Oil & Gas

Petronas 2025 Report: Stronger Energy Leader, But Not Without Near-Term Volatilities

MARKET WEIGHT
(Maintained)

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Highlights

- **Petronas to remain as a proactive energy leader...** From studying Petronas' latest Integrated Report, we believe that Petronas has emerged stronger after a period of polycrisis and, given its established size and integrated value chain, is well positioned to be not only a leading energy producer but a global corporation with leverage in energy security matters, especially in a new era where AI-driven growth can only be enabled by available energy with scale and reliability.
- **…but not without volatility.** We maintain MARKET WEIGHT on the sector, retaining our assumption pending a firm and positive resolution of the Petronas-Petros sectoral and constitutional issue, which is now at the hands of the Federal Court. As Petronas continues to restructure itself, they are not without near-term volatilities. 2H26 events related to Petronas include completion of the Petronas Gas reorganisation, developments of Searah Eni-Petronas JV (which may cause work orders disruption), and consolidation of PRefChem after the Aramco exit (the JV's cumulative losses had ballooned to RM19b).

Analysis

- **The future of energy security comes hand-in-hand with digital growth…** An area of energy security that may become as important as national fuel security (in the face of a wide geopolitical-induced supply chain disruption), is that data centre investments, especially in Southeast Asia, have become an electricity problem before a capital problem. Against ambitious data centre energy demand growth projections (referenced in RHS appendices), Johor turned from being a primary recipient of ASEAN's data centre investment, into a rationer of water, electricity and sustainability grounds. By Nov 24, 30% of new applications were rejected. As of Nov 25, Tier 1-2 facilities were no longer approved.
- **…as long as AI requires power, not only at scale but also resilience (which is just as important).** Although the elimination factor was water for the above cases, higher electricity repricing became the next constraint on data centre project economics. In the bigger picture, AI and electrification are inevitable technological advancements, but they are also converging with geopolitics. As history dictates energy as a key cause of human conflicts, oil majors are responding to this new era, putting greater emphasis on diversifying across energy sources and geographical supply chains while boosting AI investments. They understand their role not only as energy producers but also corporations with leverage as system enablers.

Brent Price Forecasts, US$/bbl

Name	3Q26	4Q26	1Q27	2Q27
UOB Economics	100	100	90	90
EIA	101	89	84	81

Source: UOB Bank, Energy Information Administration (EIA)

Petronas Capex By Segments

RMb	2020	2021	2022	2023	2024	2025
Total	33.4	30.5	50.1	52.8	54.2	41.6
• Upstream	14.4	14.7	23.7	27.1	28	19.1
• G&M*	7.6	7.1	5.7	9.4	11.7	12.3
• Downstream	5	3.9	16.3	5.8	4.7	4.5
• Others**	6.4	4.8	4.5	10.5	9.8	5.7

**Note: Gas and Maritime (G&M) eff July 2024. Gas, between 1Q22 to 1H24. Gas and New Energy, prior to 1Q22.*
**Note: MISC Berhad (BUY/Target:RM9.50) comprised 81%/73%/78% of 2020/2021/2022 "Others" capex, before being transferred into G&M. "Others" segment now comprises mainly renewables, hydrogen, green mobility and property (KLCC Property Holdings)*
Source: Petronas

Petronas Cost Analysis

	2025	2024	2023	2022
Total	228.4	271.8	271.0	280.7
- % of revenue	86%	85%	79%	75%
Strategic	157.5	212.0	200.6	226.9
- Product costs	*79.9*	*106.0*	*122.0*	*123.0*
- Tax, SST, duty	*36.5*	*46.2*	*35.2*	*56.2*
*- Price-sensitive, non-cash**	*41.1*	*59.8*	*43.4*	*50.7*
Operational	70.8	59.8	70.4	53.8
- Procurement	*32.0*	*35.3*	*37.9*	*24.9*
*- Other opex***	*38.8*	*24.5*	*32.5*	*28.9*

**Note: Include depreciation, impairment, Forex, etc*
***Note: Include Human Resources, rental, utilities, finance costs, etc*
Source: Petronas Integrated/ Annual Reports

Peer Comparison

Company	Ticker	Rec	Price 17 July 26 (RM)	Target Price (RM)	Market Cap. (RMm)	PE 2025 (x)	PE 2026F (x)	PE 2027F (x)	P/B 2025 (x)	P/B 2026F (x)	ROE 2026F (%)
Bumi Armada	BAB MK	HOLD	0.35	0.35	2,075	4.3	7.0	6.9	0.3	0.3	4.8
Dialog Group	DLG MK	BUY	2.03	2.70	11,461	25.2	24.0	16.5	2.0	1.9	12.3
Deleum	DLUM MK	BUY	1.11	1.75	446	6.1	5.4	5.1	0.9	0.9	14.8
MISC	MISC MK	BUY	7.95	9.50	35,487	14.9	13.1	11.4	1.0	1.0	4.7
MMHE	MMHE MK	BUY	0.36	0.50	568	6.6	6.4	6.6	0.4	0.4	7.2
Petronas Dagangan	PETD MK	BUY	19.46	23.20	19,333	17.0	17.1	16.8	3.3	3.3	18.4
Uzma	UZMA MK	BUY	0.39	0.76	237	4.5	4.3	3.5	0.3	0.3	8.5
Velesto Energy	VEB MK	HOLD	0.25	0.31	2,066	12.4	17.5	14.8	0.9	0.8	8.1
Yinson Holdings	YNS MK	BUY	1.82	2.40	3,220	5.9	6.8	6.0	0.8	0.8	6.8

Source: Bloomberg, UOB Kay Hian

Analysis

- **Hence, Petronas is firmly embracing this trend.** Petronas will continue to pursue its goal of achieving delivery of advantaged barrels at low costs and low emissions. A key strategy change is increased selection of the right partners for challenging fields, through its "Right Asset, Right Player" strategy, and fit-for-purpose technology. For G&M, Petronas aims to expand its competitive LNG supply markets. Petronas has expanded its supply sources from MLNG (Sarawak) with Australia and now LNG Canada (Phase 2 development is underway). Suriname is a potentially significant future addition. The recent gas sales agreements signed with JERA and Shizuoka Gas entail LNG supply from Petronas' global portfolio, which clearly marks a shift from the traditional point-to-point agreements. Petronas will champion the gas liberalisation push in Peninsular Malaysia with more regasification terminals and small-scale LNG supplies.
- **However, some volatility is still expected.** A key 2H26 event related to Petronas is the completion of Petronas Gas' internal reorganisation, involving transferring its regulated businesses, ie gas transportation and gas processing into new subsidiaries, and the non-regulated business comprising utilities and energy ventures into another new subsidiary. This reorganisation is seen positively to help resharpen its focus towards changing market demand as Malaysia undergoes gas liberalisation.
- **Another key event is the Eni-Petronas JV Searah ventures,** marking Petronas' first satellite model. This JV may enable a quicker sanctioning of the Masela PSC and Abadi LNG. However, near-term disruptions on work orders may be expected, as channel checks indicate that the process of novating the relevant contracts originally from Petronas to the new client JV entity may not only take months, but certain contract terms may be also renegotiated.
- **Petronas Chemicals (PCHEM; NR) rerating** depends on how Petronas consolidates the Pengerang Integrated Complex. Prior to Aramco's exit, Petronas had a 50% stake in Pengerang Refining Company (PRC), and a net 32% stake in Pengerang Petrochemical Company (PPC), with the latter given that PCHEM (64%-owned by Petronas) is the entity holding 50% stake of PPC. PCHEM is evaluating PPC's divestment to Petronas to remove a key earnings drag.
- **We believe this evaluation warrants investor attention.** Petronas disclosed that in 2024/2025, the share of losses from certain JVs were RM5.1b/RM9.5b, and cumulative losses were RM9.6b/RM19.1b. Petronas has not recognised any of these in its group accounts. Assuming this wholly arises from PRefChem, alarmingly this implies RM14.6b losses were generated within the last two years. While we were unsure but had believed that PCHEM had absorbed some of the losses via forex changes and impairments to a certain degree), it will also be equally difficult to imagine Petronas readily assuming all the losses. We assume a favourable resolution has to be reached between Petronas and Aramco first, which will then improve the subsequent outcome between PCHEM and Petronas.
- **ESG: Reassessing Petronas' interim climate targets – Methane, overachieved.** In 2025, Petronas achieved an 80% reduction of methane emissions across the group-wide natural gas value chain, exceeding its 2025 target of 50% reduction, and furthermore advancing its 2030 goal for a 25% reduction of group-wide emissions all relative to 2019 levels (for the 2030 target, Petronas has specified a methane emission reduction target of 70% for certain assets, on top of the general 50% methane reduction target).
- **ESG: Reassessing Petronas' interim climate targets – Restated emission cap appeared to miss 2024 targets,** with another key interim climate change target being a 49.5 MtCO2e cap on Scope 1 and Scope 2 emissions for Malaysian operations in 2024. In Petronas' 2024 report, it

ASEAN/ Malaysia's Data Centre Demand

- The "Energy and AI report (2025)" from IEA* projects global data centre electricity rising from 415 TWh in 2024 (1.5% of global electricity) to 945 TWh by 2030 (3% mix)
- Ember Energy Research, a global energy thinktank, disclosed Malaysia-alone consumption to surge by 7.6x from 8.5TWh in 2024 to 68 TWh by 2030 (using IEA's data)
- The growth is more than double of global pace, and the 2030 projection will cover about 30% of Malaysia's power demand.
- Revealed in a June 26 parliamentary reply, JPPPET** ie Malaysia's own system planners expect data centres to take up 73,274 GWh or 31% of national electricity demand by 2035, vs 10,544 GWh or 7% of demand in 2026
- JPPPET also projected the national peak energy demand to surge from 21.3GW in 2026 to 33.5GW in 2035, driven by data centres and high-tech industries
- We note this is an update vs JPPPET's projections in a Feb 25 parliamentary reply of data centre electricity demand rising to 12.9GW/20.9GW by 2030/2040 respectively
- PETRA*** revealed that in 1Q26, Tenaga Nasional (BUY/Target:RM16.30) supplied electricity to 36 operating data centres (of 4.5GW cumulative capacity) and 23 data centres under construction (of 3.8GW cumulative capacity)
- In Apr 26, data centre actual electricity usage amounted to 1,102MW, or 54% of the approved demand of 2,050MW.
- According to Wood Mckenzie, Johor accounts for 3.8GW or 50% of national data centre maximum load. Data centres may consume up to 40% of Johor's electricity demand by 2035

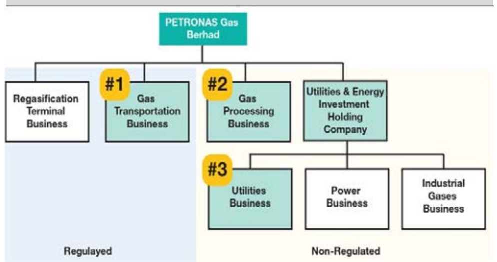
Source: International Energy Agency (IEA), Jawatankuasa Perancangan dan Pelaksanaan Pembekalan Elektrik dan Tarif (JPPPET)**, Ministry of Energy Transition and Water Transformation (PETRA)***, Ember Energy*

Data Centre Electricity Demand (ASEAN)

TWh	2024	2030	Growth (x)
World	415	945	2.3
ASEAN-6	24.4	129.6	5.3
- Malaysia	8.5	68	8.0
- Indonesia	6.7	26	3.9
- Philippines	1.1	20	18.2
- Singapore	5.0	8.4	1.7
- Thailand	2.4	6.0	2.5
- Vietnam	0.7	1.2	1.7

Source: Ember Research based on IEA projections

Petronas Gas New Structure



Source: Petronas Gas

disclosed the actual emissions for Malaysia operations (under operational control method) were 46.6 MtCO2e, but this excluded the maritime operations like MISC Berhad. The latest sustainability data shows Malaysia operations had 50.7/51.0 MtCO2e emissions (operational control) in 2024/2025. Maritime across local and international operations contributed 3.8/3.3 MtCO2e emissions in 2024/2025.

- **International update: Petrobras PLSV tenders.** Petrobras has been actively tendering for Pipelay Support Vessels (PLSV) contracts split into three lots, as about three charters out of 16 operating fleets (owned by Subsea7, TechnipFMC, DOF Subsea and Seagems) will expire by end-26. As guided by Paratus Energy, Seagems had offered PLSV Sapura Jade (expiry: Jun 28) in an ultra-deepwater PLSV bid. Based on channel checks, contract replenishment for Sapura Jade is very likely. Seagems is also offering the Neptune Subsea Construction Vessel (SCV) for a new PLSV category. Although PLSV Sapura Diamante has the nearest expiry (Mar 28), Seagems guided market confidence that Petrobras will roll out more PLSV tenders that offers replenishment opportunities for all six PLSVs.

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 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 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 3QCY26, and Baram Junior Cluster (BJC) PSC by Oct/Nov 26.

Petrobras Current PLSV tenders

- Lot A is designed for ultra-deepwaters and relates to large PLSVs with high tonne-tension capacity. Seagems offered PLSV Sapura Jade (expiry: Jun 28) for dayrates between US$244,300 and US$275,100, which are reasonable despite at a slight discount to Seagems' average dayrates of US$280,000.
- Lot B is for shallow water operations. Technip-DOF is the most aggressive bidder offering PLSV Skandi Buzios (expiry: Sep 26) for both Lots A and B, at dayrates between US$240,690 and US$336,760.
- Technip-DOF is also offering PLSVs Skandi Olinda (expiry: Feb 27) and Skandi Recife (expiry: Jul 26) for Lot B, at dayrates between $256,055 and $259,055.
- Lot C is a new type of PLSVs that feature the use of a horizontal lay system (HLS). Industry sources hinted this may require some retrofitting of specialised equipment. For the Brazilian-flagged category, Seagems is the sole bidder offering the Neptune SCV for dayrates of US$315,350. For the foreign-flagged category, Seagem's Neptune SCV is competing with Subsea 7's PLSV Sevan Pegasus.
- Industry sources opine that since only four PLSVs are competing for Lots A and B, they will all very likely be replenished, and perhaps one more in the HLS category.

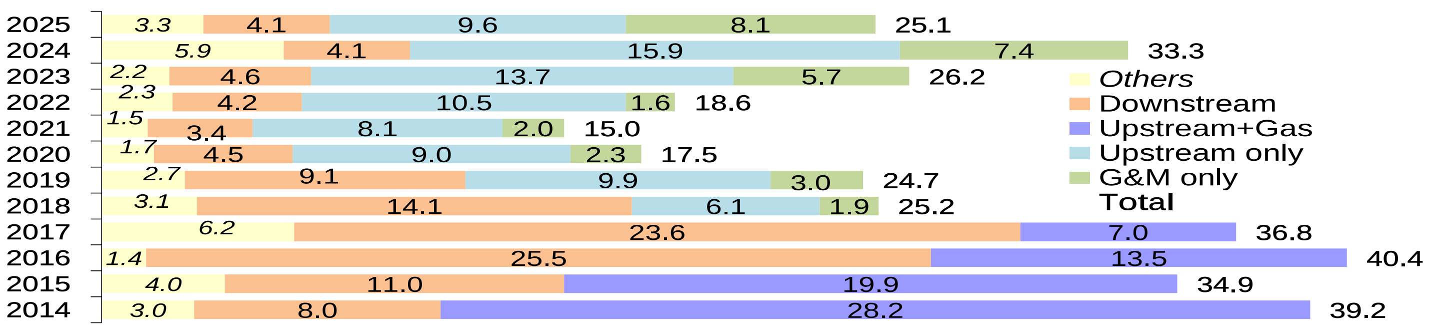
Source: Petrobras, BNamericas, Upstream

Our assessment on Dialog

- In the larger context, DLG's long-term EV/EBITDA may reflect 11x similar to integrated peers like ExxonMobil in our view, normalising from the historical above 30x, and not as low as pure upstream producers like Hibiscus Petroleum (<2x).
- As DLG's earnings shifts towards a balanced portfolio between upstream, midstream and downstream.
- We also understand that increased transparency for upstream operations will occur by law, once upstream earnings (excluding Bayan) cross over 25% of group profit
- The greater upstream data transparency will over time crystalise DLG's upstream valuation in our SOTP, including the existing D35 PSC which was revalued significantly higher after recent entry of Enquest as D35's new operator.

Source: UOB Kay Hian

Petronas Domestic Capex (in RMb)



**Note: Prior to 2018, Petronas used to report Upstream and Gas as a combined segment. Thereafter, Upstream and Gas became standalone segments. Gas segment itself restructured several times from Gas & New Energy (combining new energy ventures like Gentari), to Gas-only, and then to Gas & Maritime (combining gas transportation like MISC)*
Source: Petronas