

Malaysia Oil & Gas

POSITIVE

[Unchanged]

1Q24: Signs of margin crimps; Domestic capex up 20% YoY

Maintain POSITIVE on the Malaysia O&G Sector

Our general thesis on the Malaysia Oil and Gas sector has not deviated much since our thematic report ([link](#)). As EIA has forecasted a record-high demand for crude oil in 2024-2025E, we think that the elevated crude oil price environment will stay for the medium term. Maintain POSITIVE on the sector with an in-house Brent ASP assumption of USD82/bbl for 2024E (YTD: USD83.5/bbl). Top sector BUYS are Velesto and Dialog.

Analyst

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PETRONAS' 1Q24 summary: Signs of margin crimps

PETRONAS raked a 1Q24 core net profit (CNP) of MYR18.3b (+2% QoQ, -14% YoY). Despite relatively similar Brent average price of USD82/bbl in 1Q24 with 1Q23, we highlight that CNP declined by -14% YoY and this was due to: i) higher costs and opex; and ii) a higher tax rate. EBIT margin shrunk -2.7 ppts YoY and we are now seeing signs of margin crimps. We believe that this may be attributed to cost inflation seen in the oil and gas sector (i.e. higher OGSE service providing rates).

1Q24 capex up 2% YoY, domestic capex up 20% YoY

1Q24 total capex was MYR10.7b (+2% YoY), with c.10% spent on cleaner energy solutions and decarbonisation projects. The proportion of capex allocated towards upstream investments increased significantly to 64% in 1Q24 (from 46% in 1Q23). Also, 1Q24 domestic capex rose to MYR5.5b (+20% YoY), even higher from an already improved base in 1Q23 (+44% YoY from 1Q22) - this shows that PETRONAS is committed to fostering a robust local OGSE ecosystem in times of a healthy and elevated crude oil price environment.

PETRONAS domestic capex likely to be huge in 2024E

PETRONAS Activity Outlook 7th Edition: 2024-2026 document ([link](#)) is pointing towards a robust outlook for the year as most OGSE sub-segments are expected to see step-ups in investments and activities. Given lower targeted dividend commitment of MYR32b for 2024E, coupled with our expectation of a stable average Brent crude oil price of USD82/bbl for the year, we think that PETRONAS' domestic capex will likely be higher in 2024E. As at end-Mar 2024, PETRONAS sat on a net cash position of MYR98.2b (from MYR96.9b as at end-Dec 2023).

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							24E	25E	24E	25E	24E	25E
MISC	MISC MK	7,909	Hold	8.34	8.13	2	15.3	14.2	0.9	0.9	4.3	4.3
Dialog Group	DLG MK	2,867	Buy	2.39	3.13	32	22.9	18.4	2.3	2.1	1.5	1.5
Yinson Holdings	YNS MK	1,510	Buy	2.32	4.78	106	8.8	7.4	1.5	1.1	0.7	0.7
Bumi Armada	BAB MK	724	Buy	0.58	0.66	14	4.0	5.3	0.5	0.5	0.0	0.0
Velesto Energy	VEB MK	463	Buy	0.27	0.34	27	12.9	8.5	0.8	0.8	1.6	2.3
Hibiscus Petroleum	HIBI MK	428	Hold	2.50	2.31	(5)	3.9	4.1	0.6	0.6	3.0	3.0
Wasco	WSC MK	247	Hold	1.50	1.55	4	11.6	11.1	1.4	1.3	0.0	0.0
Icon Offshore	ICON MK	99	Sell	0.75	0.49	(32)	98.0	18.3	1.2	1.2	2.7	2.7

Fig 1: PETRONAS' Results Summary

FYE December (MYR'm)	1Q24	1Q23	YoY	4Q23	QoQ
Revenue	80,903	81,471	-1%	81,397	-1%
Cost of Revenue	(46,668)	(46,128)	1%	(50,916)	-8%
Gross Profit	34,235	35,343	-3%	30,481	12%
Selling and distribution expenses	(2,580)	(2,065)	25%	(2,983)	-14%
Administrative expenses	(4,381)	(3,969)	10%	(4,403)	0%
Net impairment losses	(217)	(65)	234%	(2,554)	-92%
Other expenses	(38)	(23)	65%	(3,967)	-99%
Other income	1,631	1,792	-9%	2,789	-42%
Operating profit	28,650	31,013	-8%	19,363	48%
Financing cost	(1,272)	(1,430)	-11%	(1,181)	8%
Share of JV/associates	139	209	-33%	372	-63%
PBT	27,517	29,792	-8%	18,554	48%
Tax expense	(7,257)	(6,637)	9%	(1,538)	372%
Profit for the year	20,260	23,155	-13%	17,016	19%
Minority interest	(2,209)	(1,931)	14%	(1,609)	37%
PATAMI	18,051	21,224	-15%	15,407	17%
Extraordinary items	(217)	(65)	234%	(2,554)	-92%
Core net profit	18,268	21,289	-14%	17,961	2%
Margins			+/- ppts		+/- ppts
Gross Profit Margin	42.3%	43.4%	(1.1)	37.4%	4.9
EBIT Margin	35.4%	38.1%	(2.7)	23.8%	11.6
PBT Margin	34.0%	36.6%	(2.6)	22.8%	11.2
PAT Margin	25.0%	28.4%	(3.4)	20.9%	4.1
PATAMI Margin	22.3%	26.1%	(3.7)	18.9%	3.4
Core Net Profit Margin	22.6%	26.1%	(3.6)	22.1%	0.5
Effective Tax Rate	26.4%	22.3%	4.1	8.3%	18.1

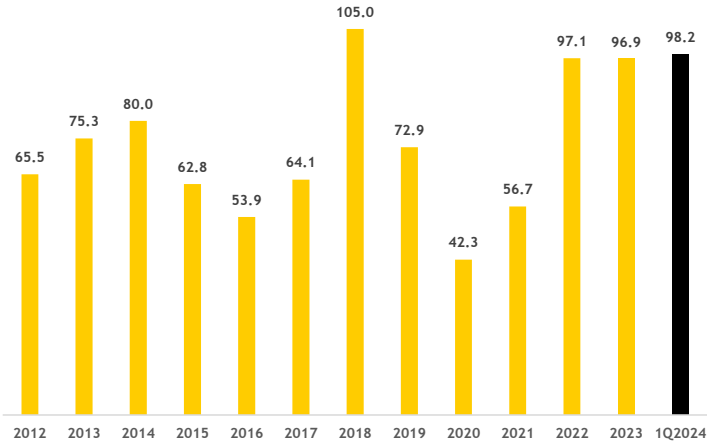
Source: PETRONAS, Maybank IBG Research

Fig 2: PETRONAS' Operational and Segmental Highlights

FYE December (MYR'm)	1Q24	1Q23	YoY	4Q23	QoQ
Upstream Segment					
Revenue	38,112	35,855	6%	38,230	0%
PAT	11,319	12,461	-9%	8,756	29%
PAT margin	29.7%	34.8%		22.9%	
Entitlement ('000 boe per day)					
Crude Oil and Condensates	530	536	-1%	526	1%
Natural Gas	1,191	1,237	-4%	1,198	-1%
Gas Segment					
Revenue	31,518	33,178	-5%	32,066	-2%
PAT	6,284	8,759	-28%	8,906	-29%
PAT margin	19.9%	26.4%		27.8%	
Sales Volume					
Malaysia Avg gas volume (mmscf/d)	3,090	2,942	5%	3,131	-1%
Gross LNG (million tonnes)	9.89	8.88	11%	8.95	11%
Downstream Segment					
Revenue	34,711	36,577	-5%	36,392	-5%
PAT	1,918	1,646	17%	(401)	-578%
PAT margin	5.5%	4.5%		-1.1%	
Sales Volume					
Petroleum Products (million barrels)	71.0	77.2	-8%	77.9	-9%
Crude Oil (million barrels)	29.1	27.4	6%	26.0	12%
Petrochemical Products (million MT)	2.3	2.4	-4%	2.4	-4%

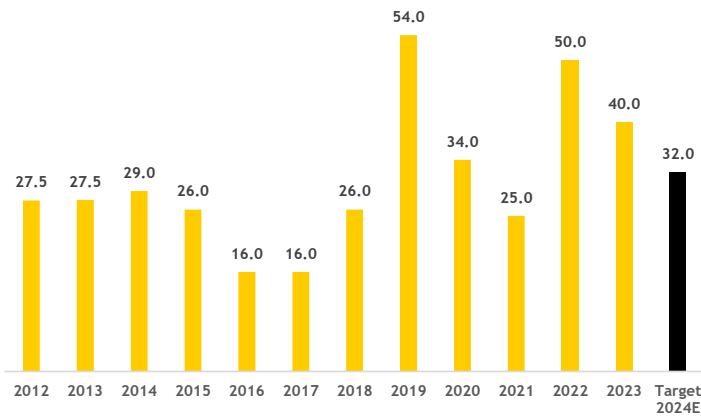
Source: PETRONAS, Maybank IBG Research

Fig 3: PETRONAS' Net Cash Position (2012-1Q2024, MYR billion)



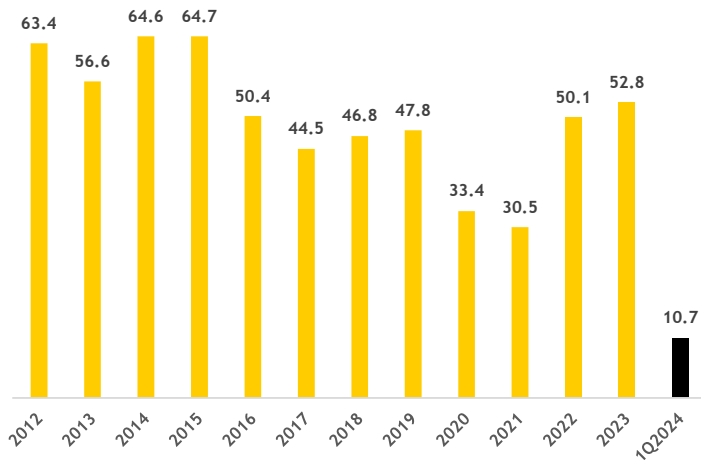
Source: PETRONAS

Fig 4: PETRONAS' Dividends (2012-2024E, MYR billion)



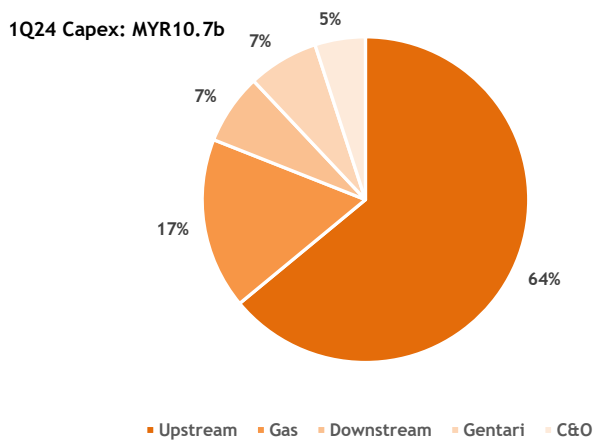
Source: PETRONAS

Fig 5: PETRONAS' Capex (2012-1Q2024, MYR billion)



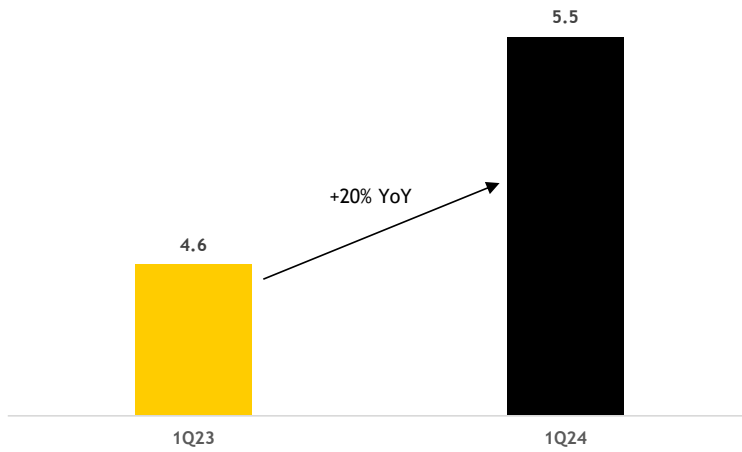
Source: PETRONAS

Fig 6: PETRONAS' 1Q2024 Capex Breakdown



Source: PETRONAS

Fig 7: PETRONAS' 1Q2024 Domestic Capex



Source: PETRONAS

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