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KEY HIGHLIGHTS

Sector Update

Oil & Gas – Malaysia

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Invest in safe names amid volatile oil price direction, depending on changing narratives of potential escalation of the Israel-Hamas conflict (to Iran) and COP28 conference.

TRADERS' CORNER

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V.S. Industry (VSI MK): Technical BUY

Muhibbah Engineering (MUHIBAH MK): Technical BUY

KEY INDICES

	Index	pt chg	% chg
FBMKLCI	1,417.26	0.4	0.0
Bursa Emas	10,509.24	5.4	0.1
Ind Product	170.63	(0.2)	(0.1)
Finance	15,886.84	17.3	0.1
Consumer	548.30	(0.3)	(0.1)
Construction	184.81	(1.1)	(0.6)
Properties	856.21	(4.1)	(0.5)
Plantations	6,849.85	12.7	0.2

BURSA MALAYSIA TRADING & PARTICIPATION

Malaysia Turnover	6-Oct-23	% chg
Volume (m units)	2,875	0.4
Value (RMm)	1,778	(15.1)

By Investor type	(%)	ppt chg
Foreign investors	31.8	(0.4)
Local retail	29.4	4.5
Local institution	38.8	(4.1)

TOP TRADING TURNOVER / GAINERS / LOSERS

Top Trading Turnover	Price (RM)	Chg (%)	5-day ADT (RM'000)
Jobstreet Corp	1.60	0.0	n.a.
Malayan Banking	8.80	0.3	128,589
CIMB Group	5.42	0.0	94,805
Public Bank	4.03	0.0	72,948
YTL Corp	1.43	1.4	52,931

Top Gainers			
SapuraEnergy	0.06	10.0	2,661
Astro Malaysia	0.47	6.9	4,787
Velesto Energy	0.26	6.1	5,937
Jaya Tiasa Holdings	0.91	5.8	1,757
YTL Power	2.00	5.3	40,436

Top Losers			
WCT Bhd	0.55	(5.2)	3,583
Parkson Holdings	0.29	(3.3)	4,150
Tropicana	1.23	(2.4)	897
IOI Properties	1.73	(2.3)	16,782
Time Dotcom	5.43	(2.2)	7,157

OTHER STATISTICS

	6-Oct-23	chg	% chg
RM/US\$	4.73	0.02	0.4
CPO 3rd mth future (RM/mt)	3,605	5.0	0.1

Top volume, gainers and losers are based on FBM100 component stocks

SECTOR UPDATE

Oil & Gas – Malaysia

Volatile Oil Price And Risk Premium Towards 4Q23

The Israel-Hamas conflict may lead to more volatility in the form of a potential conflict extension to Iranian barrels (~2m bpd exports), which may be of material impact to oil prices, or a knee-jerk reaction as they can be absorbed by demand centres like China. While a bullish oil sentiment for 4Q23 was almost a certainty, future volatility is now greater depending on oil demand and transition pathways. We maintain sector **OVERWEIGHT**, but advise to be selective on companies that are nimble towards changes.

WHAT'S NEW

- **Upside risk of oil prices reflects market speculation of a potential Iranian risk.** The surprising Israel-Hamas conflict, while reminiscent of the Russia-Ukraine crisis in many ways, has a key contrast in energy importance. This is given Russia's major role as an oil and gas (LNG) exporter against Israel which does not control the global market share in any major commodity, save for fertiliser and potash. However, the oil price upside reflects speculation of a potential escalation towards an Iranian conflict, involving ~2m bpd of crude exports. Although oil price may have a knee-jerk reaction, we assume that the impact is muted simply by recalibrating the supply to other centres like China and India like in the previous Russia-Ukraine crisis.
- **Our bullish sector trading angle call for 4Q23 remains...** Even without the conflict, consensus was already turning more bullish on 4Q23 oil prices, amid OPEC+ countries' more aggressive voluntary supply cuts. For example, Energy Information Administration (EIA) upgraded recently its 4Q23 oil price view from US\$86/bbl to US\$93/bbl. UOB Economics & Market Research raised Brent price forecast by US\$5/bbl to US\$95/bbl for 4Q23 and 1Q24, and to US\$100/bbl for 2Q-3Q24 (this assumes US\$/RM rate of 4.5-4.7).
- **...but see greater volatility and more divergent views of longer-term oil prices.** For oil prices in 2024, some Wall Street forecasters are predicting prices as high as US\$150/bbl, while EIA is forecasting oil price to trend lower yoy from US\$88/bbl to US\$84/bbl for 2024. Some oil consultants took the bearish long-term view. Wood Mackenzie expects oil price at US\$40/bbl by 2030, while Rystad Energy cuts one-third of its price forecast to assume an US\$60/bbl oil price view by 2027 (2024F: US\$91/bbl). Officially, both consultants highlighted a slowing oil demand growth (to <2m bpd). Unofficially, the fact that the COP28 climate conference will take place in end-Nov 23, ironically in Dubai (a key oil-producing nation), it is possible that the social impact of Hamas-Israel and global warming may again change the narrative of energy transition, and consequently the transition risks on stock valuations.

ACTION

- **Maintain sector OVERWEIGHT, on potential trading angles.** We still assume that the sector valuations will still enjoy positive near-term trading upside, underpinned by a more unified bullishness in consensus oil price sentiment for 4Q23. This will also support high O&G activities especially for production and maintenance works, though execution and favourable contract terms remain crucial.

PEER COMPARISON

Company	Ticker	Rec	Share Price 6 Oct 23 (RM)	Target Price (RM)	Market Cap (RMm)	----- PE ----- 2023F 2024F	----- P/B ----- 2023F 2024F	Interest Cover 2023F 2024F	Net Debt to Equity 2023F 2024F	----- ROE ----- 2023F 2024F
Bumi Armada	BAB MK	SELL	0.54	0.43	3,168.6	8.4 6.3	0.6 0.5	3.0 4.0	65.4 42.7	7.2 9.0
Dialog Group	DLG MK	BUY	2.05	2.85	11,567.3	22.0 20.1	2.2 2.0	10.0 10.5	12.1 16.3	10.2 10.4
Deleum	DLUM MK	HOLD	1.00	0.89	399.5	11.3 9.3	1.0 0.9	116.8 84.0	n.a. n.a.	8.9 10.3
MISC	MISC MK	BUY	7.09	8.60	31,648.0	14.6 14.6	0.8 0.8	7.1 7.4	34.1 33.1	5.7 5.6
MMHE	MMHE MK	BUY	0.53	0.70	840.0	95.7 35.2	0.5 0.5	9.0 9.9	n.a. n.a.	0.5 1.4
Petronas Dagangan	PETD MK	HOLD	22.50	24.70	22,352.7	21.0 20.0	3.8 3.7	135.0 95.3	n.a. n.a.	18.3 18.8
Sapura Energy	SAPE MK	HOLD	0.05	0.04	799.0	(4.5) (6.2)	(0.8) (1.7)	1.3 1.3	n.a. n.a.	n.a. n.a.
Uzma	UZMA MK	BUY	0.75	0.92	290.4	8.5 9.4	0.5 0.5	4.7 4.5	86.4 118.0	6.4 5.7
Velesto Energy	VEB MK	HOLD	0.25	0.20	2,012.8	40.1 27.2	1.1 1.0	12.3 13.2	14.7 4.9	2.9 3.9
Yinson Holdings	YNS MK	BUY	2.37	3.75	6,889.0	13.0 10.2	1.9 1.8	3.0 3.1	149.8 165.8	10.4 12.8

Source: Bloomberg

OVERWEIGHT

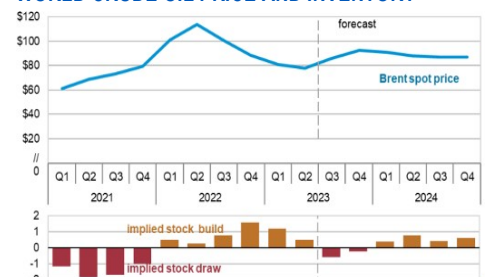
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BENEFICIARIES OF OIL PRICES AND GEOPOLITICAL RISK PREMIUM EVENTS

Sub segments	Stocks
Direct Oil Price Beneficiary	Hibiscus Petroleum (NOT RATED)
Storage	Dialog Group
Crude Transportation	MISC

Source: UOBKayHian

WORLD CRUDE OIL PRICE AND INVENTORY



Source: EIA Short Term Energy Outlook Outlook Sep 2023

SEVERAL OIL PRICE FORECASTS, IN US\$/BBL

Forecasters	4Q23	1Q24	2Q24	2Q24
UOB Economics & Markets Research	95	95	100	100
EIA	93	91	88	87
Bloomberg Consensus	87	83	81	79

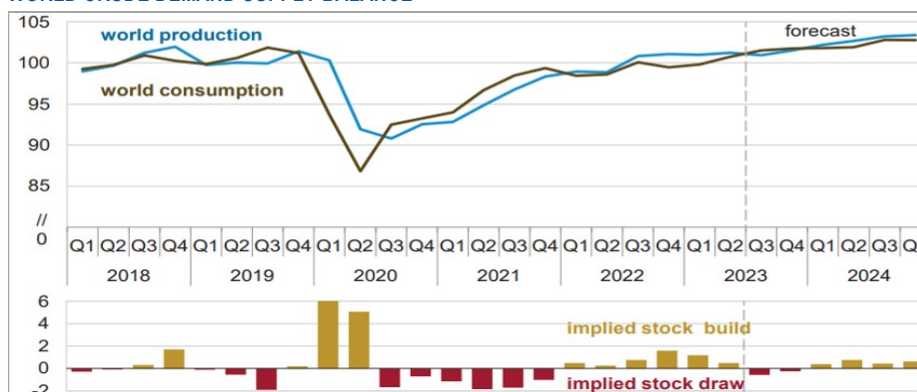
Source: Various, UOB Kay Hian

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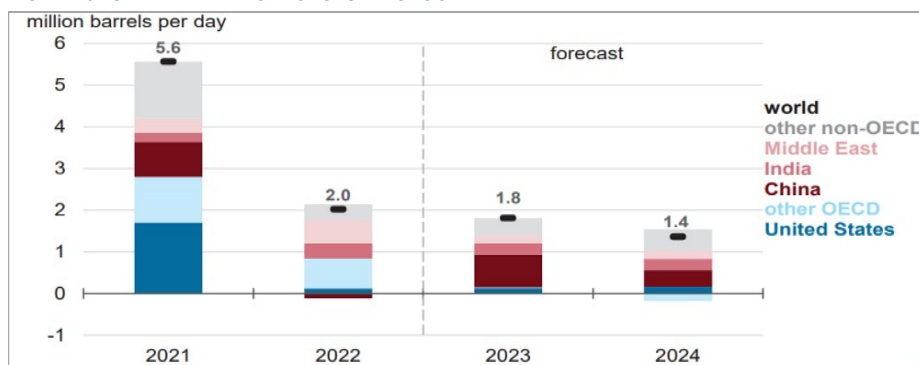
- **Top pick: Yinson (BUY/Target: RM3.75) is still a favoured long-term BUY** for the best execution, ESG goals and highest future growth. As transition risks will be a long-term consideration, Yinson and Uzma (small-cap pick) are our choices for being nimble and ahead of the game in non-O&G diversification and ESG developments while preserving high O&G growth.
- **Other themes.** Hibiscus Petroleum (NR) is the direct oil price beneficiary, with potential dividend/cash upside given its strong >RM1b FCF generation vs RM0.5b capex p.a. under >US\$80/bbl oil price. Like the Russia-Ukraine crisis, we think this geopolitical event may again spur higher demand for energy security and crude flows, which should benefit MISC (high long-term crude/LNG vessel charters) and Dialog Group (storage demand).

WORLD CRUDE DEMAND SUPPLY BALANCE



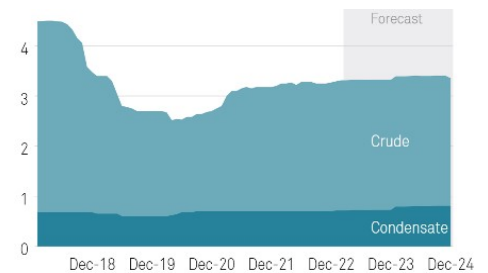
Source: EIA Short Term Energy Outlook Sep 2023

WORLD CRUDE DEMAND FORECASTS BY GEOGRAPHY



Source: EIA Short Term Energy Outlook Sep 2023

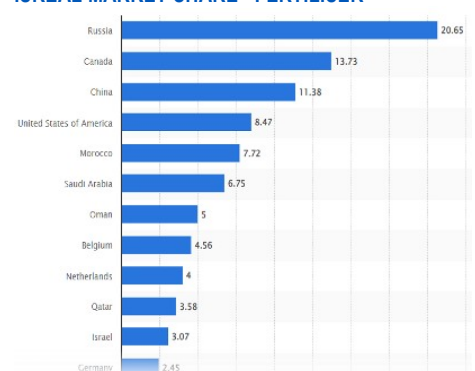
IRANIAN EXPORTS AND FORECAST



Note: In m bpd

Source: Platts

ISREAL MARKET SHARE - FERTILISER



Note: In US\$ billion in value terms

Source: statistica.com

ASSESSMENT OF ISREAL-PALESTINE CRISIS IMPACT TO OIL PRICES

Factors	Details/Our Take	Our Assessment on Risk to Oil Price
Crude Supply/ Demand	Unlikely to impact oil supply in the short term , as both Israel and Palestine are not major oil producers . Also, minimal impact to crude demand (ie direct impact likely on flight cancellations into and out of Israel) which is expected to decline sequentially.	Upside risk because global inventories are already low due to OPEC+ coalition management.
Geopolitical Risk Premium: Potential Escalation of Conflict/ Timeline	Both regions lie in the wider key oil producing region and thus have the potential to escalate the conflict further in the Middle East, involving Iran, Saudi Arabia, and United Arab Emirates (UAE) . A major risk factor is that the potential conflict with Iran is not a zero chance, as Iran is reported to be behind Hamas' attacks on Israel. Over the last six months, Iranian supply had been quietly increasing, due to weak enforcement of sanctions . Reuters reported that Iranian crude exports in Aug 23 surged to 1.5m bpd, the highest level in a decade, making its total production hitting close to 4m bpd.	Upside risk on both oil prices and geopolitical risk premium in the mid-term, but if anything, such high levels are not expected to sustain over the long term. The US administration may reintroduce Iranian export sanctions. Markets may experience another spike in oil price in this case but – much like the Russian crude sanctions – oil price movement may be a knee-jerk reaction as there will be other demand centres to absorb Iranian crude . >80% of recent Iranian crude loadings were shipped to China, based on shipping data.
OPEC + Response vs Supply Chain Impact	Saudi and Russia said on 8 Oct 23 that they will continue to voluntarily cut 1.3m bpd of additional supply through Dec 23, but are ready to take additional measures if necessary . OPEC+ will be expected to perform another monthly review in the OPEC+ ministerial meeting on 26 Nov 23.	Downside risk to oil price , given OPEC+ reassurance to cushion geopolitical supply shocks, but upside on supply chain risks/ costs and a prolonged spike in energy security considerations and recalibration of trade flows. This will benefit then value chains of crude tankers (MISC) and storage (Dialog Group).
Gas Markets	Israel has become a major gas producing nation in recent years with a total gas production of 21.9Bcm (~16MTPA) in 2022. But Israel is not a major gas exporter , with about 9Bcm of exports to Egypt and Jordan in 2022. In comparison, Malaysia's gas exports were around ~40Bcm (27MTPA) in 2022 and total gas production was nearly double of that amount.	Minor impact to gas markets/ prices , except for European gas price benchmarks. In the worst-case war scenarios, Israel's gas production may be severely impaired. While it does have major gas development projects, none of the Malaysian O&G stocks have direct contract exposure .
Other Market Impact	Israel is an exporter of other commodities like bromine, diamonds, and magnesium metal. However, it may be regarded as a major (Top 10) exporter of fertilisers and potash (a critical mineral used in fertilisers) globally .	Downside, indirect risk . Given global inflation and food security risk is already high and sticky, any further global risk of critical commodities and food security, may drive up inflation further, and is negative to long-term economy and oil demand .
ESG Impact	The social impact of the Palestine-Israel crisis will no doubt be compared against other major apartheid history events worldwide. This, coupled with the global heatwaves worldwide in 2023, may possibly set a major change in narratives in the upcoming climate change conference, the COP28 in end-Nov 23 to Dec 23 .	Volatile risk of oil prices - We would advise for a near term and take profit strategy of oil themes prior to COP28. COP28 may set again a global battle between the narratives of prioritising net-zero emissions and energy transition (ie to invest heavily in low return, greener projects) against energy security (balanced investments in green and fossil fuel projects).

Source: Various

TRADERS' CORNER

VS (6963) 09/10/2023* O=0.96 H=0.99 L=0.96 C=0.98 V=5.29M Chg=+0.015 (+1.6%)



V.S. Industry (VS MK)

Technical BUY with +19.4% potential return

Last price: RM0.98

Target price: RM1.06, RM1.17

Support: RM0.905

Stop-loss: RM0.900

BUY with a target price of RM1.17 and stop-loss at RM0.900. Based on the daily chart, VS has formed higher highs and higher lows, indicating an uptrend. Furthermore, the share price has retraced to the critical level of 0.5 on the Fibonacci Retracement, suggesting a good entry point with the anticipation of a rebound. This is supported by an uptick in the RSI and MACD, and a bullish crossover in the DMI implies a stronger upward move ahead. We peg our targets at RM1.06 and RM1.17 in the near term.

Expected timeframe: Two weeks to two months.

Note: Not available for CFD Trading

MUHIBAH (5703) 09/10/2023* O=0.73 H=0.75 L=0.72 C=0.72 V=3.17M Chg=-0.01 (-1.4%)



Muhibbah Engineering (MUHIBAH MK)

Technical BUY with +18.8% potential return

Last price: RM0.720

Target price: RM0.755, RM0.855

Support: RM0.690

Stop-loss: RM0.685

BUY with a target price of RM0.855 and stop-loss at RM0.685. Based on the daily chart, MUHIBAH formed higher highs and higher lows that indicate an uptrend. This bullish movement is supported by an uptick in the RSI and MACD, and a bullish crossover in the DMI implies a stronger upward move ahead. Based on Fibonacci Extension, we expect MUHIBAH will continue in its bullish momentum towards our targets of RM0.755 and RM0.855 respectively.

Expected timeframe: Two weeks to two months.

Note: Not available for CFD Trading

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