Trump's energy agenda will cloud sentiment but near-term impact is likely to be limited.** Donald Trump's imminent return as the next US president has raised concerns over the progress of domestic and global climate controls. These measures, in our view, are unlikely to boost production significantly, at least within the next 1-2 years. Meanwhile, one of Trump's campaign promises was to impose stricter oil sanctions on Iran and Venezuela – measures which eased during President Joe Biden's time in office. Overly aggressive sanctions may not be aligned with Trump's intention to bring down energy prices. Generally, these sanctions could remove a portion of the oil supply from the market whilst heightening geopolitical tensions.
- **A USD40/bbl scenario if OPEC were to flood the oil market again.** Following OPEC+'s decision to extend its production cuts until Apr 2025, we are still of the view that the cartel remains intact and would choose to support the oil market whenever necessary. This is despite OPEC+'s influence over the oil market decreasing this year, after failing to keep oil prices at desired elevated levels. We believe OPEC+ is still adopting a wait-and-see approach over Trump's actions towards the oil market. If the actions taken by Trump are deemed as a potential long-term threat, we do not discount the possibility of OPEC re-initiating a price war against the US to eliminate shale oil producers, just like what happened in 2014. The odds of this happening, however, are still low – since Saudi Arabia and some of its allies are heavily dependent on oil to balance their fiscal condition.
- **Downside risks to our outlook**: Weaker-than-expected oil prices, high-than-expected operating costs, and contract cancellation.

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	IDR1,680	24.0	9.4	2.1	23.7	7.0
Bumi Armada	Buy	MYR0.73	17.5	5.4	0.5	9.8	-
Coastal Contracts	Buy	MYR1.85	24.1	4.4	0.4	9.0	-
Dayang Enterprise	Buy	MYR3.82	88.2	7.3	1.1	14.3	3.0
Dialog	Buy	MYR3.09	67.0	18.1	1.8	10.1	2.5
Elnusa	Buy	IDR560	19.1	4.5	0.6	14.7	8.7
Malaysia Marine & Heavy Engineering	Buy	MYR0.62	58.0	9.8	0.4	4.6	-
Medco Energi Internasional	Buy	IDR1,900	65.2	4.6	0.8	18.2	6.1
MISC	Buy	MYR9.27	24.3	13.9	0.8	5.9	5.1
Perusahaan Gas Negara	Neutral	IDR1,470	(7.5)	7.5	0.8	10.4	8.2
Petronas Dagangan	Neutral	MYR18.39	(8.2)	19.3	3.2	17.0	4.2
PTT	Buy	THB41.50	29.7	8.5	0.8	9.4	6.3
PTT Exploration & Production	Buy	THB168.00	32.8	6.9	0.9	13.8	7.0
Star Petroleum Refining	Buy	THB7.80	11.4	6.4	0.7	10.7	6.3
Thai Oil	Neutral	THB41.00	7.9	6.4	0.4	7.2	7.2
Wasco	Buy	MYR1.89	70.4	6.5	0.9	15.0	4.1
Yinson	Buy	MYR3.31	18.7	13.0	1.4	11.2	1.8

Source: Company data, RHB

Top Picks	Target Price
Dayang Enterprise (DEHB MK) – BUY	MYR3.82
Yinson (YNS MK) – BUY	MYR3.31
PTT (PTT TB) – BUY	THB41.50
Elnusa (ELSA IJ) – BUY	IDR560

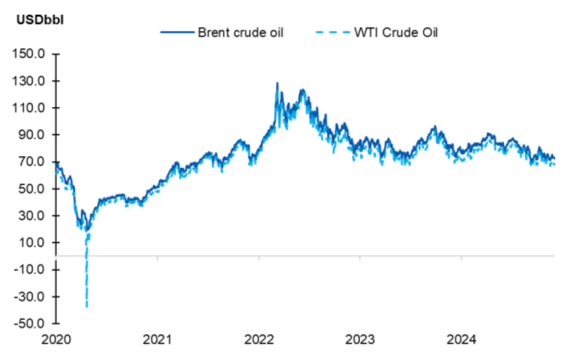
Analysts

Sean Lim, CFA
+603 2302 8128
sean.lim@rhbgroup.com

Kasamapon Hamnilrat
+66 2088 9739
kasamapon.ha@rhbgroup.com

Indonesia Research
+6221 5093 9888
rhb.id.research@rhbgroup.com

Brent and WTI crude oil price trends



Source: Company data, RHB

Crude Oil Price Forecasts

We cut our Brent crude oil forecast for 2025 and 2026 to USD75 per bbl each year (from USD80 per bbl). QTD crude prices have averaged at USD74 per bbl, bringing the YTD average to USD80 per bbl. This is below our expectations, largely due to increased negative sentiment resulting from multiple factors including weaker global demand arising from lower consumption in China, fears over a potential supply glut that stem from new policies that could be implemented by President-elect Donald Trump. The weaker demand outlook and persistent supply from non-OPEC producers have led us to cut our Brent crude oil forecast for 2025 and 2026 to USD75 per bbl.

Note that OPEC projections are relatively more bullish (higher demand and lower supply) than the other agencies such as the IEA and EIA. The latest OPEC monthly report indicated a theoretical deficit of 2.5mbpd in 3Q24 (reflecting a spike from the 0.9mbpd deficit in 2Q24) due to QoQ demand improvement. That said, the 2.5mbpd deficit in 3Q24 is estimated to narrow to a 0.6mbpd deficit in 2025, mainly due to a moderation in demand growth and higher supply from both OPEC and non-OPEC producers. IEA believes that global supply will even exceed demand by >1mbpd, even if the OPEC+ cuts remain in place. We see further downside risks to our projections if OPEC+ decides to reverse its current strategy to stabilise the plan in the event that the US becomes a threat to oil price stability.

Our main assumptions are:

i. Global oil demand will grow by 1.5mbpd to 105.6mbpd in 2025F;

ii. Russia's oil production will gradually increase from 9.0mbpd to 9.3mbpd by the end of 2025;

iii. Saudi Arabia-led OPEC will gradually start increasing production from Apr 2025 onwards, with an average production of 27.7mbpd (from estimated 26.7mbpd in 2024);

iv. OPEC+'s strategy remains intact, with no intention to flood the market

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	80	74	80	75	75	75	75	75
Brent, RHB (old)	71	99	82	82	85	80	80	82	80	80	80	80	80
World oil demand and supply balance (mbpd)													
Total demand	97.2	99.7	102.2	102.8	103.2	104.5	105.6	104.0	104.3	104.6	106.3	107.0	105.6
YoY change	5.9	2.5	2.6	1.6	1.4	2.2	2.1	1.8	1.5	1.4	1.8	1.4	1.5
Total non-DoC* production	47.7	49.4	51.8	52.6	53.1	53.2	53.4	53.1	53.9	53.9	54.2	54.7	54.2
DoC NGLs	7.6	8.0	8.2	8.4	8.3	8.3	8.3	8.3	8.4	8.4	8.3	8.4	8.4
Total non-DoC and DoC NGLs	55.3	57.4	60.0	61.0	61.4	61.5	61.7	61.4	62.3	62.3	62.5	63.1	62.6
YoY change	0.6	2.0	2.7	1.7	2.0	1.2	0.3	1.3	1.3	1.0	1.1	1.4	1.2
OPEC	25.2	27.7	27.0	26.6	26.6	26.5	27.2	26.7	27.2	27.5	27.8	28.1	27.7
Non-OPEC Doc crude production	15.0	15.1	15.0	14.7	14.3	14.1	14.1	14.3	14.5	14.7	14.8	15.0	14.8
Total production	95.6	100.2	102.0	102.3	102.3	102.1	103.0	102.4	104.0	104.5	105.1	106.2	105.0
Balance	-1.6	0.6	-0.2	-0.6	-0.9	-2.5	-2.6	-1.6	-0.3	-0.1	-1.2	-0.8	-0.6

*Note: Data as at Nov 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 more 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.

iv. OPEC reversing its strategy to flood the market

Persistent cuts in demand projections. The projection for global oil demand growth in 2025 has been cut in the past few months by various agencies including OPEC. As per OPEC's monthly report for November, global oil demand growth is estimated at 1.5mbpd YoY, taking total demand to 105.6mbpd for 2025F (premised on global GDP growth of 3.0% YoY). This represents a moderation from an estimated growth of 1.8mbpd in 2024F, with an estimated global GDP growth of 3.1%. Non-OECD areas have the highest demand growth projection of 1.4mbpd in 2025 – led by China, India, the Middle East, and other parts of Asia. The other agencies such as the EIA and IEA are still projecting positive growth of 1.0-1.2mbpd for next year. The growth moderation reflects the end of post-pandemic pent-up demand and below-par underlying global economic conditions, coupled with clean energy technology deployment.

OPEC+ to extend production cuts until Apr 2025 with a gradual ramp-up plan on a monthly basis until Sep 2026, to support market stability. We still believe the cartel remains intact and would choose to support the oil market, whenever necessary. However, OPEC+'s influence over the oil market has diminished this year, as it failed to keep oil prices at desired high levels. This is more evident after Donald Trump winning the US presidential election last month, with markets apprehensive over his potential energy policy to increase production. From the decision to delay its production ramp up, it suggests that OPEC+ is still reluctant to start its price war against the US for the time being – this is still regarded as a strong support to oil prices at the current level.

Figure 2: OPEC's latest production adjustments for 2025-2026

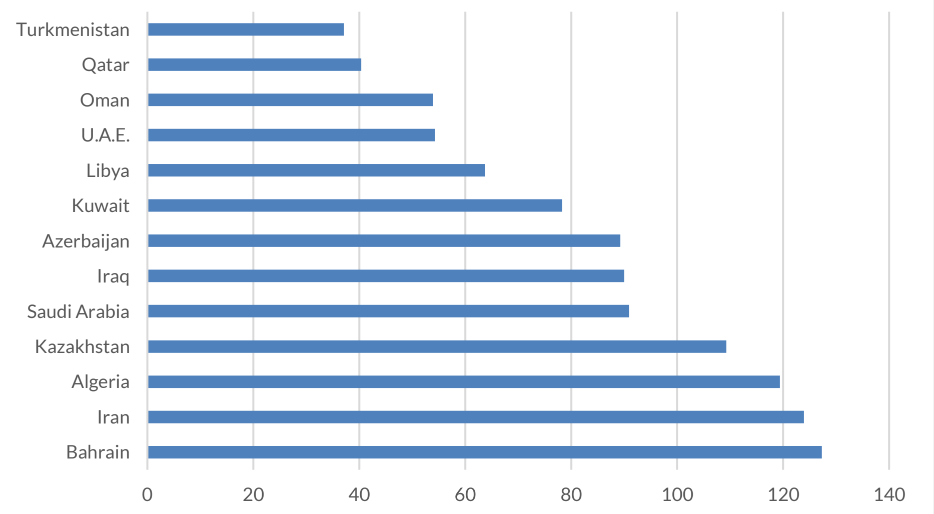
Country	2025										2026									Required Production Level as per 38th ONOMM (1)
	Jan - Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep - Dec	
Algeria	908	911	914	917	919	922	925	928	931	934	936	939	942	945	948	951	953	956	959	**1,007**
Iraq	4,000	4,012	4,024	4,037	4,049	4,061	4,073	4,086	4,098	4,110	4,122	4,134	4,147	4,159	4,171	4,183	4,196	4,208	4,220	**4,431**
Kuwait	2,413	2,421	2,428	2,436	2,443	2,451	2,458	2,466	2,473	2,481	2,488	2,496	2,503	2,511	2,518	2,526	2,533	2,541	2,548	**2,676**
Saudi Arabia	8,978	9,034	9,089	9,145	9,200	9,256	9,311	9,367	9,422	9,478	9,534	9,589	9,645	9,700	9,756	9,811	9,867	9,922	9,978	**10,478**
UAE	2,912	2,938	2,963	2,989	3,015	3,041	3,066	3,092	3,118	3,144	3,169	3,195	3,221	3,246	3,272	3,298	3,324	3,349	3,375	**3,519**
Kazakhstan	1,468	1,473	1,477	1,482	1,486	1,491	1,495	1,500	1,504	1,509	1,514	1,518	1,523	1,527	1,532	1,536	1,541	1,545	1,550	**1,628**
Oman	759	761	764	766	768	771	773	775	778	780	782	785	787	789	792	794	796	799	801	**841**
Russia	8,978	9,004	9,030	9,057	9,083	9,109	9,135	9,161	9,187	9,214	9,240	9,266	9,292	9,318	9,344	9,371	9,397	9,423	9,449	**9,949**

Note: (1)Required production levels as per the 38th ONOMM before applying the additional voluntary cuts announced in Apr 2023 and Nov 2023
Note 2: (2)United Arab Emirates required production has been increased by 300kbpd. This increase will be phased in gradually starting Ape 2025 till end Sep 2026
Source: OPEC

A USD40 per bbl scenario if OPEC were to flood the oil market again. We believe OPEC+ is still adopting a wait-and-see approach over Trump's actions towards the oil market. If the actions taken by the next US president are seen as a potential long-term threat, we do not discount the possibility of OPEC re-initiating a price war against the US to eliminate the shale oil producers, just like what happened in 2014. Recall that OPEC reversed its production cut policies to flood the oil market back in 2014, which caused one of the biggest industry downturns in history. OPEC's spare capacity remains at 6.5mbpd, and the cartel can ramp up its production by at least 3mbpd within a short span of time, which could sufficiently tank oil prices. Saudi Arabia has the largest spare capacity at 3.1mbpd, followed by the United Arab Emirates (UAE, 1.4mbpd) and Iraq (0.7mbpd) This could once again drag the entire oil & gas industry into a winter season again, which will eliminate producers with high production cost breakeven levels. Depending on global demand and economic conditions, this could push oil prices to USD40 per bbl levels or even lower, or stabilise at USD40-50 per bbl.

The odds of OPEC changing tack are low, given the high fiscal breakeven oil price. The scenario of OPEC reversing its strategy is not our base case assumption, since Saudi Arabia and some of its non-OPEC allies are heavily dependent on oil to balance their fiscal condition. The International Monetary Fund (IMF) projected Saudi Arabia's fiscal breakeven oil prices to be at USD90 per bbl in 2025, and a persistently low oil price will substantially reduce its oil revenue and its ability to fund the ambitious 2030 reforms plans. This situation is rather similar to Iraq with the same fiscal breakeven oil price. On the other hand, the UAE has much lower estimated fiscal breakeven oil prices of USD54 per bbl in 2025, making it more adaptable to low oil prices. Interestingly, the country successfully lobbied for a higher quota to increase production by an additional 300 kbpd over 9M25.

Figure 3: Projected fiscal breakeven oil price (USD per bbl) by country



Source: IMF

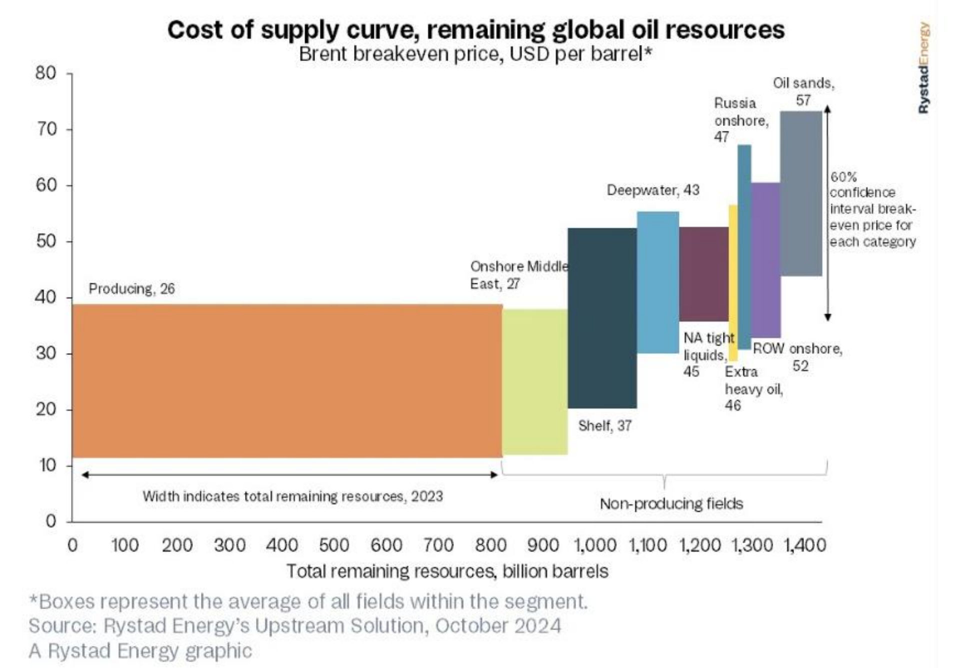
Non-OPEC+ to drive supply growth in 2025. According to OPEC, non-OPEC+ supply is expected to continue to drive the global supply growth at 1.1mbpd (2024: 1.2mbpd) mainly driven by the US, Brazil, Canada and Norway. Some of these projects are deepwater production anchored by the deployment of FPSOs. This supply will likely continue in the medium term. Rystad Energy projected that the future FPSO awards will return back to historical levels of 10 vessels (from an estimated seven awards in 2024) annually until 2030. 80% of the projected volume will still be economical, ie in the low-price scenario of USD50 per bbl. These future awards are mainly concentrated in South America (Brazil, Guyana) and West Africa (Nigeria, Angola).

Trump's energy agenda will cloud sentiment but near-term impact is likely to be limited. Note that US crude oil production remained flat in the past few months, hovering around 13.5mbpd. The EIA expects production to average at 13.5mbpd (+2% or +0.3mbpd YoY) in 2025, which is rather flat throughout next year. The recent higher production levels were mainly led by better productivity at the oil wells. The US rig count has been flattish in 4Q24, hovering above 580 level. (-6% YoY).

Donald Trump winning the US presidential election has raised concerns over both domestic and global climate progress. He has pledged to once again pull out of the Paris Agreement, increase US oil production and repeal President Joe Biden's landmark climate action legislation, the Inflation Reduction Act. The uncertainties on green policies including offshore wind and tax credit on clean energy may unwind investment in clean energy, slowing down the global energy transition pace. Some of the ways to increase oil & gas production are to approve new drilling and infrastructure projects, and deregulations coupled with environmental review exemptions. These measures, in our view, are unlikely to spike productions significantly at least within the next 1-2 years. We have yet to see any significant strategy change by US oil producers, which are still predominantly having a balance allocation between maintaining single digit production growth as well as prioritising shareholder returns.

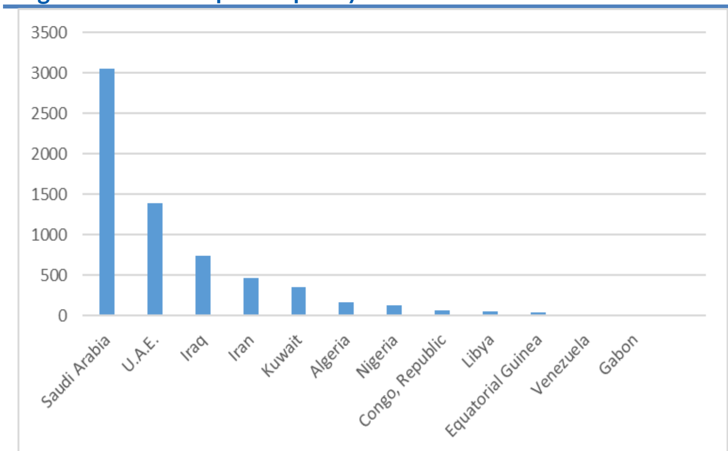
Additionally, according to Rystad Energy, the cost of developing new upstream oil projects continues to rise due to tight supply chain amidst inflationary pressure. In terms of cost competitiveness, Rystad Energy pointed out that onshore Middle East is the cheapest source of new production, with an average breakeven price of just USD27 per bbl (vs North America shale oil, which is at USD45 per bbl). Therefore, Trump's potential initiative to raise US oil production may also hurt the domestic oil & gas industry, as US breakeven prices are less competitive against the Middle East.

Figure 4: Cost of supply curve, remaining global oil resources



Source: Rystad Energy

Figure 5: OPEC's spare capacity



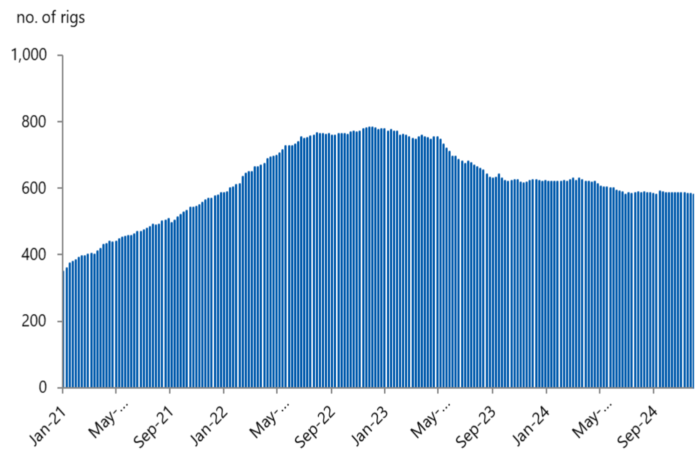
Source: Bloomberg

Figure 6: OPEC – crude oil production

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

More or lesser sanctions? One of the vows under Trump's campaign trail is to impose stricter oil sanctions on Iran and Venezuela, which were eased during Joe Biden's time in office. Venezuela managed to recover its production by 70% to close to 0.9mbpd in the past 2.5 years, while Iran's oil production has also improved to 3.3mbpd from 2.5mbpd over the same period. We believe it may be the status quo for Venezuela, in view of the absence of any regime change. However, Iran's nuclear ambitions and present capabilities need to be considered before the US imposes further sanctions. Meanwhile, the ability to achieve a peace deal between Russia and Ukraine is crucial, and whether this would involve stricter sanction enforcement. Overly aggressive sanctions may not be aligned with Trump's intention to bring down energy prices as, generally, these sanctions could remove a portion of the oil supply from the market whilst heightening geopolitical tensions.

Figure 7: US rig count



Source: Bloomberg

Figure 8: US crude oil production

Source: Bloomberg

Malaysia

Discussions between Petros and Petronas still ongoing, but will SMJ Energy follow Petros' footstep? While Petronas has clarified that it is still in discussions with Petroleum Sarawak (Petros) on the proposed implementation of the distribution of gas ordinance to align the interests and objectives of all parties, Batu Kitang assemblyman Lo Khere Chiang commented (as quoted by the media) that a suggestion for Petros to bear the capex for Petronas is absurd. This could possibly mean that the discussion may take longer than expected. On the other hand, SMJ Energy (SMJE) – Sabah's version of Petros – may follow Petros' footsteps to have a bigger share of the oil & gas pie in Sabah.

A recent report by The Edge highlighted that SMJE is not trying to become a "mini" Petronas Carigali for now, but it may only buy a stake when the assets are producing and profitable. Currently, Sabah and Sarawak are involved in two separate state oil supply agreements. Sabah is under a commercial collaboration agreement that its state government signed with Petronas in Dec 2021. Sarawak's commercial settlement agreement stipulates Petros' role is to manage onshore oil & gas resources and invest in offshore ventures. Sabah, for its part, has greater participation and a bigger revenue share of the state's oil & gas industry. It was reported that SMJE is also in discussions with Petronas on various opportunities, and we can expect more asset acquisitions by the former.

Anticipating capex cut next year. In the event Petronas decides to scale back its capex, exploration and greenfield development projects, in our view, are likely to take a bigger hit, while brownfield projects and maintenance activities will be less impacted, given their importance in maintaining production levels for operating cash flow generation purposes. All eyes would be on the upcoming Petronas Activity Outlook report that could be published in the near term. Typically, we would be able to have better clarity on the overall upstream activities over the next year. Domestic drilling activities, greenfield offshore fabrication works, greenfield hook-up and commissioning (HUC)s, 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.

Drilling space feels the heat. Velesto expects the global jack-up rig marketed utilisation rate to decline to 86% by end-2026, from 93% in October. South-East Asia could enter into a marketed surplus in 2025, with the anticipation of lower regional demand amidst a gradual influx of rigs into the region before potentially covering in 2026. Regional daily charter rates (DCR) are still in the range of USD73-165k but these could be under pressure due to additional supply coming from the Middle East. Domestically, Velesto's Naga 8 contract has been suspended by its client, Carigali Hess, and will now end by Feb 2025 (originally, it was supposed to end by Oct 2025) without compensation, as drilling works were completed early while other potential new contracts appear to have delayed slightly as well. This is not entirely surprising, as it could be in response to the potential capex cut by Petronas, in our view, amidst a backdrop of lacklustre oil prices.

Maintenance, construction, and modification (MCM)/HUC contracts are now in place. Following a series of contract announcements by the listed oil & gas contractors, we believe the 5+3+2 years HUC/MCM contracts are now in place. The announced and potential beneficiaries are DEHB, Deleum (DLUM MK, NR), Carimin Petroleum (CARIP MK, NR), T7 Global (T7G MK, NR), Sapura Energy (SAPE MK, NR), and Petra Energy (PENB MK, NR). It was reported that the total 18 packages could fetch an estimated contract value of MYR8-10bn over the next five years. The incumbents are now in the midst of transitioning to the new contractors. While work orders for next year have yet to be entirely finalised, the initial guidance for 2025 work orders are still quite intact and positive, with a revision in new services rates.

OSV segment could still be intact. The Malaysian Oil, Gas and Energy Services Council (MOGSC) has commented that such a new round of maintenance contracts, coupled with additional subsea and marine spread requirements, could be worth MYR30bn. The OSV market is expected to remain buoyant, with elevated charter rates and utilisation levels backed by continuously robust upstream activities and a lack of newbuilds. We believe the shortage of Malaysia-flagged vessels will continue, while the demand for foreign-flagged vessels will increase going forward.

Decommissioning and transportation & installation (T&I) works on the cards? Some of the contractors have been invited to tender for offshore decommissioning jobs. The tender has three packages, covering 31 platforms across West Malaysia, Sabah, and Sarawak. Tenders have closed and the total contract size potentially worth c.MYR3bn could be executed within three years starting from 2026. This tender requires big vessels to be chartered overseas. We understand that players such as DEHB and T7 Global have been invited to participate. Meanwhile, there is also a revival of T&I tenders, in which DEHB previously participated back in 2022 – contracts related to this round of tenders are estimated to be worth MYR300-500m over 1.5 years.

Bright spot still in FPSO space. Ultra-deepwater production is likely to drive offshore liquid production growth, in which FPSO will be a key development solution. Future FPSO awards are expected to increase back to historical levels of 10 vessels (from an estimated seven awards in 2024) annually until 2030. Also, 14 and 12 FPSO awards are expected in 2025 and 2026. 80% of the projected volume will still be economical in the low-price scenario of USD50/bbl. These future awards are mainly concentrated in South America (Brazil, Guyana) and West Africa (Nigeria, Angola). These pipelines include backlogs of projects that have been delayed, largely due to a previous industry downturn back in 2014 as well as the COVID-19 pandemic. FPSO contractors will continue to command pricing power, backed by constrained yard capacity amidst robust demand, limiting the new supply of vessels. However, cost pressure remains one of the major challenges – with pain points including elevated freight prices, and material and labour costs. There are multiple contract types including build-and-own, build, own and operate (BOO), and build, operate and transfer (BOT) models. With the increasing complexity in FPSOs, there is a spike in BOT models and the FPSO ownership shift is largely spurred by high interest rates and full contractor backlogs.

Maintain OVERWEIGHT; Top Picks: Bumi Armada, DEHB, and Yinson. We expect Petronas to make certain capex cuts next year. For now, we maintain a relatively optimistic outlook for the maintenance space – buoyed by strong orderbooks and the importance of maintenance works for E&P players. Bursa Malaysia Energy Index or BMEI is currently trading at c.-1SD from its 5-year mean levels in terms of P/E and P/BV. We believe the lower oil price environment has been imputed, as Brent crude prices are now close to the 5-year mean of USD75 per bbl, ie above its 10-year mean of USD66 per bbl.

Although we maintain an OVERWEIGHT sector rating, we acknowledge that market sentiment and sector valuations could be capped, no thanks to the near-term weakness in oil prices, on top of rising uncertainties within the domestic oil & gas landscape. Presently, we prefer upstream service providers with greater exposure in the maintenance-related space – as they should have more resilient earnings – and corporations with international diversification.

Figure 9: Brent crude prices' 5-year band

Source: Bloomberg

Figure 10: Brent crude prices' 10-year band

Source: Bloomberg

Figure 11: Bursa Malaysia Energy Index's 5-year P/E band

Source: Bloomberg

Figure 12: Bursa Malaysia Energy Index's 5-year P/BV band

Source: Bloomberg

Thailand

Oil prices above USD70 per bbl continue to support upstream players. We anticipate Brent crude oil prices to be at USD75 per bbl in 2025-2026 – a situation that should continue to benefit upstream players. Notably, the Dubai-Brent crude oil spread has narrowed, with QTD 4Q24 data showing the Dubai benchmark price at USD73.3 per bbl vs Brent's USD74 per bbl. Consequently, we maintain our oil liquid price assumption at USD73 per bbl for Thai upstream companies in 2025-2026, with no further revisions.

PTT Exploration & Production (PTTEP): Resilient sales growth amidst lower oil price environment. The stock appears to have largely priced in the weakness in oil prices. Moving forward, a steady earnings outlook driven by higher sales volumes should support its share price performance. For 4Q24, earnings should grow strongly, underpinned by a record-high sales volume of 540 kboed (+12% QoQ). This growth is supported by seasonal factors and a production recovery following maintenance at key projects, including G1/61, Arthit, G2/61, and Contract 4. Additionally, unit costs are anticipated to normalise as gas sales increase. Looking ahead to 2025-2026, we forecast stable earnings, with sales growth of 5% and 2%. We like PTTEP for its robust operating cash flow, which provides flexibility for acquiring new projects and unlocking upside potential.

The stock's current valuation also remains attractive – it is trading at just 0.9x P/BV and 6.8x P/E for 2025F, which is below the historical averages. Furthermore, PTTEP offers compelling dividend yields of 7.1-7.7% for FY24F-26F.

PTT: Benefiting from downstream recovery. We see a stronger outlook for PTT, despite the lower oil price environment. PTTEP, a key contributor, is expected to deliver stable numbers, driven by improving sales growth. Meanwhile, the downstream petrochemical segment (PTT Global Chemical, IRPC) is poised to chalk stronger earnings, supported by a margin recovery as feedstock costs decline. Refinery margins improved in 4Q24 (QTD), compared to the lows of 2Q24-3Q24, and this trend is expected to be sustained through 2025 and beyond. PTT's core gas business is also likely to benefit from lower costs and the implementation of cost pass-through mechanisms in 2025.The stock is treading at a cheap 0.8x P/BV and 8.8x P/E 2025F, ie both levels are near -1SD from the historical mean levels. PTT offers compelling dividend yields of approximately 6% for 2025-2026.

Maintain OVERWEIGHT on sector, stock pecking order for 2025: PTT>>PTTEP. We prefer PTT over PTTEP for 2025, given PTT's better earnings growth outlook – driven by a broad-based recovery across its gas, refinery, and petrochemical segments. In contrast, the low oil price environment may weigh on PTTEP's performance despite its stable earnings, attractive valuation, and compelling dividend yield. PTT's diversified business model puts it in a better position to navigate the current market dynamics and capitalise on recovery trends across the value chain.

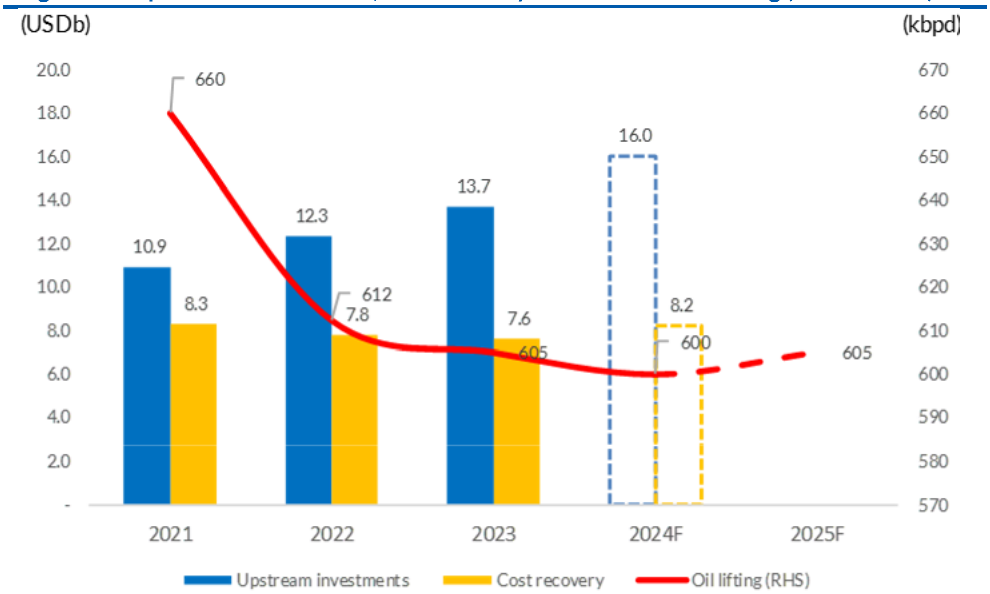
Indonesia

2025 outlook. With Donald Trump winning the U.S. presidential election, we expect oil prices to face short-term pressure as he aims to revitalise the US oil & gas industry, leading to increased supply from that country. Weaker oil prices directly impact upstream profitability. Meanwhile, the downstream sector could benefit, provided the economy and manufacturing activities continue to grow. For 2025, SKK Migas targets 15 new onstream projects, which should provide an additional 57.6kbopd and 749.7mmscfpd of gas (total new output: 191.5k boepd). These new projects are estimated to have an investment value of USD753m. In this regard, we like: i) Elnusa, as more Pertamina projects come onstream, this could lead to more upstream income; and ii) AKR Corporindo (AKRA), as we anticipate more Java Integrated Industrial and Port Estate (JIIPE) land sales to be clocked, while the demand for diesel (from the mining sector) is ramping up.

4Q24 results preview. Among the companies under coverage, we think the results of AKRA and Medco Energi Internasional (MEDC) may outperform expectations. AKRA targets to book 70-72ha of land sales (our estimate: 53ha in 4Q24). In the meantime, MEDC's subsidiary Amman Mineral Internasional (AMMN IJ, NR) earnings may boost the former's 4Q24 earnings. We expect AKRA's 4Q24 earnings to skyrocket by 149% QoQ if it is able to sell 53ha of land. On MEDC, despite potentially flattish upstream numbers due to weaker oil prices, AMMN's net income may underpin MEDC's 83% earnings growth in 4Q24F. On the other hand, we are cautious in our outlook for Perusahaan Gas Negara (PGAS) due to a legal case (ie Gunvor), while ELSA may face earnings risks due to a potential delay in an upstream project, on top of weaker oil prices.

3Q24 results review. As the price of oil declined by 7% QoQ to USD78 per bbl during the quarter, we thought that it will dampen upstream companies' earnings for the period. To our surprise, this did not happen. MEDC's EBIT still rose 4% QoQ, but net income plunged by 44% QoQ as a result of the high base for AMMN's earnings in 2Q24. PGAS' results were better than expected, with a distribution margin of USD2.10/mmbtu and a deleveraging strategy being fleshed out. ELSA's results were in line, thereby confirming our hypothesis that its 2H24 would not be as robust as that of 1H24. Meanwhile, growing demand for diesel from the mining sector helped AKRA's 3Q24 net profit to grow by 15% QoQ – offset by a dearth of substantial land sales in the JIIPE, and the bulk of its gasoline customer profile shifting from mining companies to the general market. This led to it recording a 14% YoY decline in 9M24 net profit.

Figure 13: Upstream investments, cost recovery and Indonesia oil lifting (2021-2025F)



Source: SKK Migas, Ministry of Energy & Mineral Resources (MEMR)

Figure 14: Upcoming oil & gas projects in 2025

Project name	Operator	Capacity	Production	Onstream Schedule
Terubuk	Medco EP Natuna	6,654 b/d & 60mmscfpd	6,654 b/d & 60mmscfpd	2Q25
South Senoro	JOB Pertamina - Medco	110 mmscfpd	110 mmscfpd	4Q25
Suban Future Facility	Medco Grissik	4,878 b/d & 400 mmscfpd	4,878 b/d & 400 mmscfpd	4Q25
Letang Tengah Rawa Exp.	Medco Grissik	70 mmscfpd	70 mmscfpd	1Q25
Balam GS Upgrade	Pertamina Hulu Rokan	35k b/d	31.9k b/d	1Q25
NDD A14 Stage - 2	Pertamina Hulu Rokan	6,723 b/d	2,814 b/d	2Q25
CEOR Minas	Pertamina Hulu Rokan	3k b/d	1.6k b/d	4Q25
Bangkudulis	Pertamina EP	6 mmscfpd	6 mmscfpd	1Q25
Sisi Nubi AOI 1,3,5	Pertamina Hulu Mahakam	120 mmscfpd	60 mmscfpd	4Q25
OPL Rama	PHE OSES	739 b/d	739 b/d	2Q25
OPL LES	PHE ONWJ	130 b/d & 15 mmscfpd	130 b/d & 4.5mmscfpd	4Q25
Akasia Bagus Stage - 1	Pertamina EP	9k b/d & 22 mmscfpd	9k b/d & 22 mmscfpd	3Q25
Karamba	ISOG	7 mmscfpd	7 mmscfpd	2Q25
Bentu Production Line	Energi Mega Persada	8 mmscfpd	8 mmscfpd	2Q25
A-24	Premiere Oil Natuna Sea	6.7 mmscfpd	6.6 mmscfpd	3Q25

Source: SKK Migas, MEMR

Figure 15: Valuations of Indonesia oil & gas stocks under our coverage

Company	Price (IDR)	Target (IDR)	Market cap (IDRbn)	P/E (x)		EPS growth (%)		P/BV (x)		Div yield (%)		ROAE (%)		Rec
				FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	
Medco Energi	1,150	1,900	28,907	4.7	4.7	1.7%	-0.8%	0.8	0.7	6.0%	5.9%	18.2	15.9	Buy
Perusahaan Gas	1,590	1,470	38,544	8.4	8.0	3.6%	5.0%	0.9	0.8	8.0%	8.3%	10.4	10.6	Hold
AKR Corporindo	1,355	1,680	27,200	9.4	8.9	9.9%	5.1%	2.1	2.0	7.0%	7.7%	23.7	23.1	Buy
Elnusa	470	560	3,430	4.5	4.0	2.8%	12.6%	0.6	0.6	8.7%	8.9%	14.7	15.0	Buy
Simple average				**6.7**	**6.4**	**4.5%**	**5.5%**	**1.1**	**1.0**	**7.4%**	**7.7%**	**16.7**	**16.2**	
Weighted average				**7.5**	**7.2**	**4.8%**	**3.6%**	**1.2**	**1.1**	**7.2%**	**7.5%**	**16.6**	**15.8**	

Source: Bloomberg, RHB

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470