Oil & Gas – Shipping

MARKET WEIGHT
(Maintained)

Shipping: Human Rights Fast Becoming A Major ESG Risk

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Highlights

- Recent geopolitical events are greatly undermining seafarers' human rights, blurring the distinction between a shipping route and a war zone. At the same time, markets remain bullish on global tanker stocks as a geopolitical hedge. We are studying the elusive global shipping ESG risk (human rights), which could potentially have a significant price impact on global shipping stocks, which are now being perceived as a defensive geopolitical hedge.
- As the global seafarer shortage coincides with a worsening retention crisis driven by various human rights issues, we believe this could become a materiality topic extending beyond shipping and across multiple sectors. Given that seafarers enable almost 90% of global trade, the shortage could indirectly increase the cost of doing business for sectors that depend on global trade. Sectors that may face materiality impact are shore-based ecosystems like ports and yards, and also financials (especially marine insurers).

Analysis

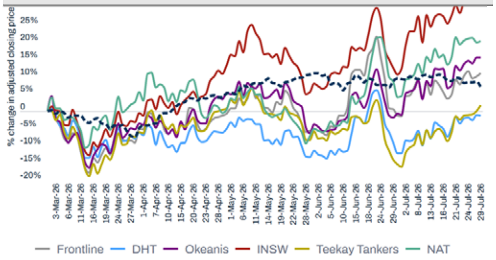
- **Shipping sector proving to be a defensive hedge for investors.** According to Lloyd's List, global tanker stocks have proved again to be a worthy hedge for investors, even as geopolitical unrest has been a headwind for the broader market. Stocks in the crude tanker and product tanker segments have gained 15% and 13% respectively in the past month. Some stocks like International Seaways and Okeanis outperformed in gains relative to the start of the Hormuz crisis (+47-50%), and across a one-year timeframe (+123-130%).
- **Crude tanker fundamentals are expected to hold strong on tonne-mile demand even if the war ends today.** The ongoing US-Iran conflict/Hormuz disruption 3-4 months ago are some factors supporting Very Large Crude Carriers (VLCC) daily spot rates, which have been hovering at US$100,000 for nine straight months. Despite the recent correction, tanker rates are still reflecting multi-cycle highs. This is because even if the Strait were to open today, countries would need to restock depleted inventories and diversify their supply sources. Some guided the process may take as long as two years.
- **However, we are studying if the elusive global shipping ESG risk (human rights) will be a material pricing impact, just as the distinction between a shipping route and a war zone is disappearing.** After more than four years of war around the Black Sea, seafarers - which are some of the toughest workforce globally – have accepted a degree of risk as part of the job, believing that the vessel is the primary target rather than the people on board. However, recent developments in the Russia-Ukraine conflict zone had resulted in a sharp deterioration in security conditions, which in turn inflicted trauma significant enough for experienced officers to refuse Black Sea assignments. The bigger question is whether this represents a precedence for the other key conflict zones, including the South China Sea territorial disputes.

Materiality Assessment

Sector	Stock	Description
Shipping	MISC, Liannex,	MISC is the only locally listed shipping stock with major, integrated supply chain exposure globally, and hence owning a higher proportion of qualified officers (and have greater responsibility for their welfare) in its seafarer crew.
Financials	Allianz, Takaful, LPI	Underwriting marine insurance may need to be inclusive, factoring in the welfare of seafarers is important for successful shipping operations. Existing practice only provide coverage for seafarers that is voided the moment they step off the ship
Ports, Yard	Westports, MMHE, Muhibbah, Bintulu Port	The Mission to Seafarers recognises the interconnected ecosystem is as important as tracking Seafarers Happiness, and had officially launched the Shorebased Happiness Index.

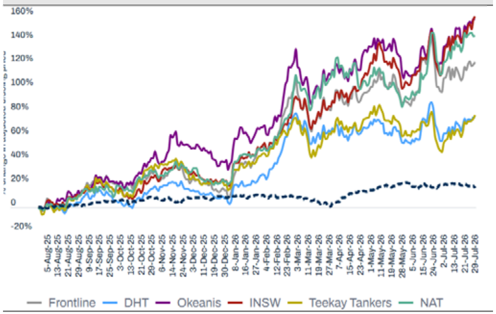
Source: UOB Kay Hian

Tanker Stocks Vs S&P500 ETF*



** Since Hormuz blockage in end Feb 26*
Source: UOB Kay Hian

Tanker Stocks Vs S&P500 ETF**



*** 1-year timeframe*
Source: UOB Kay Hian

Peer Comparison

Company	Ticker	Rec*	Price 4 July 26 (RM)	Target Price (RM)	Market Cap (RMm)	PE 2025A (x)	PE 2026E (x)	PE 2027E (x)	PB 2026E (x)	ROE 2026E (%)
MISC	MISC MK	BUY	8.21	9.50	36,648	19.5	15.2	13.6	0.9	7.0
Malaysia Marine And Heavy Engineering	MMHE MK	-	0.34	0.50	536	5.3	6.0	5.6	0.3	4.7
Westports Holdings	WPRTS MK	HOLD	7.14	6.50	24,536	24.1	19.4	18.3	5.0	38.7

Source: Bloomberg, UOB Kay Hian

- **Ensuing casualties are real.** The Russia-Ukraine crisis has prompted the United Nations (UN) Human Rights to release a statement on 24 Jul 26, detailing at least 6,000 seafarers on some 400 vessels remained stranded around the Strait, having been unable to evacuate during the ceasefire. Some were treated worse ie about 93 crewmates across nine vessels were abandoned at sea by shipowners. More than 4 Indian seafarers were killed in recent weeks, bringing the total number of reported seafarer deaths to 17 since the start of the conflict. Most recently, Ukraine's Transport Minister claimed Russia had been "systematically attacking civilian ships multiple times" and counted five attacks already in Aug 26
- **This has prompted many experienced seafarers to "never return"** for fear of being killed, rather than merely caught in a crossfire. As experienced officers are increasingly opting out of Black Sea voyages, shipowners can cast a wider net with higher salary offers to entice seafarers to come on board. However, when commercial decisions outweigh considerations of competence and risk management, ie the newly hired seafarer may not be equipped to navigate sailing through conflict zones, such actions can reduce the quality of work.
- **The global seafarer crisis predates these geopolitical events.** We acknowledge that recent geopolitical developments are unprecedented as they shamelessly violate the most fundamental rule of international law - the prohibition on use of force. However, they were not the cause but merely a catalyst of the global shipping humanitarian crisis that had already started, but overlooked by stakeholders and governments over the years despite the importance of seafarers that enable 90% of global trade. Malaysia is facing a similar crisis in tandem with global. The seafarer shortage (especially of qualified officers) had been prevalent, but now augmented by retention crisis.
- **This retention crisis was made more apparent** with the fear and psychological damage stemming from geopolitical war developments, alongside other structural factors spotted by the Seafarers Happiness Index (which declined qoq in 2Q26). Markedly lower satisfaction with shore leave reflects seafarers' frustration at being unable to make proper use of their leave due to additional deployments and paperwork, issues that are also captured under the "workload" and "welfare" parameters.
- **MISC Berhad (BUY/Target: RM9.50) –** As one of the largest global shipping players, MISC is the only locally listed shipping stock with major, integrated supply chain exposure globally, and hence would naturally have a higher proportion of qualified officers (and have greater responsibility for their welfare) in its seafarer crew. We believe MISC is quite advanced in adopting and self-monitoring on ESG issues including seafarers' welfare and environmental management, using systems like Tanker Management and Self-Assessment (TMSA)

Valuation

- **Maintain MARKET WEIGHT on Malaysia O&G.** 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 since 2H24, and is an assumption we have been holding since then. We acknowledge that several gems are proving to be nimble against changes in the business environment.
- **Top pick: 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

Key Updates On Geopolitical Conflicts

A) Yemen and the Red Sea. Since 2014, Houthi rebels have fought a Saudi-led coalition backing Yemen's internationally recognized government, until a ceasefire in 2022.

- An Iran-backed group subsequently attacked Red Sea shipping in protest of Israel's military campaign in Gaza, drawing US military retaliation and deepening Yemen's entanglement in regional conflict.
- Houthi strikes on Saudi Arabia's Abha Airport in Jul 26 now threaten to reignite the civil war. At least four Saudi oil tankers had been attacked

B) Russia-Ukraine war. Russia's Feb 22 full-scale invasion of Ukraine has killed over 1m people and left Russia occupying roughly 20% of Ukrainian territory.

- Ukraine has countered with long-range drone strikes that have knocked out up to 40% of Russia's refining capacity, while Russia continues to bombard Ukrainian cities.
- US-mediated talks between Russia and Ukraine have yet to produce a ceasefire, and the two sides remain divided over territorial concessions and security guarantees for Ukraine.

C) Iran's war with Israel and US. In Feb 26, the United States and Israel attacked Iran, killing Supreme Leader Ali Khamenei and targeting nuclear and military infrastructure

- A Pakistan-mediated ceasefire and June MOU halted large-scale fighting, but both sides have since traded strikes over alleged violations. A durable settlement remains elusive, with core disputes over Iran's nuclear program, the Strait of Hormuz, and sanctions relief unresolved.
- By end-Jul 26, Saudi Arabia marked its entry into the war by partnering with US to strike Iranian-backed militias in neighbouring Iraq, killing 20 fighters and six Iranian advisors.

D) Territorial disputes in the South China Sea. China's sweeping territorial claims, rejected by a 2016 international tribunal ruling, have fuelled persistent maritime disputes with the Philippines, Vietnam, and other claimant states (Brunei, Malaysia, Indonesia and Taiwan).

- The South China Sea has an estimated 11b barrels of untapped oil and 190 tr cf of natural gas.
- China and the Philippines clashed three times in a single week in Jul 26 at Scarborough Shoal and Second Thomas Shoal, prompting joint US-Philippines-Japan maritime drills.
- Japan sold military ships and equipment to Philippines and Vietnam to deter China's assertive aggression.
- A Vietnamese cargo ship sank off a Chinese-occupied shoal in the South China Sea. Vietnamese, Philippine and Chinese rescuers identified 48 survivors; 14 people remain missing.

Source: Global Conflict Tracker

Global Seafarer Crisis

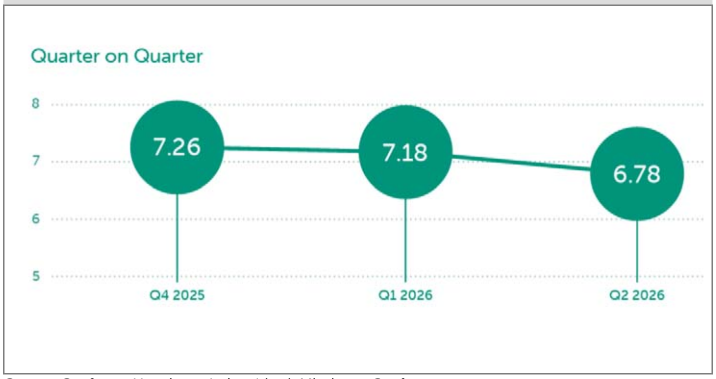
- Malaysia is facing a similar crisis in tandem with global, whereby the seafarer shortage had been prevalent since the last decade, but now augmented by retention crisis.
- Shortage of qualified officers. Contrary to the UN's speech, The International Transport Workers Federation (ITWF) quoted a more serious number of 20,000 seafarers that remains trapped in the Straits, out of a global seafarer workforce of about 2.6m (split between 1.05m officers and 1.52m ratings) based on Seafarer Workforce Report 2026.
- The report further estimates that the industry faces a shortage of 39,100 officers, but a surplus of 56,890 ratings. In essence, the shipping industry is facing shortage of certified officers.
- The report predicts that by 2030, global demand for officers and ratings are 1.16m and 1.56m respectively. To meet this target, the industry will need additional 22,747 officers and 8,475 ratings every year
- Seafarers workforce mix skewed to Global South. Top supplying nations are Philippines that rank first, followed by India (which recently overtook China as the second-largest supplier with over 311,000 workers), China, Russia and Indonesia.

Source: BIMCO, ITWF

early terminations), the progress of LNGC disposals will surprise the market positively, bringing downed idled fleet to only three.

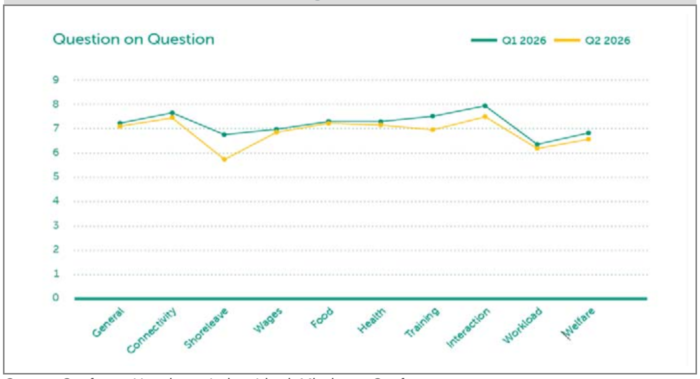
- **Dialog (DLG MK/BUY/Target: RM2.95), the new “upstream champion”.** This implies 27x/22x FY27F PE and EV/EBITDA respectively. We believe DLG warrants the high EV/EBITDA, relative to its historical three-year average of 12-19x. Its midstream/storage business will sustain at multi-cycle highs, although 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 from Cendramas Production Sharing Contract (PSC) by 3Q26, and Baram Junior Cluster (BJC) PSC by Oct/Nov 26.

Seafarers Happiness Index (SHI) 2Q26 Score Card



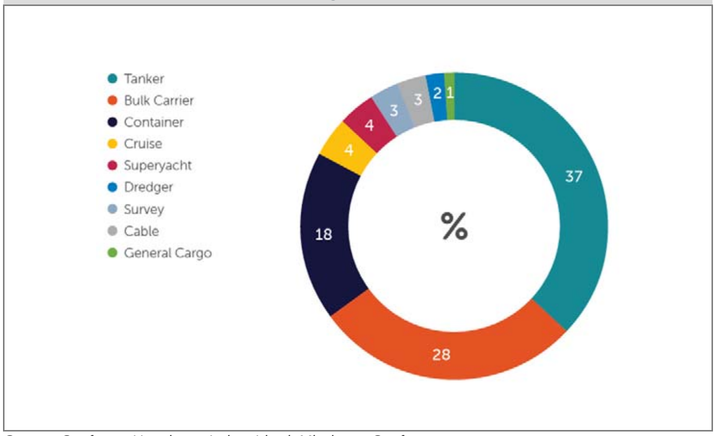
Source: Seafarers Happiness Index, Idwal, Mission to Seafarers

SHI 2Q26 Score Card: Categories



Source: Seafarers Happiness Index, Idwal, Mission to Seafarers

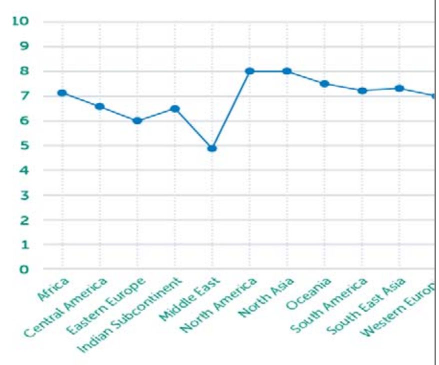
SHI 2Q26 Score Card: Ship Types



Source: Seafarers Happiness Index, Idwal, Mission to Seafarers

SHI 2Q26: Region Mix And Happiness Scale

North America	1%
Central America	1%
South America	4%
Eastern Europe	9%
Western Europe	7%
Middle East	3%
Africa	1%
Indian Subcontinent	16%
North Asia	3%
SouthEast Asia	53%
Oceania	2%



Source: Seafarers Happiness Index, Idwal, Mission to Seafarers