

Oil & Gas

Various Developments Focusing On Energy Security

Highlights

- **High oil price expectations, but Sarawak's constitutional issue remains the crucial point to resolve.** We may follow consensus in raising oil price expectations in view of the geopolitical developments, which should benefit direct oil plays including Hibiscus and Dialog. However, the overarching sector theme in our view, ie the legal impasse between Petronas and Petros will be deliberated by the Federal Court only in Jan 27.
- **Life still goes on.** Nevertheless, there are several bright developments: Velesto Energy continues to benefit from a tight JU rig market, and all the locally listed FPSO peers have officially ventured into the floating gas (FLNG, FSRU) market. Upstream M&A valuations metrics are gaining traction again, with Hibiscus and Dialog as key beneficiaries.

Analysis

- **Oil price forecasts now reflect a core risk-adjusted price regime.** New consensus expectations now project global oil prices of US\$95-110/bbl. This oil price assumption has been trending up due to sustained Hormuz impairment, additional refinery outages and accelerated inventory draws. Equally important to follow are the downstream product prices as the market tightness needs to be considered. A severe inventory drawdown may push oil prices up to over US\$120/bbl. In a recent conference, both heads of Petronas and Saudi Aramco voiced concerns over global inventories having shrunk from 10b barrels to over 6b barrels, with over 10% of that available for use.
- **Positive resolution between Petronas-Petros unlikely a near-term scenario.** The Federal Court has set 25-29 Jan 27 to hear the petitions from both sides. Petronas' petition challenges the competency of 10 Sarawak laws, while Sarawak filed its challenge on three federal laws. A Federal Court bench usually comprises three or five judges. However, this constitutional issue is considered a case of extraordinary weight, and requires a full bench of 9-11 judges. At the same time, Sarawak had signed to construct its first floating storage and regasification unit (FSRU) in Kuching, with an operational target of late-29. Although owning FSRU allows Sarawak better control over its gas supply and price fluctuation, we also interpret it as Sarawak having no confidence that the other party will honour their agreement to ensure Sarawak has 30% of their domestic gas supply.

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MARKET WEIGHT (Maintained)

Segmental Rating

Stock	Rating
Dialog	BUY (Target: RM2.95)
MISC	BUY (Target: RM9.50)
Yinson	BUY (Target: RM2.40)

Source: Bloomberg, UOB Kay Hian

Key Price Assumptions BY EIA

Brent price, US\$/bbl	Previous	Sep 26
4Q26	78.0	90.7
1Q27	74.0	85.0
2Q27	71.0	77.0
Distillate crack spread, US\$/gallon		
2026	1.30	1.57
2027	0.97	1.25

Source: EIA

Velesto Energy (VEB) updates

- Naga 8 (N8) commenced operations for Hess around mid-Aug 26, for the 2026-28 North Malay Basin campaign. This is within our expectations (and ahead of their rig schedule).
- The JU market remains tight, prompting more direct negotiations between oil majors and contractors. One such contract (direct negotiation) ie Petronas Carigali is seeking a JU rig for a two exploration well in SB403 Block (Sabah) commencing in Oct 26.
- ADES jackup Shelf Drilling Enterprise arrived at MMHE Shipyard on 02 Sep 26, after completing its contract with Hibiscus Petroleum. This marks the expected conclusion of VEB's first asset-light contract.

Source: Westwood Global, Riglogix

Peer Comparison

Company	Ticker	Rec*	Price	Target	Market	PE			Yield	ROE
			06 Oct 26	Price	Cap	2025	2026F	2027F	2026F	2026F
			(RM)	(RM)	(RMm)	(x)	(x)	(x)	(%)	(%)
Bumi Armada	BAB MK	HOLD	0.33	0.35	1,956	4.2	9.6	8.2	7.2	4.3
Dialog Group	DLG MK	BUY	1.85	2.95	10,445	26.7	19.5	17.7	5.5	10.0
Deleum	DLUM MK	BUY	1.00	1.45	400	5.4	6.8	5.4	7.4	14.2
MISC	MISC MK	BUY	7.70	9.50	34,371	16.7	14.8	12.6	4.4	34.7
MMHE	MMHE MK	BUY	0.35	0.53	560	5.9	5.3	6.0	5.3	14.6
Petronas Dagangan	PETD MK	BUY	19.20	24.20	19,074	21.5	16.6	16.2	5.3	12.3
Uzma	UZMA MK	BUY	0.36	0.76	219	4.0	4.2	2.9	-	28.7
Velesto Energy	VEB MK	BUY	0.22	0.29	1,777	11.3	14.9	13.4	18.4	41.4
Yinson Holdings	YNS MK	BUY	2.07	2.40	6,661	-	8.9	10.1	2.6	11.9

Source: Bloomberg, UOB Kay Hian

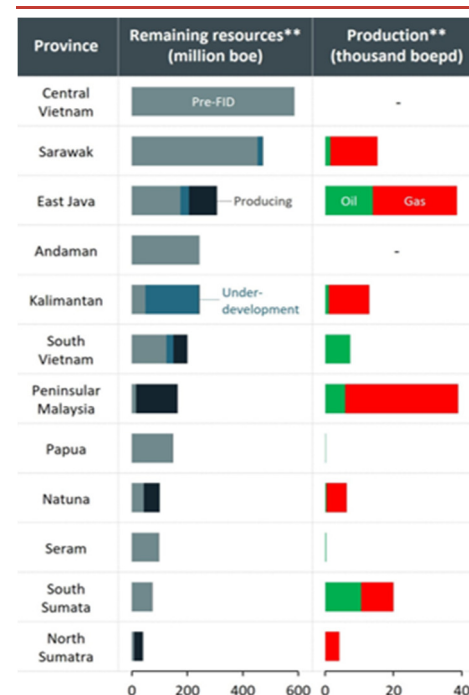
Tuesday, 06 October 2026

- **Velesto Energy (BUY/Target:RM0.29): Continues to benefit from tight jackup (JU) rig market.** As per the RHS table, various events and rig awards in the region point to a continuous tightness in JU rig market, leading to increasing occasions of direct negotiations between operators and contractors. This is a potentially positive push for higher rates. We understand these contracts include Petronas Carigali's short-term work for 4Q26, which suggest a high likelihood for Naga 3 (N3) redeployment by mid-4Q26 (as per guidance).
- **FPSO players officially in the FSRU game.** To recap, in mid-26 MISC (BUY/Target: RM9.50) entered into its first Floating Storage, Regasification Unit (FSRU), 20-year charter for Petronas Gas. MISC entrusted Samsung Heavy Industries to construct the US\$330m FSRU. Its FPSO peer Bumi Armada (HOLD/Target:RM0.35) attempted to break into FSRU, but the Mumbai FSRU project did not materialise. Instead, Bumi Armada signed a strategic cooperation agreement with FPSO Ventures and Wison Energy in Gastech 2026 last month to launch an integrated lease-and-operate model for turnkey floating LNG (FLNG). Essentially, a trio of FPSO rivals have teamed up on the delivery side in a fast-growing FLNG drive to help gas owners accelerate resource monetisation.
- **Yinson (BUY/Target: RM2.40) made a surprise debut in Gastech 2026.** According to Upstream, Yinson Production (the FPSO subsidiary) had been working behind the scenes and made a strategic in-house decision last year to expand into the FLNG market. It started building its FLNG capabilities after recruiting a small team of ex-Golar LNG employees. We think this is perhaps also why Upstream quoted that an ongoing deal to take Yinson private does not involve MISC becoming a major shareholder or "acquiring" Yinson, but is more likely to see Yinson subsuming minority shareholder MISC's offshore fleet.
- **Southeast Asia upstream M&A valuation in a new cycle.** According to Rystad Energy, the current M&A cycle is a departure from that of 2020-24, which was dominated by majors trimming late-life positions and production sharing contract (PSC) expirations. Assets worth US\$6.7b changed hands in 2025, as Southeast Asia's deal market shifts from non-core exits to strategic entry. There are US\$9.6b in upstream assets remaining for 2026-27, with the mix comprising energy majors (US\$3.6b), independents (US\$3.7b), and national oil companies (NOCs) (US\$1.4b). Transaction metrics have risen to reach US\$9.80/boe for development assets and over US\$3/boe for pre-final investment decision (FID) resources, against six-year averages of US\$6-7/boe and US\$1.50/boe, respectively. The biggest beneficiaries to this theme are Hibiscus Petroleum (NR) and Dialog (BUY/RM2.95).

Valuation/Recommendation

- **Maintain MARKET WEIGHT.** Although we have more BUY calls in terms of valuation grounds, we remain neutral on the sector until we see a firm clarity on the resolution of the Petronas-Petros political impasse, which we have identified to be the key sector derating cause since 2H24, and is an assumption we have been holding since then. Despite high oil prices, the sector's earnings are still inhibited by near-term risks, such as delayed plant maintenance and turnaround, and short-term work order disruptions due to the Petronas Carigali portfolio restructuring.
- **Top Pick: Dialog (DLG MK/BUY/Target: RM2.95), the new "upstream champion".** This implies 27x/22x FY27F PE and EV/EBITDA respectively. We believe DLG warrants the high EV/EBITDA, relative to its historical three-year average of 12-19x. Its midstream/storage business will sustain at multi-cycle highs, although we do not see further earnings catalysts from this segment despite a renewed interest in storage assets due to energy security demand. However, we see near-term upside surprise potential for its upstream earnings. This is due to the anticipated new production volumes

Potential Upstream M&A Opportunities



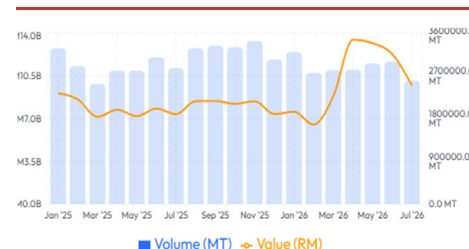
Source: Rystad Energy

Rationale for Upstream M&A Sales

- Majors: selling assets in countries with limited upside to focus on core basins, while entering frontier acreage instead through partnerships rather than going in alone.
- Independents: Need capital to progress pre-FID discoveries
- NOC: Room to rationalise late-life assets at home while eyeing entry elsewhere
- Growth will come in the form of
- Conversion of pre-FID opportunities into mega M&A deals,
- The trajectory of premiums on producing assets, and
- Continued evolution of deals into strategic partnerships.

Source: Rystad Energy

Refined Products Export, Volume vs Value

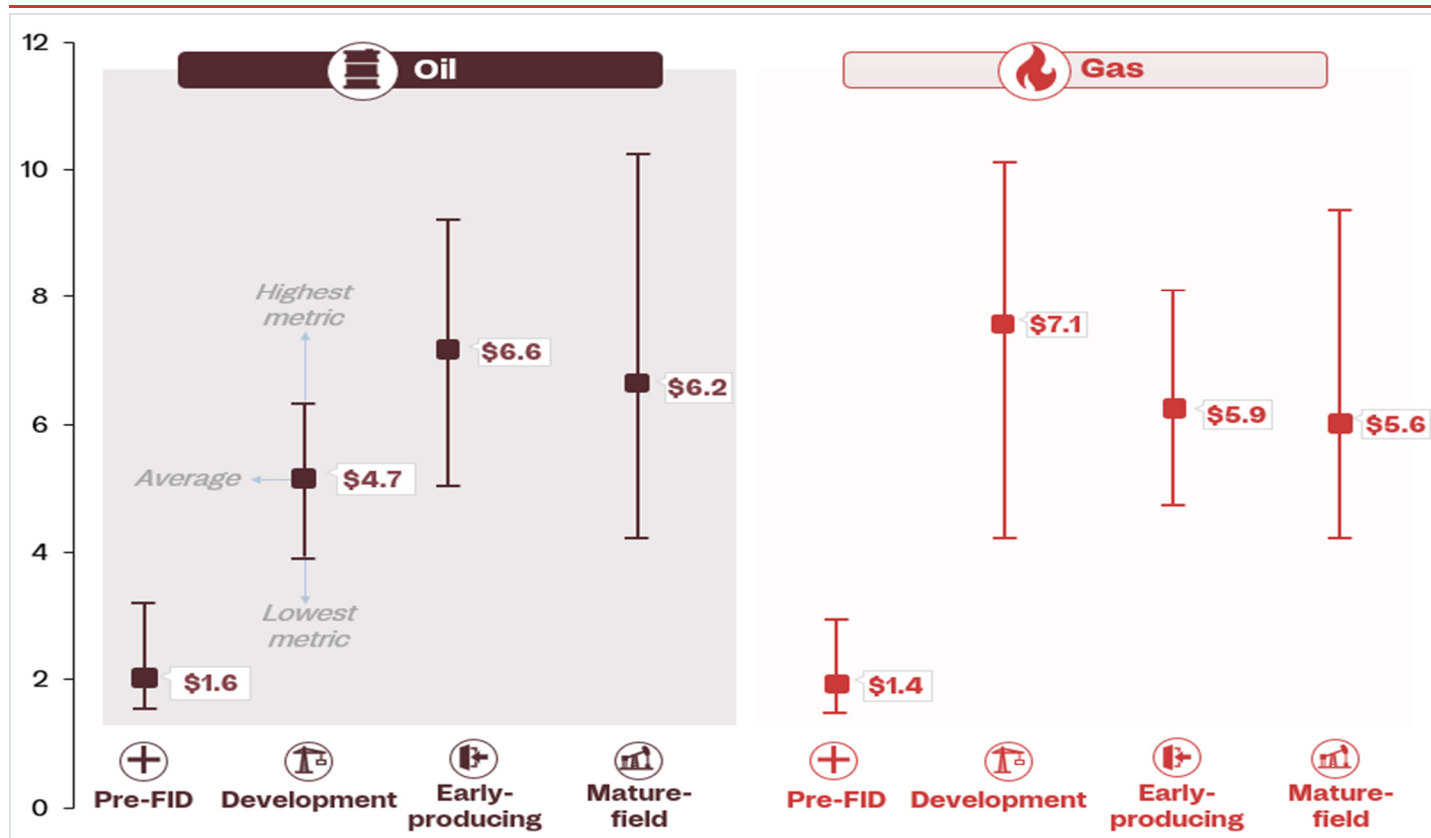


Source: Pantau Krisis or Global Supply Crisis Dashboard Malaysia

from Cendramas PSC in 3Q26, and Baram Junior Cluster (BJC) PSC around Oct/Nov 26.

- MISC (MISC MK/BUY/Target: RM9.50).** As a stable dividend play, MISC's valuation underperformed global crude tanker peers' despite the sector's continued bullishness. The valuation discount is mainly due to expiring obsolete steam-turbine LNG carriers (LNGC), which were substantial in its fleet. With no risk of LNGC expiries in 2026 (barring any unexpected early terminations), the progress of LNGC disposals will surprise the market positively, bringing downed idled fleet to only three. We acknowledge the share price outperformance in 1H26 may not be replicated in 2H26 due to specific events such as the development of Yinson's privatisation deal involving Petronas/MISC and EPF, but we advise accumulating at a lower entry level as MISC is the only local proxy to crude tankers.

Acquisition Cost Per Barrel In Southeast Asia, In Deal Value Per Traded Resource (US\$ Per BOE)



Source: Rystad Energy

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