



OIL & GAS

Covid-19 weighs on long-term oil demand

OVERWEIGHT

(Maintained)

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Rationale for report: Sector update

Investment Highlights

- **Covid-19 impact remains key demand loss.** We attended Rystad Energy's *Deep Dive Oil Markets* webinar yesterday which was presented by its partner & head of oil market research, Bjornar Tonhaugen. Rystad Energy is a Norway-based independent energy research and business intelligence company which provides data analytics and consultancy services to the oil & gas industry. He largely reaffirmed Rystad's views during its earlier 2020 APAC *Virtual Annual Summit* on 17 September 2020, reiterating that the Covid-19 pandemic will continue exerting the single largest and long-term impact on global oil market as the transportation and petrochemical sectors account for 60% of global demand.
- **Mild signs of traffic recovery.** Global daily road traffic index collapsed below 70% of pre-Covid-19 levels in April this year and has significantly recovered to the 90% level in July to August before rising to 96% currently, driven by signs of surges in Russia, Asia and North America. However, Rystad remained wary of the global recovery flattening after the summer holidays with potential new preemptive travel restrictions against the backdrop of rising Covid-19 infections.
- **Below Covid-19 demand until 2025.** The viral pandemic will have a net negative impact on global oil demand until 2025, with an estimated 0.9mil barrels/day below pre-Covid-19 levels, after falling 23mil barrels in April this year and an estimated 7mil barrels in December 2020 (See Exhibits 3 & 7).
- **Watch out for second Covid wave.** Rystad warned that a second wave scenario could cut 3mil barrels/day production towards the end of the year and 3.5mil barrels/day in December 2021, eroded by demand reduction for jet fuel, gasoline, diesel and other fuels.
- **US shale production remains depressed at prices of US\$40–45/barrel.** In an oil price environment of US\$40–45/barrel, US shale production, which dropped by 2.8mil barrels/day MoM to 10mil barrels/day in April 2020, could remain depressed throughout 2021 and ending 3.5mil barrels/day below Rystad's earlier projection of 14.4mil barrels/day by December 2021.

While Opec+ may recover to pre-Covid-19 levels by mid-2022, output from the rest of the oil producing nations, excluding the Middle East and US, is expected to gradually slide in 2020–2025 due to lower field sanctioning in 2020–21 with global investments in exploration & production projected to decline by 28% in 2020.

- **Oil price recovery by late 2022.** Rystad envisioned oil price recovering to a base-case scenario of US\$75/barrel in late 2022 from the curtailment of global oil production as demand gradually improve, which could set the next down cycle in 2023–2024. However, a more volatile upcycle could mean over-US\$90/barrel prices by mid-2022, followed by a more drastic collapse to US\$30/barrel in 2024 from potential overinvestments.
- **Maintain 2020 oil price forecast at US\$40–US\$45/barrel and 2021 at US\$45–50/barrel.** YTD, Brent crude oil prices have averaged US\$42/barrel with the current spot price at US\$41/barrel from the year-low US\$14/barrel on 22 April 2020. This is supported by US crude oil inventories declining by 9% to 496mil barrels currently from the all-time high of 541mil barrels in June. Hence, we maintain our crude oil price forecast at US\$40–US\$45/barrel for 2020, in line with Petronas' near-term view, and US\$45–US\$50/barrel for 2021. For comparison, the EIA's *Short-Term Outlook* projects crude oil price at US\$42/barrel for 2020 and US\$49/barrel for 2021.
- **Maintain OVERWEIGHT call with 6 BUY calls vs. only 2 SELLS and 1 HOLD.** Despite the ongoing volatility of crude oil prices, we believe that the down cycle has reached a bottom with the worst experienced in April this year when Brent spot prices fell to a low of US\$14/barrel while futures inverted to an abnormal negative price due to lack of storage capacity. We like **Yinson** as its earnings growth momentum from the maiden contributions of floating, production, storage and offloading vessels Helang, off Sarawak, Abigail-Joseph in Nigeria and Anna Nery in Brazil could be further propelled by another substantive Petrobras project, the Parque das Beleias,

We also continue to have **BUY calls for Dialog Group** and **Serba Dinamik Holdings** due to their resilient non-cyclical tank terminal and maintenance-based operations. We recommend **Petronas Gas**, as the group's optimal capital structure strategy and resilient earnings base translates to highly compelling dividend yields.

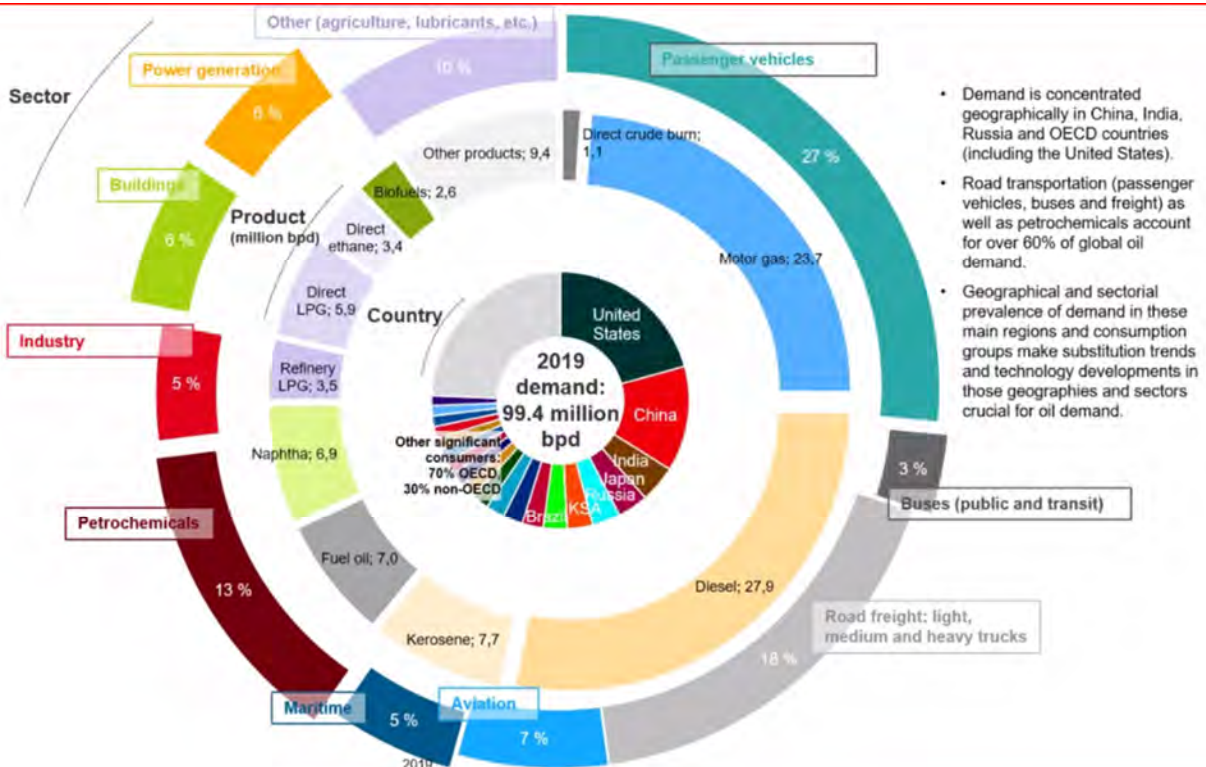
EXHIBIT 1: VALUATION MATRIX

Stocks	CALL	Price	FV	Up/down	Mkt Cap	FYE	EPS (sen)		EPS growth (%)		PE		BV (RM)	P/BV (x)	ROE (%)	NDPS	Div Yield (%)	Net gearing (%)
		(RM)	(RM)	side (%)			RMmil	FY20F	FY21F	FY20F	FY21F	FY20F	FY21F	FY20F	FY20F			
Bumi Armada	BUY	0.25	0.51	104.0	1,467	Dec	2.0	2.2	96.8	12.8	12.7	11.3	0.57	0.4	3.5	-	-	261.9
Dialog Group	BUY	3.80	4.85	27.6	21,426	June	10.7	11.7	12.3	9.9	35.6	32.4	0.73	5.2	15.3	3.1	0.8	16.2
MISC	HOLD	7.11	7.70	8.3	31,738	Dec	38.2	41.2	5.9	7.7	18.6	17.3	4.00	1.8	4.8	33.0	4.6	17.1
Petronas Chemicals Group	BUY	6.00	7.05	17.5	48,000	Dec	20.8	32.4	(40.8)	55.9	28.9	18.5	3.46	1.7	5.5	11.1	1.9	(33.3)
Petronas Gas	BUY	16.38	21.30	30.0	32,412	Dec	106.1	108.0	11.3	1.8	15.4	15.2	4.24	3.9	15.7	98.0	6.0	5.1
Sapura Energy *	SELL	0.11	0.05	(52.4)	1,674	Jan	(1.8)	(0.6)	(66.1)	(65.1)	(5.8)	(16.5)	0.58	0.2	(3.2)	-	-	112.7
Serba Dinamik	BUY	1.62	2.20	36.0	5,462	Dec	17.1	19.4	6.4	13.4	9.5	8.3	0.98	1.7	20.2	5.1	3.2	57.8
Yinson Holdings	BUY	5.48	7.20	31.4	5,999	Dec	19.2	39.7	(25.4)	107.1	28.6	13.8	3.2	1.7	6.2	6.0	1.1	6.2
Velesto Energy	SELL	0.13	0.09	(28.0)	1,027	Dec	(0.3)	(0.3)	(166.1)	17.6	(46.8)	(39.8)	0.7	0.2	(0.8)	-	-	27.6

* assume 1 year forward for FYE

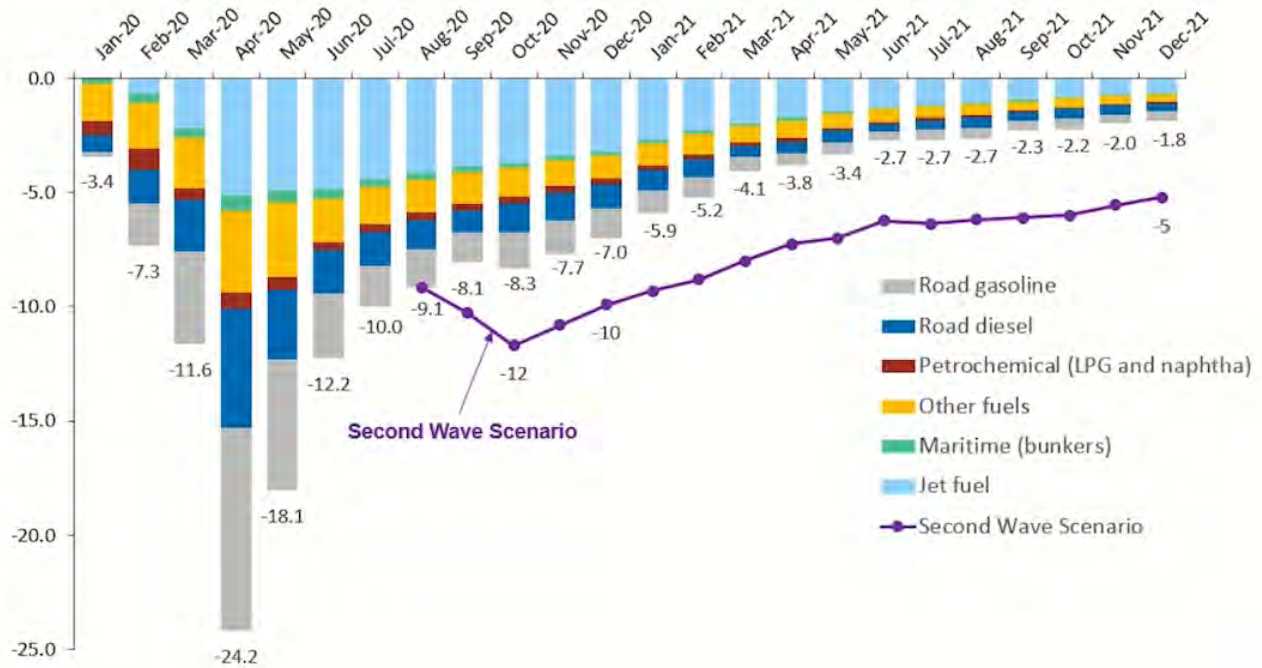
Source: AmInvestment Bank

EXHIBIT 2: COVID-19 IMPACTED TRANSPORTATION SECTOR WHICH ACCOUNTS FOR 60% OF OIL DEMAND



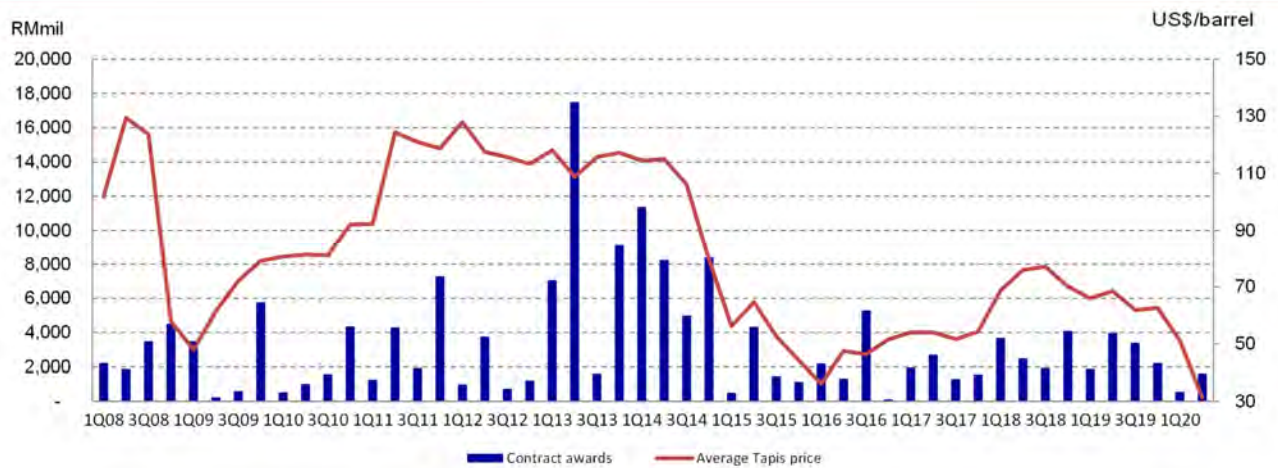
Source: Rystad Energy slide

EXHIBIT 3: IMPACT OF COVID-19 ON GLOBAL OIL PRODUCTION



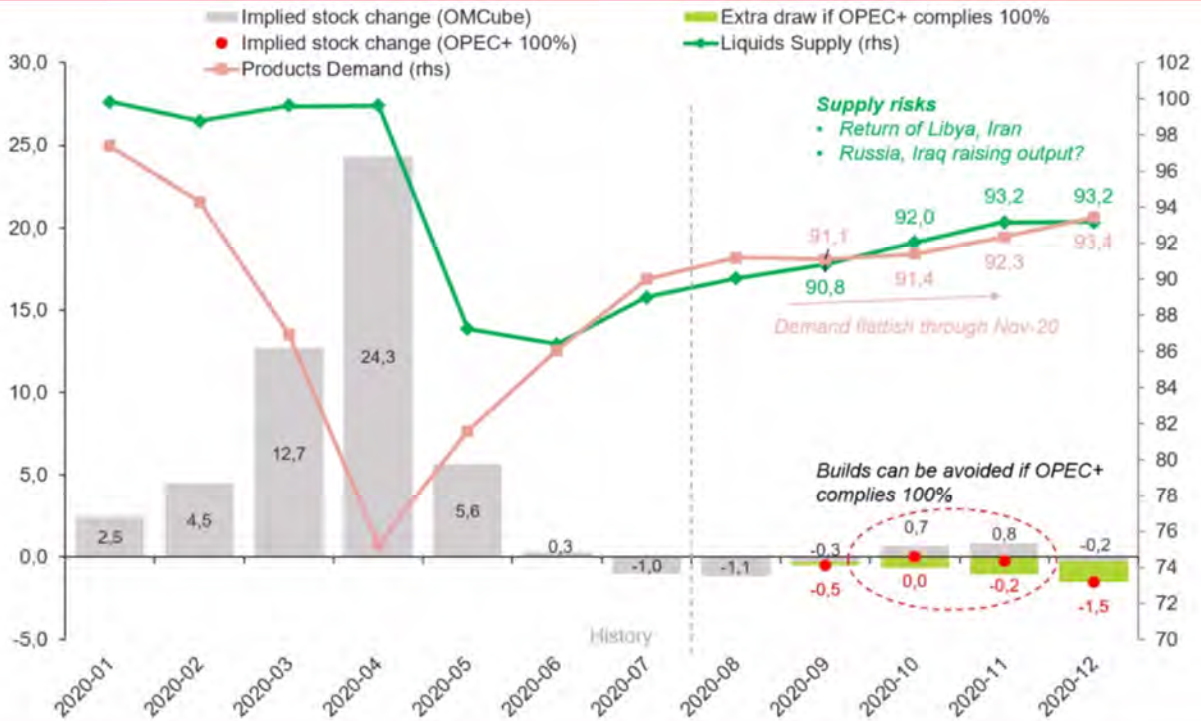
Source: Rystad Energy slide

EXHIBIT 4: CONTRACT AWARDS TO MALAYSIAN O&G PLAYERS



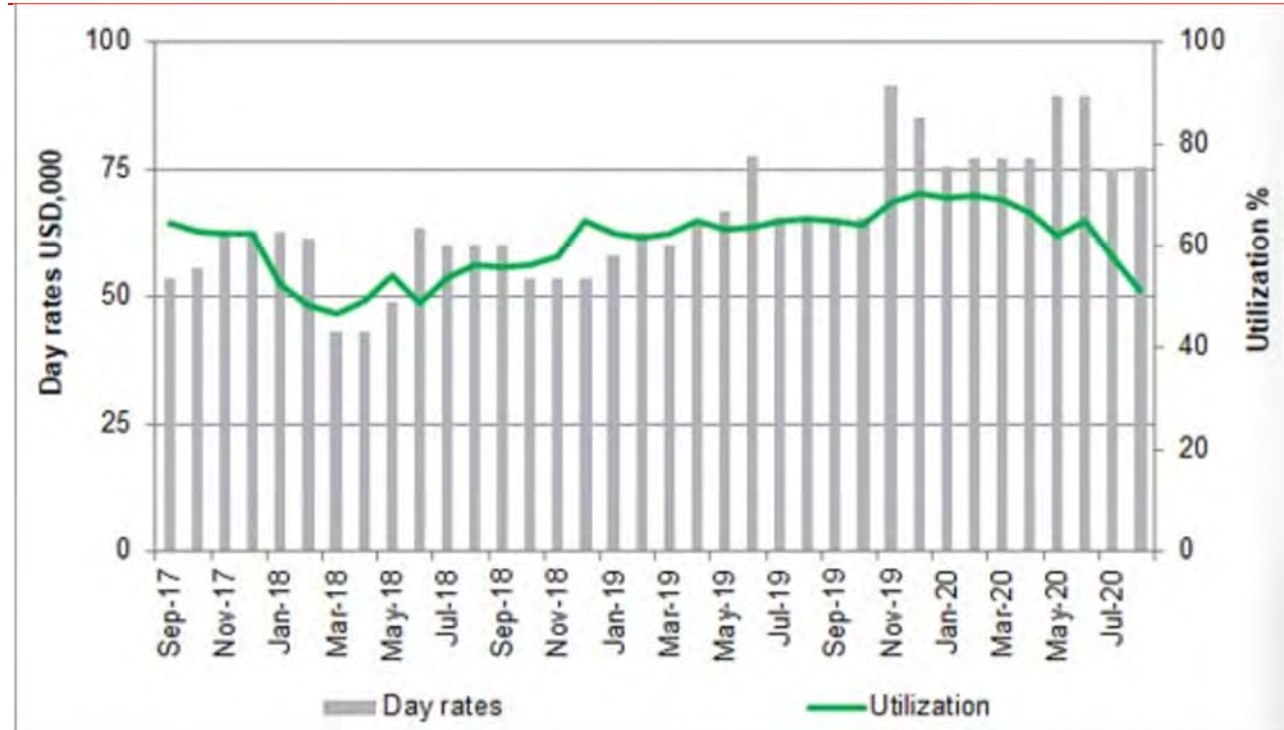
Source: AmInvestment Bank & Bloomberg

EXHIBIT 5: IMPACT OF COVID-19 ON GLOBAL LIQUIDS SUPPLY AND DEMAND BALANCE



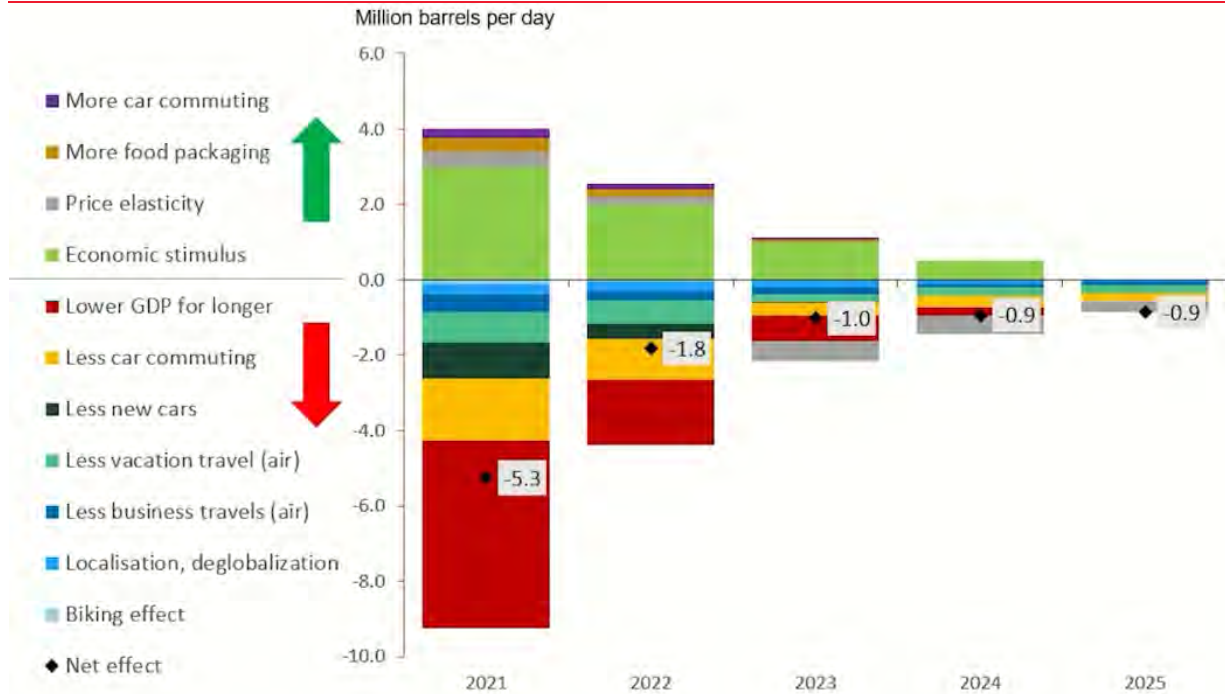
Source: Rystad Energy slide

EXHIBIT 6: SOUTHEAST ASIA JACK-UP CHARTER RATES (361-400 FEET, INDEPENDENT CANTILEVERED)



Source: IHS

EXHIBIT 7: COVID-19 IMPACT TO GLOBAL OIL DEMAND



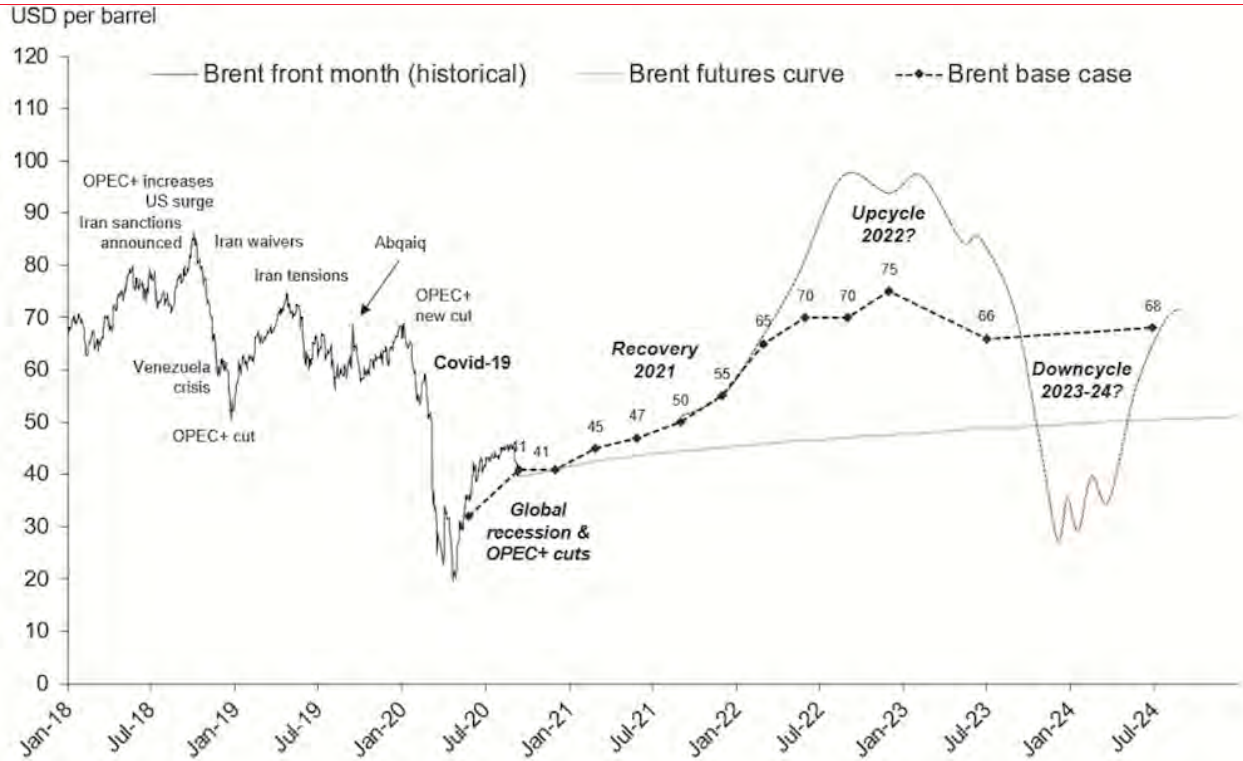
Source: Rystad Energy slide

EXHIBIT 8: COVID-19 IMPACT TO GLOBAL OIL PRICES (BASE CASE & SECOND WAVE)



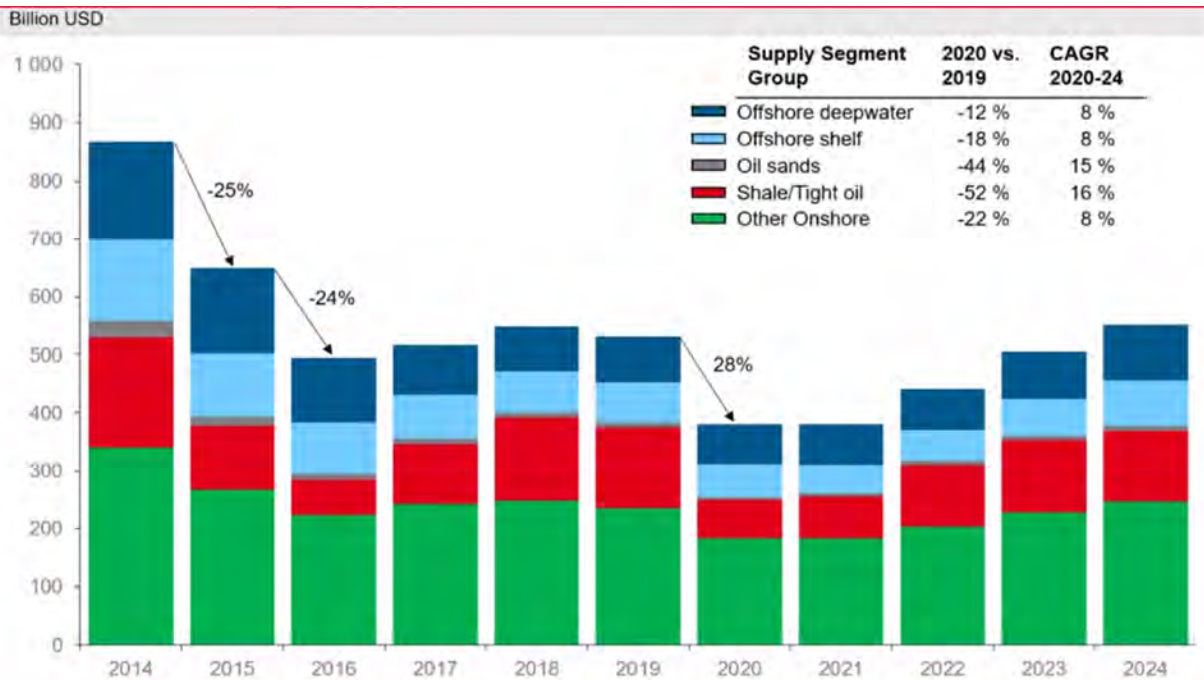
Source: Rystad Energy slide

EXHIBIT 9: BASE-CASE COVID-19 IMPACT TO GLOBAL OIL PRICES



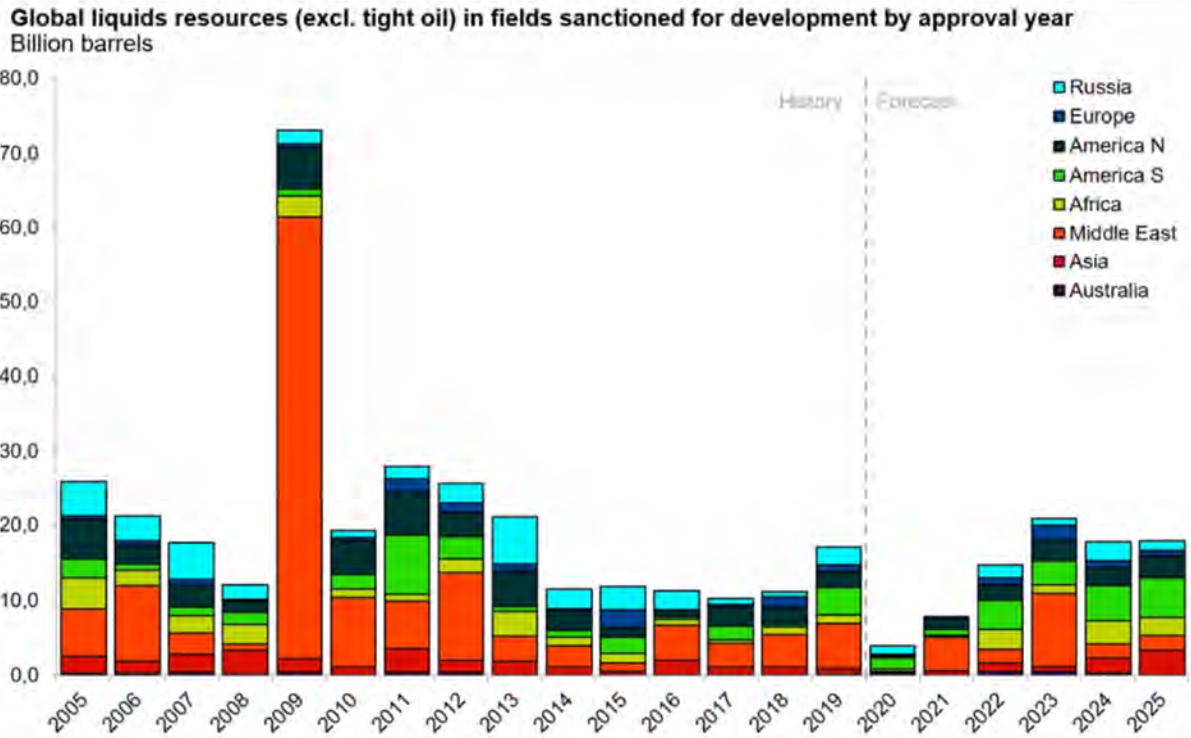
Source: Rystad Energy slide

EXHIBIT 10: GLOBAL EXPLORATION & PRODUCTION INVESTMENTS TO FALL BY 30% IN 2020



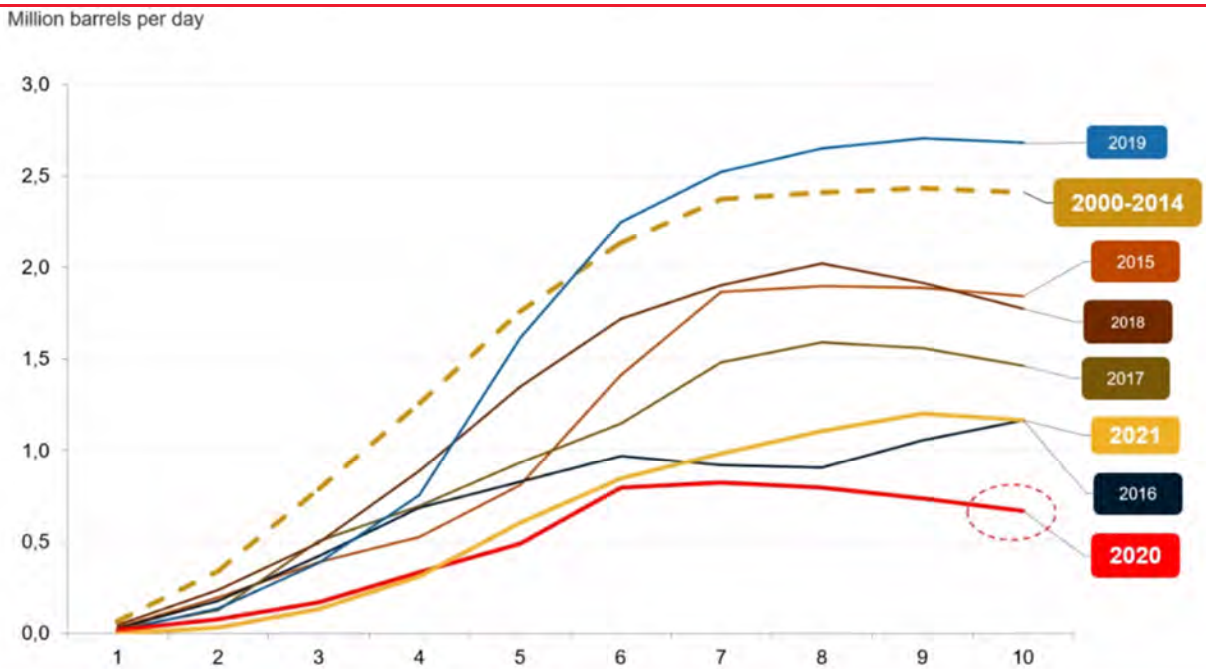
Source: Rystad Energy slide

EXHIBIT 11: LIQUIDS RESOURCES SANCTIONED IN 2020 FALLS TO 70-YEAR LOW



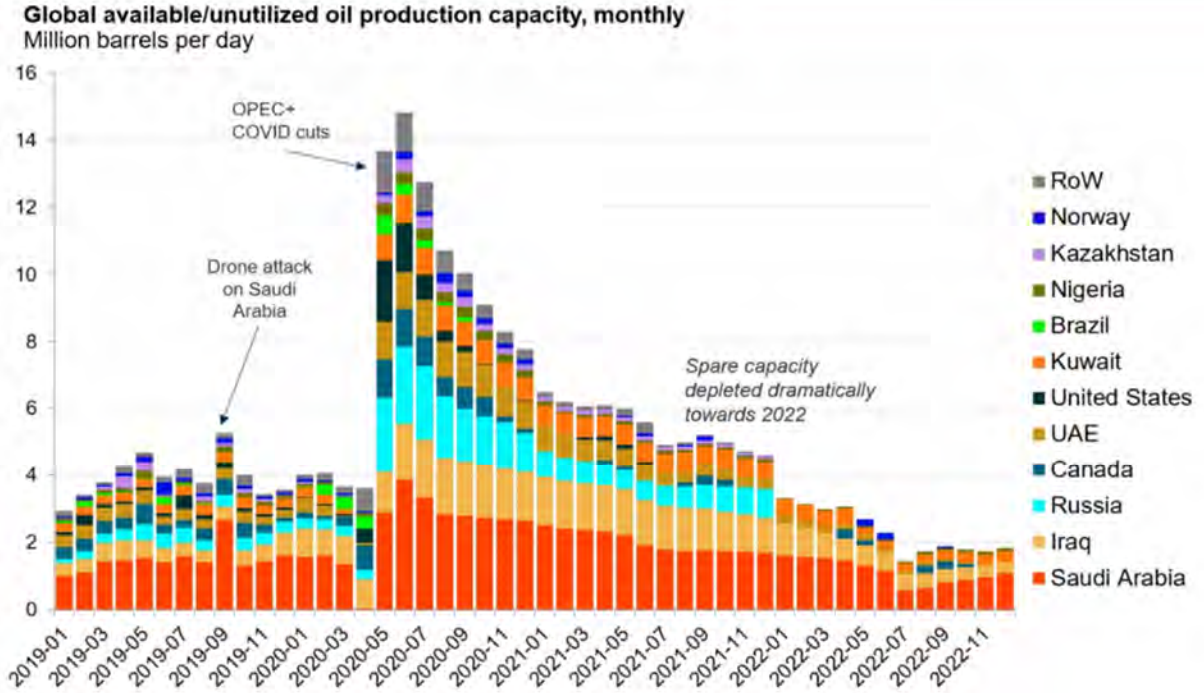
Source: Rystad Energy slide

EXHIBIT 12: 2020 SANCTIONED FIELDS LOWEST ON RECORD



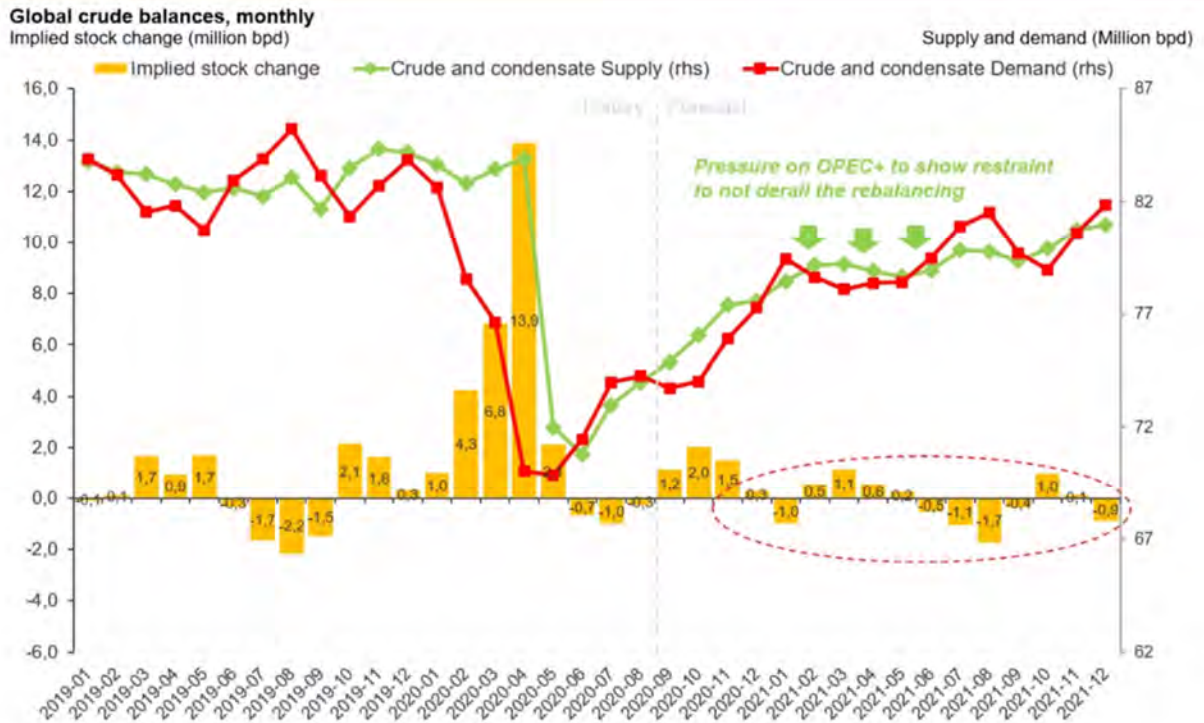
Source: Rystad Energy slide

EXHIBIT 13: GLOBAL SPARE CAPACITY IF DEMAND RECOVERS TO PRE-COVID LEVELS



Source: Rystad Energy slide

EXHIBIT 14: GLOBAL CRUDE CAN REBALANCE IF DEMAND RECOVERS TO PRE-COVID LEVELS



Source: Rystad Energy slide

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