Oil & Gas

Petronas' 1H26: Clear Legacy "Clots"; Recharge For Energy Security

Highlights

- **Petronas' 1H26 is a story of portfolio restructuring and clearing legacy roadblocks.** Like most other global oil majors, Petronas' upstream and gas & maritime segments benefitted from higher O&G prices by 28%/14% vs 1H25, and about RM7m of disposal gains related to upstream assets restructuring (to Searah JV) in addition to that. These offset a recognition of substantial RM22m accumulated JV losses in PRefChem (which we highlighted in our Jul 26 sector update). We expect Petronas Chemicals will finalise PRefChem ownership soon, which is also crucial for energy security, especially for downstream fuel and the Southern Hub (Johor) with the incoming data centre demand.
- **Portfolio restructuring ties to energy security (upstream domestic production of 2m boepd).** Petronas reiterated this commitment until 2028 at least, and is made possible via a series of portfolio restructuring including the Searah JV, farm-outs to Enquest and Vestigo, and quicker sanctioning of deepwater projects like Limbayong. Internationally, Brazil and Suriname are expected to see more sanctions. While it remains to be seen if these trends can overcome the hurdles in relation to the Petronas-Petros constitutional issue, near-term risks on workflow disruptions will be apparent for 2H26. Maintain MARKET WEIGHT.

Analysis

- **Upstream gains from higher O&G prices and portfolio restructuring.** The higher profitability for the upstream and gas & maritime segments reflected 28%/14% higher Brent/LNG prices (based on Japan Crude Cocktail) vs 1H25. Petronas recognised RM5m-7m in disposal gains, representing disposals of five Malaysian upstream assets previously managed by Petronas Carigali, in exchange for 50% of Searah (a 50:50 JV with Eni that consists of 19 assets across Malaysia and Indonesia).
- **These more than offset lower upstream volumes,** where Petronas' crude oil production from both Malaysia and international portfolios declined by 3% yoy. Malaysia's crude exports had halved since 2018 to about 0.2m boepd, in tandem with a structural decline in domestic crude production that fell from the peak of 0.7m boepd more than one decade ago to about 0.4-0.5m boepd. Recent data shows an alarming drop in crude exports for May 26 and Jul 26 at only 0.033m boepd. Malaysia's refined product exports have weakened slightly since Jan 26 to under 0.7m boepd.
- **Upstream and LNG gains anchored Petronas dividend obligations for 1H26.** The gas & maritime segment did better in terms of benefitting from higher LNG prices, but also higher LNG volumes generated. While this included higher volumes from LNG Canada, data on Malaysia's Liquefied Natural Gas (LNG) exports still showing a consistent monthly delivery. Overall, Petronas has paid RM8b dividends in 1H26, and we believe Petronas will not face difficulty to meet its RM20b obligation.

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MARKET WEIGHT (Maintained)

Segmental Rating

Stock	Rating
Dialog	BUY (Target: RM2.95)
MISC	BUY (Target: RM9.50)
Yinson	BUY (Target: RM2.4O)

Source: Bloomberg, UOB Kay Hian

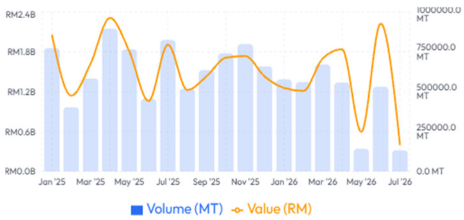
Petronas Segmental Performance

RMm	1H26	2025	1H25
Group profit	27.2	45.4	26.2
Group EBITDA	56.8*	103.0	54.4
Upstream profit	28.1*	26.1	16.5
Production ('000 boepd)	2,334	2,423	2,403
Entitled production boepd)	1,605	1,659	1,654
Gas & Maritime profit	16.6	20.9	10.4
Gross LNG volume (mt)	20.29	36.62	17.4
Downstream profit	(15.2)*	(1.9)	(0.8)
Chemical volume (mt)	5.0	10.5	5.1

Note: a) 1H26 Upstream profit contained RM6.8m disposal gain related to Searah JV; b) 1H26 Downstream profit would have been RM7m. Petronas absorbed RM21.6m accumulated losses of PRefChem. PRefChem comprises Pengerang Refining Company (PRC) and Pengerang Petrochemical Company (PPC"), c) Petronas reported 1H26 EBITDA was RM69m, but disclosed a recalculated EBITDA of RM56.8m after adjusting for RM14.8m non-cash items mentioned previously

Source: Petronas

Crude Oil Exports, Volume vs Value



Source: Pantau Krisis or Global Supply Crisis Dashboard Malaysia

Peer Comparison

Company	Ticker	Rec*	Price 2 Sep 26 (RM)	Target Price (RM)	Market Cap (RMm)	PE 2025 (x)	PE 2026F (x)	PE 2027F (x)	Yield 2026F (%)	ROE 2026F (%)
Bumi Armada	BAB MK	HOLD	0.35	0.35	2,104	9.6	8.2	6.8	9.5	4.3
Dialog Group	DLG MK	BUY	2.02	2.95	11,405	20.1	19.4	18.8	0.4	15.0
Deleum	DLUM MK	BUY	1.08	1.45	446	7.0	5.8	5.4	7.0	14.2
MISC	MISC MK	BUY	8.00	9.50	35,710	16.0	14.0	12.0	4.4	8.4
MMHE	MMHE MK	BUY	0.37	0.53	592	5.9	5.3	6.0	5.3	5.6
Petronas Dagangan	PETD MK	BUY	20.30	24.20	20,167	21.8	16.9	16.5	5.2	21.0
Uzma	UZMA MK	BUY	0.40	0.76	2453	4.5	4.6	4.2	7.3	36.1
Velesto Energy	VEB MK	HOLD	0.25	0.29	2,025	12.3	15.9	14.4	18.4	5.7
Yinson Holdings	YNS MK	BUY	2.04	2.40	6,565	12.9	10.2	18.1	1.3	4.5

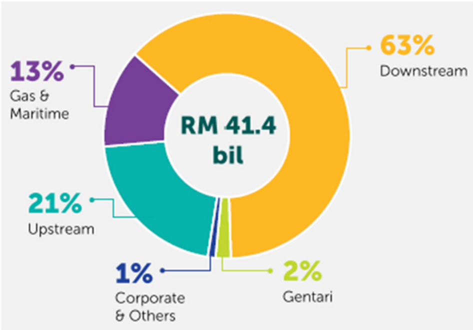
Source: Bloomberg, UOB Kay Hian

- **Clearing the legacy drag on earnings, PRefChem.** We highlighted this as a concern that should not go unnoticed in our Jul 26 sector report. Regarding Petronas' disclosure in 2024/2025, the share of losses from PRefChem were RM5.1b/RM9.5b, and cumulative losses were RM9.6b/RM19.1b. Alarmingly, this implies RM14.6b losses were generated within the last two years alone. With RM21.6m already spent YTD 2026, this signals Petronas' seriousness to complete the share purchase agreement signed with Aramco in May 26. Petronas Chemicals' wish to also transfer PRefChem to its parent company and out of its books may have a high chance of materializing.
- **PRefChem is still important for energy security reasons.** Taking back full operatorship enhances operational alignment and flexibility on the PRefChem ecosystem. PRefChem's refining capacity of 0.3m boepd is significant for Petronas in terms of downstream fuel security relative to local refining capacity of 0.7m boepd. Also, this is particularly important for the Southern Hub (Johor, Pengerang). The integrated complex must be made ready and reliable to support the super investment cycle of data centres in the state.
- **1H26 capex of RM41.1b appears to coincide with the timing of RM20b dividend obligations.** Excluding the one-off additional injection to PRefChem, capex is likely similar to 1H25's RM17.7b. Upstream capex was RM9b in 1H26 (1H25: RM8.5b). Finalising the full ownership structure of PRefCHem is the goal for 2026. Although we were unable to verify, with Petronas CEO Tan Sri Tengku Taufik having his CEO tenure renewed for the second time, the timing of both events shows Petronas' capital management ability despite having a slightly negative FCF (post-dividend) of a RM1b-2b loss, while its cash pile remains strong despite declining from RM203m to RM191m.
- **Petronas reiterate its commitment to maintain 2m boepd domestic production until 2028.** Alongside the finalisation of PRefChem ownership, 1H26 is a story of in-house and portfolio restructuring base for Petronas Carigali. Through this, the Eni-Petronas JV Searah was borne by assuming 19 assets across Malaysia and Indonesia, with a goal to boost production from 0.3m boepd to 0.5m boepd. Alongside several farm-outs of assets to independents like Enquest (which finds Malaysia attractive relative to the Energy Levy in the UK) and matured asset specialists like Vestigo, this restructuring allows for faster and more efficient capital deployment on those assets.
- **2H26 may be the last leg of work order disruptions for service players.** Hence, these structures are good in the long run, as long as they contribute to ultimate goal to maintain the domestic production. If we assume this optimistic outcome, however, several service players (including Deleum and Uzma) are forewarning work order disruptions as contracts are being novated from Petronas to the new client entities. While the exact timeline is unclear, in a sector where contractors depend on opaque guidance from their clients, to have several listed players publishing similar guidance is significant in our view.

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. Also, the effects of Petronas Carigali portfolio restructuring will have short-term disruptions on work orders across all service players including maintenance-centric players, though long-term effects should be positive. Also, we switch our sector top pick to Dialog from MISC.
- **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-

Petronas 1H26 Capex

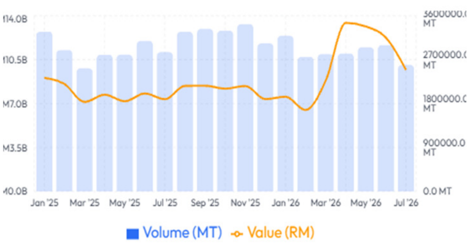


Source: Petronas, UOB Kay Hian

LNG, Volume vs Value

Source: Pantau Krisis or Global Supply Crisis Dashboard Malaysia

Refined Products Export, Volume vs Value



Source: Pantau Krisis or Global Supply Crisis Dashboard Malaysia

Petronas' Portfolio Realignments

Quick Sanctioning Of Deepwater Projects

- Petronas officially sanctions Limibayong, which is the first 100% operated deepwater project in Sabah, but over the last decade several attempts for project sanction failed. Limbayong is also the 3rd Sabah deepwater Final Investment Decision (FID) this year.
- MISC was appointed to execute the new Floating, Production, Offloading and Storage (FPSO) vessel. As per our MMHE update note in Jul 26, MISC will most likely assume ownership of a cylindrical FPSO, the FPSO Excalibur, from Dagang NeXchange (DNeX) for US$35m.
- This shows deepwater project acceleration is now a reality if Brent price can remain steady at US$80-90/bbl.

Source: UOB Kay Hian

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.

- **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. Although we still like MISC's long-term growth, 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.
- **Risk-averse investors may relook at Yinson (YNS MK/BUY/Target: RM2.40)...** Pending details of a full deal structure of a potential US$1.7b (RM2.35/share) privatisation of Yinson, the only details publicly revealed are: a) it involves a consortium of Yinson Legacy (ie the Lim family or the founders), EPF and MISC. It is unclear if Petronas is further involved, although we think the possibility is there, ie Gentari may find a right fit with Yinson's non-FPSO businesses; and b) interestingly, a scheme of arrangement will be employed vs the normal course of going through market actions like general meetings and mandatory general offers.
- Given Yinson's careful track record of capital management being one of its strongest skillsets behind its superior project execution (in a capital-intensive sector) over the years, we are impressed that Yinson is considering a scheme of arrangement (SOA) which is essentially a court-approved process usually employed for debt restructuring, takeovers and mergers. SOA gives better certainty on timeframe and order to execute phases of a large exercise without unwanted market interventions or economic outcome, as it seeks court protection in our view. SOA helped with the success of ESR Group, the largest privatisation on the Hong Kong Stock Exchange, and locally the restructuring of Sapura Energy into Vantris Energy today.
- **…or wait-and-see for the full deal structure, taking note that court protection does not grant immunity to all scenarios.** However, we like to remind investors of a precedence in SOA, related to a SOA KNM employed for their regularisation plans recently. The outcome of this case is that, while court protection is meant to provide certainty, it does not guarantee that the deal will be fully immune to commercial or market developments. The High Court reserves independent judgement and rights for court intervention if a commercial or market development happens and is severe enough to be a fatal roadblock for the SOA. Hence, we also prefer a wait-and-see approach for full announcement details. Please refer to RHS table on KNM's SOA.

Scheme Of Arrangement - Precedence

High Court decision in *KNM Group Bhd & Anor v Hitachi Zosen Corporation & Ors* [2026] MLJU 1581

- A proposed sale of Deutsche KNM GmbH, an EU asset, to NGK Insulators Ltd (**NGK**) for €270 million termed as the **Borsig Disposal,** was the primary method to settle the scheme debt of about RM1.2b.
- **Principal financial creditors supported the deal.** Scheme meetings were held virtually on 11 Aug 25, and the schemes obtained the statutory majority approval.
- However, difficulties subsequently arose in relation to **regulatory approvals. Bursa Malaysia rejected KNM's PN17 regularisation plan on 3 Oct 25.**
- According to Bursa, KNM failed to prove how it can grow and sustain the business post-Borsig disposal. This scenario will leave KNM with mainly Malaysia operations that have been loss making since 2024.
- **Bursa's approval was a condition precedent** under the Borsg disposal sale agreement, and subsequently also a condition precedent to the schemes taking effect.
- The position deteriorated further when **NGK formally withdrew from the transaction on 29 Jan 26.**
- The applicants sought to preserve their legal position by exploring alternative purchasers but no binding agreements were secured.
- **The High Court affirmed the well-established four-stage Buckley test,** as set out by Buckley J in the English Court of Appeal decision of *Re Tea Corporation Ltd* [1904] 1 Ch 350, for sanction of a scheme which requires consideration:
- 1) the statutory requirements had been complied with;
- 2) creditors were fairly represented and the majority was not coercing the minority;
- 3) the scheme was one that a reasonable creditor could approve; and
- 4) there existed any "blot" or defect rendering the scheme unlawful or ineffective.
- The conclusion is even though the SOA has full creditor support, this does not supercede the court's supervisory role and the court retains independent obligation.
- The court deemed that the Bursa (regulator) rejection and the pullout of NGK are fatal roadblocks that fulfil point (4), and without concrete replacement alternative transactions, rendered the SOA to be fundamentally impaired and contingent on uncertain future events.

Source: UOB Kay Hian

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