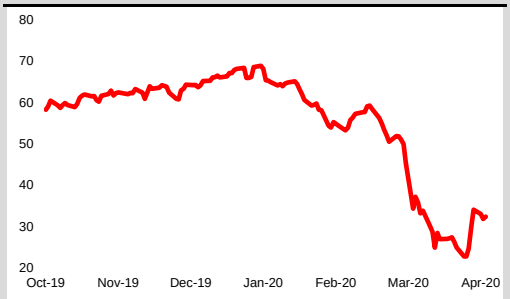
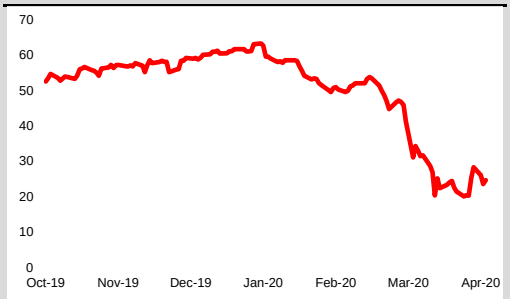
OIL & GAS *Neutral*

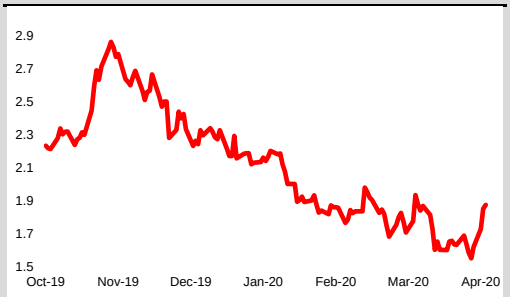
BRENT CRUDE OIL (USD/bbl)



WTI CRUDE OIL (USD/bbl)



NYMEX NATURAL GAS (USD/MMBtu)



RECOMMENDATION TABLE

	Last Price (RM)	Target Price (RM)	Up side (%)	Rating
BUMI	0.19	0.21	11.6	Neutral
DAYANG	1.45	1.59	9.6	Neutral
DIALOG	3.19	3.69	15.7	Outperform
HIBISCUS	0.54	0.68	25.9	Neutral
SAPURA	0.11	0.12	9.1	Neutral
SERBA	1.70	2.66	56.5	Outperform
UZMA	0.67	0.76	13.4	Trading Buy
WSEONG	0.75	0.77	2.4	Neutral

Nurzulaikha Azali
T 603 2268 3017
F 603 2268 3014
E nurzulaikha.azali@publicinvestbank.com.my

Uncertainty Remains

Oil prices fell 68% from this year's peak to the lowest level since 2002 - below USD23/bbl as demand appeared to have been hit by work and travel lockdowns globally as part of efforts to contain the spread of Covid-19. It was exacerbated further by a price war between Saudi Arabia and Russia after its 3-year alliance fell through over Saudi's calls for greater production cuts to support prices. After reaching a low last week, oil prices have rebounded by 46% however on the prospect of a win-win deal between the world's three top producing countries. While there may be hope for the supply crisis to be resolved, we foresee worries over the Covid-19 global pandemic remaining as the recovery period may take longer than expected, leading to an unprecedented demand loss as lockdown period are extended. While we maintain our ***Neutral*** stance on the sector, we trimmed earnings forecast of various companies as we note that the 28-day movement control order (MCO) has reduced their efficiency levels despite no revision on work order quantum by oil majors thus far. We also re-visiting our valuation parameters to better reflect the current operating climate.

§ **Supply glut – any hope?** After reaching a multi-year low last week, oil prices rebounded on the prospect of a truce in Saudi-Russia oil production and price war with a reversion to the previous OPEC+ output cuts agreement. There were talks that the key players were ready to lead the world by cutting up to 15 mbbls/day, pending a meeting later this week. The meeting may also involve other energy ministers from the G20 which will bring on board the US and other big oil producers such as Canada and Brazil on wider contributions to a production deal. Should this materialize, this will be the largest ever coordinated reduction in the oil market. Earlier in March, Saudi slashed its prices in an effort to gain market share and subsequently increased its production to a record high of more than 12 mbbls/day after the OPEC+ agreement broke down. With this additional supply flooding the market, the EIA expects inventory builds will be largest in 1H2020, rising at a rate of 5.7 mbbls/day in the 1Q and increasing to builds of 11.4 mbbls/day in the 2Q due to a sharp fall in demand.

§ **The unprecedented demand loss.** Covid-19 has gone from being a China-centric health crisis to a global health pandemic. While China has taken strong measures in response to the outbreak, the situation appears to be worsening around the world, with more than 200 countries reporting cases. While the Covid-19 pandemic is having a much bigger international impact than SARS, impact of the disease had been underestimated earlier. The world's 3 big oil agencies - IEA, EIA and OPEC highlighted the uncertainty over the virus' repercussions for global oil demand then, but only with minimal impacts. OPEC cut its forecast by 400 kbbls/day while the IEA and EIA slashed its 1Q global oil demand forecast by 435 kbbls/day and 900 kbbls/day respectively. Based on recent data by EIA, demand is estimated to decline by 5.6 mbbls/day in 1Q and to collapse by 12.2 mbbls/day in 2Q due to significant disruptions to global economic activity along with reduced travel globally, a stark contrast to before.

§ **Petronas - reassessing its plans and budget.** While there is no sign of lower work order by oil majors thus far, it is understood that Petronas is still assessing its plans and budget in light of the price plunge. Based on our channel checks with some industry players, discussions are currently on-going with the main focus including the assessment on the sector and areas to cut. That said, we are not surprised with its plans to continue its domestic

capex of RM26bn to RM28bn despite the lower oil price, going by the 2016 and 2017 period (relatively similar price conditions) where it cut overseas capex by 66.1% and 25% while increasing the domestic portion by more than 80% for two consecutive years. It also intends to maintain its dividend payment of RM24bn to the Government for FY19.

Nevertheless, if the low oil price environment prolongs, Petronas may need to preserve some cash for future investments while also preparing for potential requests from the Government (special dividends) in the current challenging economic climate. With expectation of lower overseas allocation in order to spur the domestic economy, areas of work that might be affected (either defer or revision on the rate) will include the capex-heavy jobs like greenfield projects and FPSO, exploration and development services such as EPCC, drilling and OSV. Maintenance jobs will likely be continued with minimal rate adjustments.

- **Earnings will be slightly affected by MCO first.** While not imputing any impact from lower work orders yet, our earnings forecast for some companies have been adjusted lower to reflect the 28-day MCO which has affected efficiency levels. Although the industry has been classified as part of the essential services that allows them to remain operational, stricter operating procedures in relation to health and safety still needs to be performed however, in order to protect their workforce while minimizing the risk of spread of infection. With the need of keeping distance between one worker to another, the number of workers also needs to be reduced. While the operations are still on-going, restricted mobility has thereby curtailed speed at this juncture. Our channel checks indicate that efficiency levels during this period are around 50% - 70%. Meanwhile, some companies with overseas exposures are also experiencing slower activities owing to the need to stop due to total lockdowns in those countries. Our adjustment on earnings are summarized in Table 2.

- **Our views: Uncertainty remains.** While there may be hope for the supply crisis to be resolved, we foresee worries over the Covid-19 global pandemic remaining as the recovery period may take longer than expected, leading to an unprecedented demand loss as lockdown period are extended. The impact on energy markets are still evolving and have caused significant changes in supply and demand patterns. According to the IEA, even if OPEC+ and other producers agreed to a cut of 10 mbbls/day, global oil inventories would still rise by 15 mbbls/day in the 2Q as the pandemic destroys unprecedented volumes of demand with more than 3bn people worldwide remaining in lockdown. This also after considering that the vaccine for Covid-19 has yet to be found, hence consumer sentiment remaining weak. We maintain our ***Neutral*** call on the sector. During this period, we prefer Serba Dinamik and Dialog Group given its defensive and recurring income business natures.

FINANCIAL SUMMMARY

Company	Price (RM)	EPS (sen)		EPS growth (%)		PER (x)		ROE (%)		Div yield (%)	
	@ 07/04/20	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Bumi Armada	0.19	1.0	5.1	n.a.	>100.0	19.0	3.7	1.8	3.2	0.0	0.0
Dayang Enterprise	1.45	24.4	11.4	43.5	-53.3	5.9	12.7	11.9	6.7	0.0	0.0
Dialog	3.19	9.5	11.0	21.8	15.8	33.6	29.0	13.7	15.9	1.2	1.4
Hibiscus Petroleum	0.54	14.5	10.2	16.0	-29.6	3.7	5.3	18.6	15.3	0.0	0.0
Sapura Energy	0.11	-4.1	-2.8	-78.3	31.7	n.m	n.m	n.m	n.m	0.0	0.0
Serba Dinamik	1.70	16.1	18.3	26.8	13.7	10.6	9.3	19.0	19.1	4.4	3.2
Uzma	0.67	8.1	8.8	-43.7	8.6	8.3	7.6	2.0	4.6	0.0	0.0
Wah Seong Corp	0.75	9.1	4.6	8.3	-49.4	8.2	16.3	6.8	2.8	0.3	0.0

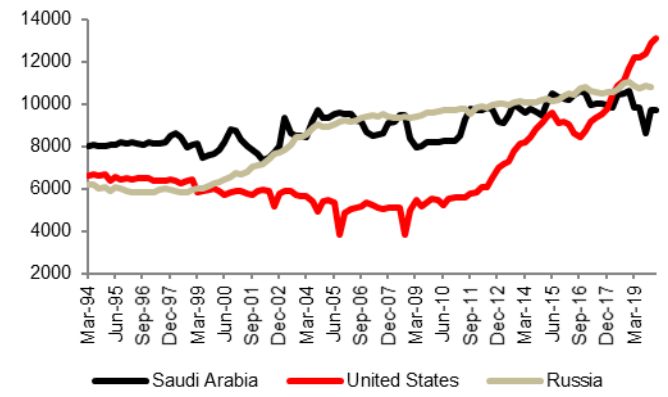
Source: PublicInvest Research estimates

Table 2: Earnings Summary

Company	Changes in Earnings Forecast (%)			Target Price (RM)		Comments
	FY20	FY21	FY22	Previous	New	
Bumi Armada	-14.4	-9.3	-7.2	0.32	0.21	§ Earnings cut slightly. FPSOs are working as usual. But OSV utilization may be lower hence may need to do some impairment. § Potential reduction in charter rate if oil prices are remaining lower for longer period. § TP reduced after adjustment coupled with an unchanged 40% discount over valuation on weak sentiment.as well as weak balance sheet.
Dayang Enterprise	-46.1	-36.9	-23.4	1.89	1.59	§ Adjustment to FY20 work order and utilization of Perdana vessels due to lower operational efficiency resulting from Covid-19 and MCO. IHUC work order deferred to FY21. § Exposing risk of lower capex spending as IHUC work order will be put aside and potential lowering rates of contract and vessels. § TP reduced, ascribing 11.2x PER (20% discount from 40% previously) valuation over FY21 EPS of 14.2sen on weak sentiment.
Dialog	--	--	--	3.69	3.69	§ No change in earnings forecast as earnings are mostly contributed by its tanks. Business as usual and utilization of storage may be improved further given the current operating climate. § No risk of lower capex spending. § TP unchanged, ascribing 10% discount to SOP valuation on weak sentiment.
Hibiscus Petroleum	-17.3	-34.6	-25.9	0.62	0.68	§ Ascribing lower oil price assumption given the current oil price crisis. § Target price is changed accordingly after the earnings adjustment and remove the previous discount ascribed. § Development of Marigold and Sunflower field will be delayed as it is capex heavy. § Maintain Neutral due to heightened uncertainties (and volatilities) with regards to the oil prices given its direct sensitivities.
Sapura Energy	--	--	--	0.18	0.12	§ Awaiting 4QFY20 results by end of this month. § Business in all segments are at risk due to lower oil price environment and lockdowns globally hence delays the projects implementation and utilization of rigs and yard. Huge impairment might be recorded in this 4Q results. § Exposing bigger risk of lower capex spending as exploration (for its E&P and drilling) and development activities which include EPCC may be disrupted. § Implying bigger discount to SOP valuation by additional 20%.
Serba Dinamik	--	--	--	2.66	2.66	§ No change in earnings forecast as numbers are already conservative versus consensus, lower by 15%. § Currently business as usual with 80% efficiency. Balance orderbook as of Feb'20 was RM10.7bn with 66% for O&M and 34% for EPCC, mostly non-oil and gas related. § Minimal risk of lower capex spending. Based on 2014 – 2016 oil crisis, reduction in rate was only 2.5%. § TP unchanged, ascribing 12.8x PER (20% discount) valuation over FY21 EPS of 20.8sen on weak sentiment.
Uzma	--	--	--	0.57	0.76	§ No change in earnings forecast as numbers are already conservative. § Work orders to continue as contracts are mostly opex related and c. 72% of them were secured during the low oil crisis 2014 – 2016. § Minimal risk of lower capex spending. § TP and rating upgrade, ascribing 8x PER (20% discount from 40% previously) valuation over FY21 EPS of 9.5sen on weak sentiment.
Wah Seong	-52.4	-33.3	-33.3	0.86	0.77	§ Reduce FY20 orderbook target and defer the replenishment to 2H2020. § Delays in work activities as most of the operations such as in Malaysia, India, Qatar are stop due to lockdowns. Operational level currently at 20% with only Batam plant is working. § Pipeline works are mostly for greenfield projects, exposing risk of lower capex spending. § TP reduced, ascribing 9.6x PER (20% discount from 40% previously) valuation over FY21 EPS of 8sen on weak sentiment.

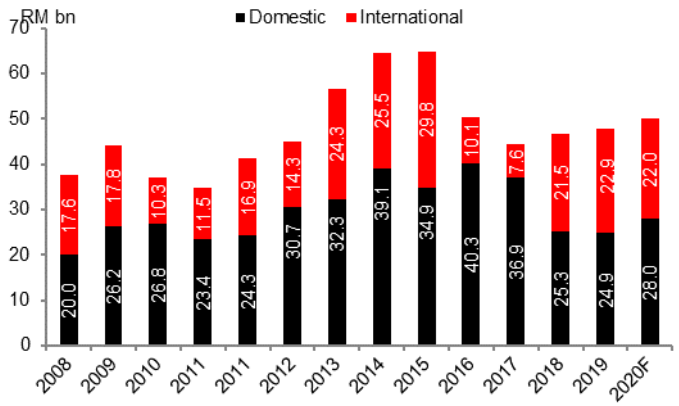
Source: PIVB Research

Figure 1: Top 3 Oil Producers' Production



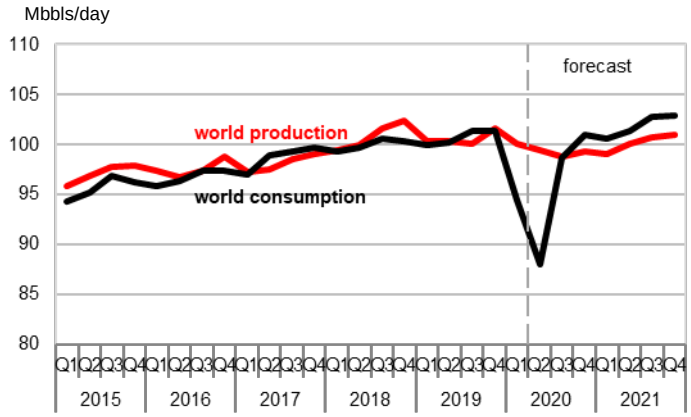
Source: Bloomberg, PIVB Research

Figure 2: Petronas Capital Expenditure



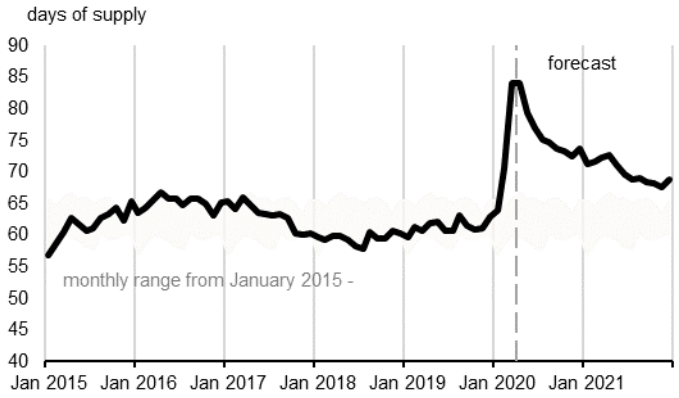
Source: Petronas, PIVB Research

Figure 3: World Production & Consumption Balance



Source: EIA STEO Apr'20, PIVB Research

Figure 4: OECD Commercial Inventories



Source: EIA STEO Apr'20, PIVB Research

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12months.
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. The analyst(s) and associate analyst(s) may also receive compensation or benefit (including gift and company/issuer-sponsored and paid trips in line with the Bank's policies) in executing his/her duties. 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