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Maybank Investment Bank

Malaysia Oil & Gas

PETRONAS Activity Outlook (PAO) 2024-2026

Maintain POSITIVE on Malaysia O&G Sector

Our general thesis on the Malaysia Oil and Gas sector has not changed much since our previous report. As EIA has forecasted a record-high demand for oil in 2023-2025E, we think that the elevated crude oil price environment will be here to stay in the medium term. We maintain our POSITIVE stance on the sector with an in-house Brent Oil Price assumption of USD80/bbl for 2024E. Top sector BUYs are Yinson, Velesto and Wasco.

PAO 7th edition 2024-2026: A Merry Outlook in 2024

PETRONAS generally met most of its activity expectations for 2023. Its latest 2024-2026 PAO edition points to a more confident outlook, notably for its: (i) FPSO & MOPU; (ii) HUC & MCM; (iii) maintenance and turnaround activities: (iv) OSVs; and (v) underwater services. For companies under our coverage: Yinson, MISC, Bumi Armada, Icon Offshore, Dialog, (for which we have BUY calls on) are key potential beneficiaries of the ramp-up of activities in these subsegments.

PETRONAS capex seems sizeable in 2024E

We have been mentioning about how PETRONAS has been subtly hinting at a sizeable capex in 2024E (link). Based on our yearly observations, PETRONAS has to decide on how it is to strike a balance between 3 major decisions: (i) capex spending; (ii) dividend commitment; and (iii) balance sheet preservation. As at end-Sep 2023, PETRONAS sits on a net cash position of MYR96.7b. Given a lower dividend commitment of MYR32b for 2024 (per 2024 Fiscal Outlook Report; from MYR40b in 2023) despite a higher average Brent crude oil price expectation of USD85/bbl (PETRONAS' forecast), we see the possibility of PETRONAS' capex being sizeable, with most subsegments seeing increased investment in 2024E, in our view.

PAO 2023 report card - in retrospect

Looking back, PETRONAS' activities were in line with 2023 aspirations. 5 segments: (i) rigs utilised; (ii) fixed structures fabricated; (iii) SURF; (iv) pipelay; and (v) OSV for production ops, met its target. Meanwhile, 6 segments: (i) HWU; (ii) OSV for drilling and projects; (iii) MCM; (iv) HUC; (v) chemicals purchased; and (vi) turnaround activities underperformed throughout the year, while (i) decommissioning and (ii) underwater services were the key outperformers.

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[Unchanged]

Analyst

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Stock	Bloomberg	Mkt cap	Rating	Price	TP	Upside	P/E	(x)	P/B	(x)	Div y	d (%)
	code	(USD'm)		(LC)	(LC)	(%)	23E	24E	23E	24E	23E	24E
MISC	MISC MK	6,961	Buy	7.30	7.65	10	15.3	15.0	0.9	0.8	4.9	4.5
Dialog Group	DLG MK	2,460	Buy	2.04	2.43	21	23.0	20.9	2.1	1.9	1.7	1.7
Yinson Holdings	YNS MK	1,617	Buy	2.47	5.05	104	16.4	8.2	1.8	1.5	0.8	0.7
Bumi Armada	BAB MK	645	Buy	0.51	0.71	39	4.7	3.5	0.5	0.5	0.0	0.0
Hibiscus Petroleı	HIBI MK	435	Buy	2.53	2.99	21	4.2	4.6	0.6	0.7	2.9	3.0
Velesto Energy	VEB MK	395	Buy	0.23	0.30	35	30.4	10.4	0.8	0.7	0.0	0.0
Wasco	WSC MK	164	Buy	0.99	1.55	57	10.4	7.7	1.2	1.0	0.0	0.0
Icon Offshore	ICON MK	69	Buy	0.60	0.59	(0)	55.9	28.8	0.9	0.9	8.3	0.0



Malaysia Oil and Gas Value Chain

Malaysia Oil and Gas Sector Value Chain

Activities	Malaysian Listed Companies Involved
Upstream	
Drilling Rig	Velesto Energy, Sapura Energy
Hydraulic Workover Unit (HWU)	Velesto Energy, Uzma, T7 Global
Offshore Fabrication (WHP/CPP)	MMHE, Sapura Energy
FPSO	Bumi Armada, Yinson, MISC
MOPU	T7 Global
Offshore Support Vessel (OSV)	Perdana Petroleum, Dayang Enterprise, Icon Offshore, Petra Energy
Hook-up and Commissioning (HUC)	Carimin Petroleum, Dayang Enterprise, Petra Energy
Maintenance, Construction and Modification (MCM)	Carimin Petroleum, Dayang Enterprise, Petra Energy
Downstream Plant Turnaround	Dialog
Plugging and Abandonment	Velesto Energy, Uzma, T7 Global
Pipeline Services	Wasco
<u>Midstream</u>	
LNG Shipping / Petroleum Tankers	MISC
Tank Terminals	Dialog
Gas Pipelines	Petronas Gas
<u>Downstream</u>	
Refining	Heng Yuan, Petron Malaysia
Petrochemicals	Lotte Chemical Titan, Petronas Chemicals
Marketing and Distribution	Petronas Dagangan

Source: Maybank IBG Research

PETRONAS Activity Outlook 2024-2026: Our views by segment

Drilling/HWUs

	P	AO 2024-202	.6	Planned	Actual
	2024	2025	2026	20	23
Jack-Up Rigs	13	14	15	12	12
Tender-Assisted Drilling Rigs	5	3	3	4	4
Semi-Submersible/Drillship	2	3	3	2	2
Hydraulic Workover Units (HWUs)	8	8	5	8	6
Total	28	28	26	26	24

Source: PETRONAS

Jack-Up Rigs and HWUs

- Performed to expectations in 2023. PETRONAS generally met its drilling activities planned for 2023. This is not entirely unexpected, underpinned by higher upstream capex, amid elevated oil prices (avg: USD82/bbl dated Brent). However, HWU requirement fell slightly short.
- Sequentially higher targets for 2024-2026. PETRONAS requires a sequentially higher number of Jack-Up rigs at 13, 14 and 15 units for 2024-2026 respectively. Meanwhile, HWU requirements are also expected to increase to 8 units in 2024.
- Velesto (VEB MK; BUY; TP: MYR0.30) is the key beneficiary of PETRONAS's higher JU drilling requirements in Malaysia. We expect 2024-2025 to be positive years for Velesto, fueled by healthy utilisation rates, heightened DCRs and longer contract tenures.



Fixed Structures Fabrication

	F	PAO 2024-202	26	Planned	Actual	
	2024	2025	2026	20	23	
WHP Light (<1k MT)	3	4	NA	0	0	
WHP Medium (1k MT - 7.5k MT)	1	0	NA	6	6	
WHP Heavy (>7.5k MT)	3	0	NA	1	1	
CPP Heavy (>7.5k MT)	1	1	NA	1	1	
Total	8	5	NA	8	8	

Source: PETRONAS

Fixed Structures Fabrication

- Met targets in 2023. 8 projects (6 WHP medium, 1 WHP heavy and 1 CPP heavy) were carried out throughout the year, as planned.
- 8 structures planned for 2024. This comprises 3 WHP light (<1k MT), 1 WHP medium (1k MT 7.5k MT), 1 WHP heavy (>7.5k MT) and 1 CPP heavy (>7.5k MT) structure. Overall, a busy period for the domestic fabricators.
- MMHE (MMHE MK; Not Rated) is likely to benefit from this
 development over its local peer, Sapura Energy (SAPE MK, Not Rated)
 due to its slightly more appealing track record, but could be
 susceptible to execution risks and cost-overruns, in our view.
- Other PETRONAS-licensed fabricators, such as Muhibbah Engineering (MUHI MK; Not Rated) and Sarawak-based KKB Engineering (KKB MK; Not Rated) are also potential beneficiaries of PETRONAS' fixed structures play.

Floating Structures Fabrication

	PAO 2024-2026			Planned	Actual
	2024	2025	2026	20	23
мори	1	0	0	0	0
FPSO	1	1	0	0	0
Total	2	1	0	0	0

Source: PETRONAS

- An uneventful 2023. No project was forthcoming
- **2024 to see 1 FPSO.** After a quiet 2022 and 2023 with no floaters, we may be able to see 1 FPSO job award in 2024.
- The global FPSO market is booming due to the recovery in global capex cycle, on the back of an elevated oil market outlook and a stronger push for lower carbon emitting assets in lieu of the energy transition agenda.
- Yinson (YNS MK; BUY; TP: MYR5.05), Bumi Armada (BAB MK; BUY; TP: MYR0.71) and MISC (MISC MK; BUY; TP: MYR7.65) are potential beneficiaries in this segment.



Offshore Support Vessels (OSVs)

OSV - supporting production operations	Р	AO 2024-202	26		Planned	Actual	
OSV - Supporting production operations	2024	2025	2026		20	23	
AHTS <100MT	29	28	31		24	29	
AHTS >100MT	0	1	0		1	0	
FCB	51	48	46		50	50	
PSV/SSV	14	11	11		13	11	
Work Boat/Work Barge	5	5	2		4	3	
GPV/SBV	27	27	26		29	28	
LCT	15	17	16		17	13	
UV	7	9	10		9	10	
Sub-Total	148	146	142		147	144	
OSV - supporting drilling and projects	PAO 2024-2026				Planned	Actual	
	2024	2025	2026		2023		
AHTS <100MT	36	26	12		22	29	
AHTS >100MT	65	65	46		50	41	
FCB	37	31	22		28	30	
PSV/SSV	45	50	54		52	38	
Work Boat/Work Barge	50	41	31		45	45	
GPV/SBV	3	2	2		2	2	
LCT	12	12	7		4	7	
UV	1	0	0		1	1	
Sub-Total	249	227	174		204	193	
Grand Total	397	373	316		351	337	

Source: PETRONAS

- OSV supporting drilling and projects underperformed for the 3rd year in a row. Missed targets by >5% with 193 OSVs chartered for the year (vs. planned units of 204).
- Improved outlook in 2024. Based on PAO 2024-2026, PETRONAS requires a substantially higher number of OSVs in 2024 of 397 units (+18% YoY) for its drilling and other programs. The increased requirement would come mainly from AHTS, FCB, PSV/SSV and Work Boat/Work Barges.
- Shortage of Malaysian-Flagged OSVs scenario is expected to continue in the near future, the document stated.
- We see Icon Offshore (ICON MK; BUY; TP: MYR0.59), Perdana Petroleum (PETR MK; Not Rated) as key beneficiaries.

Plant Turnaround

	PAO 2024-2026			Planned	Actual
	2024	2025	2026	20	23
PM >350k man-hours	4	5	1	2	2
SB/SK >350k man-hours	4	4	3	1	1
PM >100k <350k man-hours	1	1	1	1	1
SB/SK > 100k < 350k man-hours	1	1	1	0	0
PM <100k man-hours	3	4	0	3	2
SB/SK < 100k man-hours	1	3	0	0	0
Total	14	18	6	7	6

Source: PETRONAS

- Missed target slightly for 2023 due to lower plant maintenance (<100k man hours) activity.
- Activities to more than double YoY in 2024 due to a significant increase in plant turnarounds, contributed by requirement at Peninsular Malaysia (East Coast), Pengerang and Sarawak.
- Dialog (DLG MK; BUY; TP: MYR2.43) is a key beneficiary.



HUC and MCM

	PAO 2024-2026				Planned	Actual
	2024	2025	2026		20	23
HUC (million man-hours)	7.6	5.3	5.1		5.8	4.0
MCM (million man-hours)	12.09	13.09	11.13		11.88	10.71

Source: PETRONAS

- HUC activity missed targets in 2023 as the remainder 1.8m manhours is expected to be carried over to 2024.
- Monumental increase in MCM and HUC activities in 2024 by 90% YoY and 13% respectively.
- All requirements for HUC and MCM activities in 2024 have been contracted.
- Dayang Enterprise (DEHB MK; Not Rated), Carimin Petroleum (CARIP MK; Not Rated) and Petra Energy (PENB MK; Not Rated) are key beneficiaries of the robust activity growth in this segment.

Others

Underwater Services

	PAO 2024-2026			Planned	Actual
	2024	2025	2026	20	23
DPII DSV - ROV & Air Diving System	531	453	617	229	280
DPII DSV - Built-in Saturation Diving System	432	390	339	178	323
DPII DSV - ROV & Intervention	426	353	297	281	579

Source: PETRONAS

Offshore Installation and Structural Installation

	PAO 2024-2026				Planned	Actual
	2024	2025	2026		20	23
Number of lifts using heavy lifts barges	14	9	11		5	5
Number of installations using floatover barges	1	1	0		2	1

Source: PETRONAS

Offshore Installation and Structural Installation

	PAO 2024-2026			Planned	Actual
	2024	2025	2026	20	23
Number of lifts using heavy lifts barges	14	9	11	5	5
Number of installations using floatover barges	1	1	0	2	1

Source: PETRONAS

Pipe Installation - Pipelay (days)

	PAO 2024-2026			Planned	Actual		
	2024	2025	2026	1	2023		
Number of pipe installation days	248	200	14	240	229		

Source: PETRONAS

Chemicals Purchase

	PAO 2024-2026				Planned	Actual
	2024	2025	2026		2023	
Catalyst	1.18	1.22	1.61		1.42	1.59
Production Chemicals	0.38	0.38	0.38		0.47	0.24
Integrity Chemicals	0.29	0.29	0.29		0.57	0.25
Boiler & Cooling Water System Chemicals	2.28	2.28	2.28		2.55	2.24
Total	4.13	4.17	4.56		5.01	4.32

Source: PETRONAS



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Malaysia

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