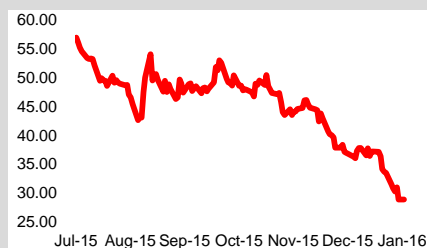
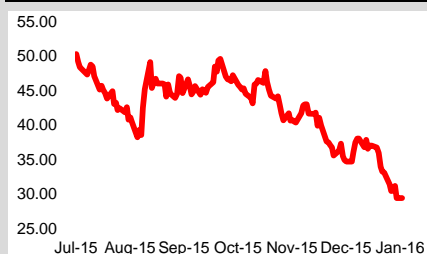




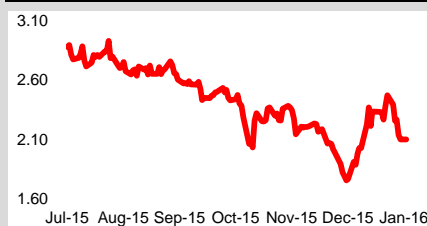
BRENT CRUDE OIL (USD/bbl)



WTI CRUDE OIL (USD/bbl)



NYMEX NATURAL GAS (USD/MMBtu)



RECOMMENDATION TABLE

	Current (RM)	Target (RM)	Upside (%)	Call
BUMI	0.96	1.08	12.5	N
DAYA	0.095	0.12	26.3	N
DEHB	1.12	1.57	40.2	N
PETR	1.54	1.35	S	N
PENB	1.11	1.83	64.9	O
UZMA	1.77	2.38	34.5	O
WSC	0.87	1.06	21.8	N

*S - Suspended

Mabel Tan
 T 603 2268 3017
 F 603 2268 3014
 E mabeltan@publicinvestbank.com.my

Spending Cuts?

Petroleum Nasional (Petronas) is said to have a planned capital expenditure (CAPEX) and operating expenditure (OPEX) reduce by up to RM50bn (USD11.4bn) over the next 4 years, while reviewing its business structure in lieu of the slump in oil prices. This was announced through an internal memo from President and CEO of Petronas, Datuk Wan Zulkiflee Wan Ariffin (Wan Zul), authenticated by Reuters which went viral. Deferment of projects would thus be expected following this strategy.

The review does not come as a surprise, considering Petronas' previous review to have been made when oil price was expected at USD48/bbl but have declined to the USD28/bbl levels and thus continues to come under immense pressure.

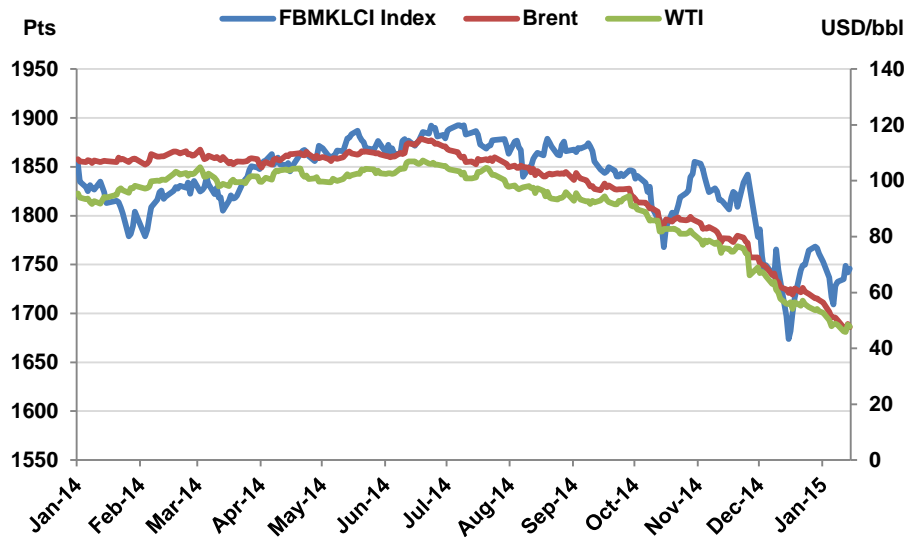
- § **CAPEX earmarked projects.** i) Refinery And Petrochemical Integrated Development (RAPID) project in Pengerang, Johor (RM90bn to start mid 2019), ii) LNG Train 9 in Bintulu, Sarawak (EPCIC job is USD510m), iii) 2 Petronas floating LNG units being constructed in Korea (USD4.5bn to be delivered for 2018), and iv) Pacific North West LNG in Canada (USD11.4bn capex if approved, to start by end 2019 but due to the lower oil price is likely to be delayed to early 2022). Assuming the Canada project is deferred, this could account for the majority RM50bn cuts target and hence would maintain status quo on domestic operations, as there were ongoing cuts between Petronas and its project partners and vendors during 2015. At this juncture, Petronas' has not revealed which areas their cuts would target.
- § **Dividend cuts.** Petronas could be forced to cut dividends if cashflow constraints or reported losses are apparent despite its expectations to contribute a-third of Malaysia's government revenue. The reduction in CAPEX and OPEX should see lower investments in operations, however should not see any contract termination considering the NOC's priority to prolong and enhance production for the longer-term and would need various service providers to serve this purpose.
- § **Higher output in 3QFY15.** Petronas increased production to 2.18mboe in 3QFY15 (+4.8% YoY), attributed to the enhancement of efforts and new production stream from Malaysia, new natural gas production from Azerbaijan and higher production entitlement from Iraq.
- § **Remain Neutral.** We continue to remain **Neutral** for the O&G sector, as we foresee a prolonged low oil price scenario pending oil supply woes that is generating negative newsflow to place further pressure on oil prices including i) Iran's oncoming production levels, and ii) other non-OPEC producing countries' ability to continue its supply level with lowered production cost levels owing to continued efforts to enhance cost efficiencies largely through innovative technology. Based on our oil supply analysis however (figure 3), at these lower oil price levels we should see some producers begin to slow down its supply from non-economic viability from its production costs.

Top Picks

§ **Uzma (Outperform, TP: RM2.38)** will be buoyed by i) full year contribution from MMSVS (Hydraulic Workover Units), ii) full year contribution from Premier Enterprise Corporation (PEC) for trading of chemical and other commodities in oil refinery, iii) increase in strategic stake in Setegap Ventures from 30% to 49%, iv) Sazma aviation award, and v) D-18 Water injection facility for PETRONAS Carigali Sdn. Bhd. (PCSB).

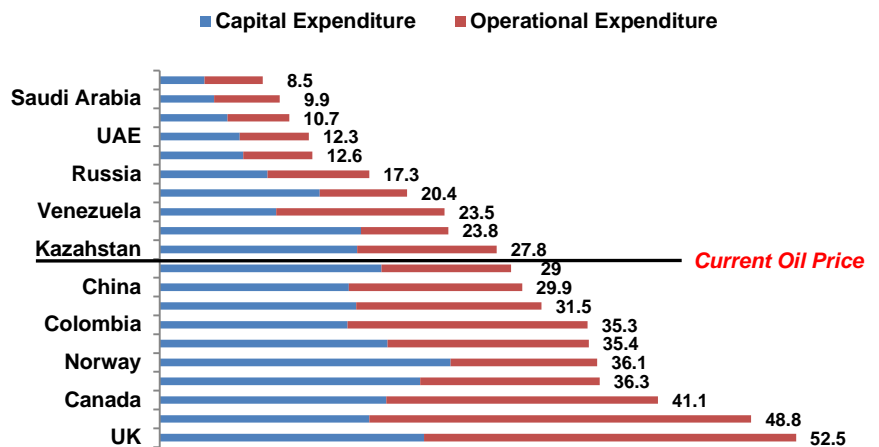
§ **Petra Energy (Outperform, TP: RM1.83)** drivers include i) Topside Major Maintenance Services (TMM) contract by PETRONAS Carigali Sdn. Bhd. (PCSB) for SBO effective since 4 July 2014, and will last until 20 May 2018, ii) Work orders for the PANM contract which includes utilizing 5 of its 9 vessels, and iii) The KBM cluster RSC. The Group will continue to manage its costs and operation expenditures to improve its bottom-line performance, while exploring new opportunities to attain new revenue streams.

Figure 1: FBM KLCI vs. Brent and WTI Crude Oil Price in 2014 to YTD



Source: Bloomberg

Figure 2: Production Costs Of Major Oil Producing Countries (USD/bbl)



Source: UCube by Rystad Energy; Interactive published Nov. 23, 2015

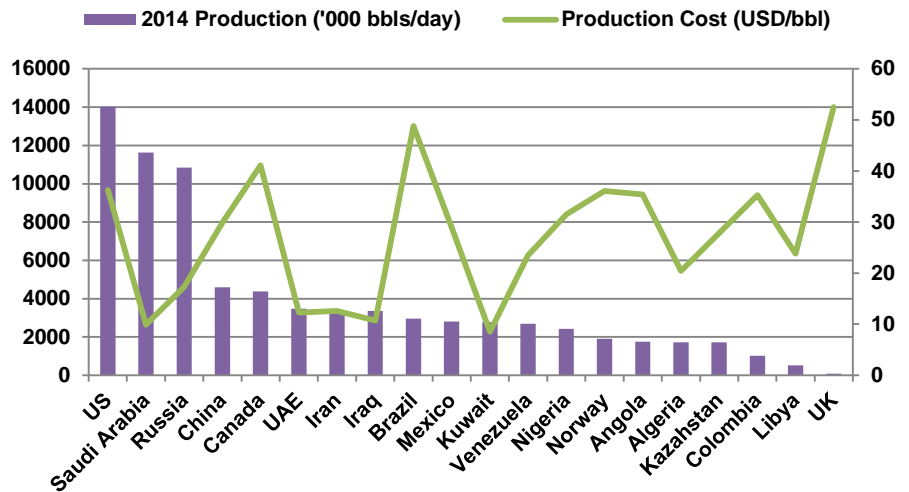
§ **Analysing oil supply.** At current USD28/bbls of oil, could see some -54.4% decrease in oil supply, assuming the inability for certain countries to keep up production based on their production costs. We have not accounted for Iran's oncoming supply, but we believe the loss in supply would be more substantial than the new supply coming onstream thus should fundamentally aid in reversing oil price trends.

Figure 3: Oil Supply Analysis

	Oil Price (per barrel)				
	USD20	USD25	USD28	USD35	USD40
Total World Oil Production in 2014 ('000 bbls/day)	37174.0	40375.0	42094.0	54704.0	70629.0
% of loss in Total Oil Supply ('000 bbls/day)	-59.8%	-56.3%	-54.4%	-40.8%	-23.5%

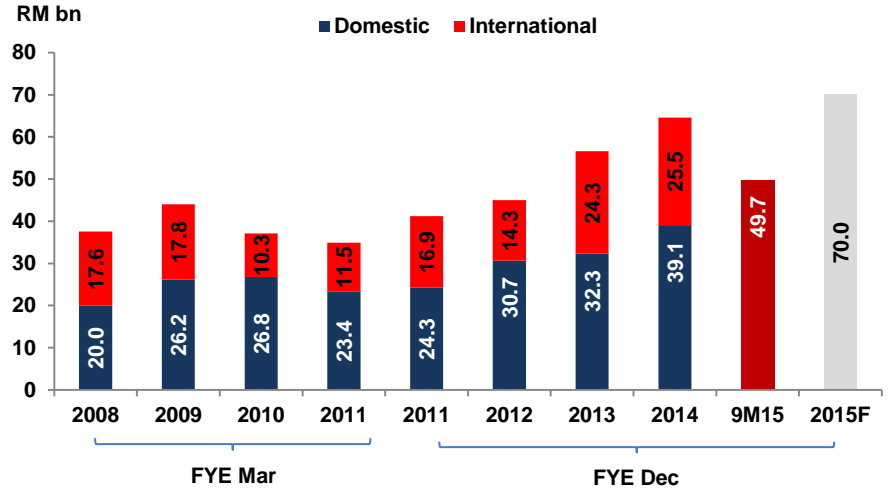
Source: Bloomberg, US EIA, PublicInvest Research estimates

Figure 4: Production Costs vs. Total Production



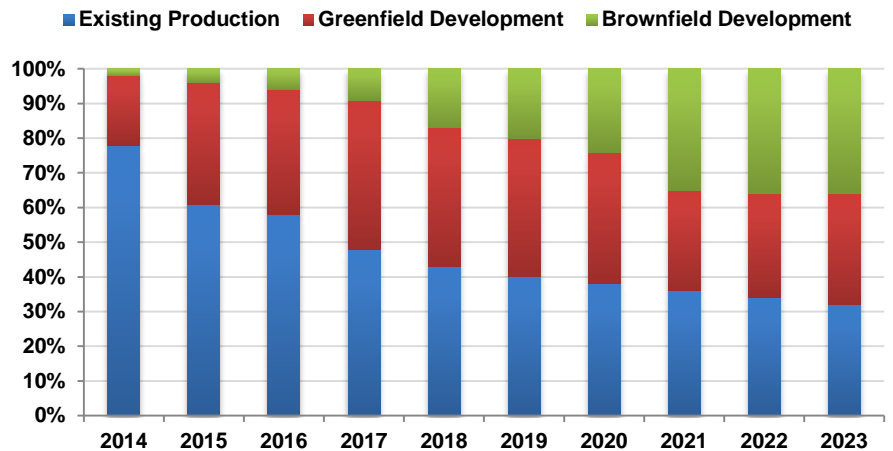
Source: UCube by Rystad Energy; Interactive published Nov. 23, 2015, US EIA

Figure 5: PETRONAS' Annual CAPEX with International and Domestic Breakdown



*PETRONAS Group changed its financial year end from March to Dec in 2011
Source: PETRONAS

Figure 6: Share of Future Oil Development in Malaysia



Source: PETRONAS
*The chart only displays estimated numbers.

Figure 7: Opportunities Available In More Challenging Resource Types

Enhanced Recovery	>70 >1.3bn boe	EOR/IOR/IGR projects sanctioned (5years) Additional reserves contribution
Deepwater	25%	Of oil resources found in deepwater areas
High CO2 Gas	>35%	Of gas resources contains high CO2 levels
Marginal Field	>35 Tcf	Net hydrocarbon gas potentials
New Plays and Deep Exploration	25% 15%	Of all discovered fields Of total discovered resources
	>15%	Play-types identified in Malaysia with more areas being mapped a studied

Source: PETRONAS

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

DISCLAIMER

This document has been prepared solely for information and private circulation only. It is for distribution under such circumstances as may be permitted by applicable law. The information contained herein is prepared from data and sources believed to be reliable at the time of issue of this document. The views/opinions expressed herein are subject to change without notice and solely reflects the personal views of the analyst(s) acting in his/her capacity as employee of Public Investment Bank Berhad ("PIVB"). PIVB does not make any guarantee, representations or warranty neither expressed or implied nor accepts any responsibility or liability as to its fairness liability adequacy, completeness or correctness of any such information and opinion contained herein. No reliance upon such statement or usage by the addressee/anyone shall give rise to any claim/liability for loss of damage against PIVB, Public Bank Berhad, its affiliates and related companies, directors, officers, connected persons/employees, associates or agents.

This document is not and should not be construed or considered as an offer, recommendation, invitation or a solicitation of an offer to purchase or subscribe or sell any securities, related investments or financial instruments. Any recommendation in this document does not have regards to the specific investment objectives, financial situation, risk profile and particular needs of any specific persons who receive it. We encourage the addressee of this document to independently evaluate the merits of the information contained herein, consider their own investment objectives, financial situation, particular needs, risks and legal profiles, seek the advice of their, amongst others, tax, accounting, legal, business professionals and financial advisers before participating in any transaction in respect of any of the securities of the company(ies) covered in this document.

PIVB, Public Bank Berhad, our affiliates and related companies, directors, officers, connected persons/employees, associates or agents may own or have positions in the securities of the company(ies) covered in this document or any securities related thereto and may from time to time add or dispose of, or may be materially interested in, any such securities. Further PIVB, Public Bank Berhad, our affiliates and related companies, associates or agents do and/or seek to do business with the company(ies) covered in this document and may from time to time act as market maker or have assumed an underwriting commitment in the securities of such company(ies), may sell them or buy them from customers on a principal basis, may have or intend to accommodate credit facilities or other banking services and may also perform or seek to perform investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment advisory or other services from any entity mentioned in this document. The analyst(s) and associate analyst(s) principally responsible for the preparation of this document may participate in the solicitation of businesses described aforesaid and would receive compensation based upon various factors, including the quality of research, investor client feedback, stock pickings and performance of his/her recommendation and competitive factors. Hence, the addressee or any persons reviewing this document should be aware of the foregoing, amongst others, may give rise to real or potential conflicts of interest.

Published and printed by:

PUBLIC INVESTMENT BANK BERHAD (20027-W)

9th Floor, Bangunan Public Bank
6, Jalan Sultan Sulaiman
50000 Kuala Lumpur
T 603 2268 3000
F 603 2268 3014
Dealing Line 603 2268 3129