# Oil & Gas

## Petronas Activity Outlook: 2026-2028

**NEUTRAL**

↔

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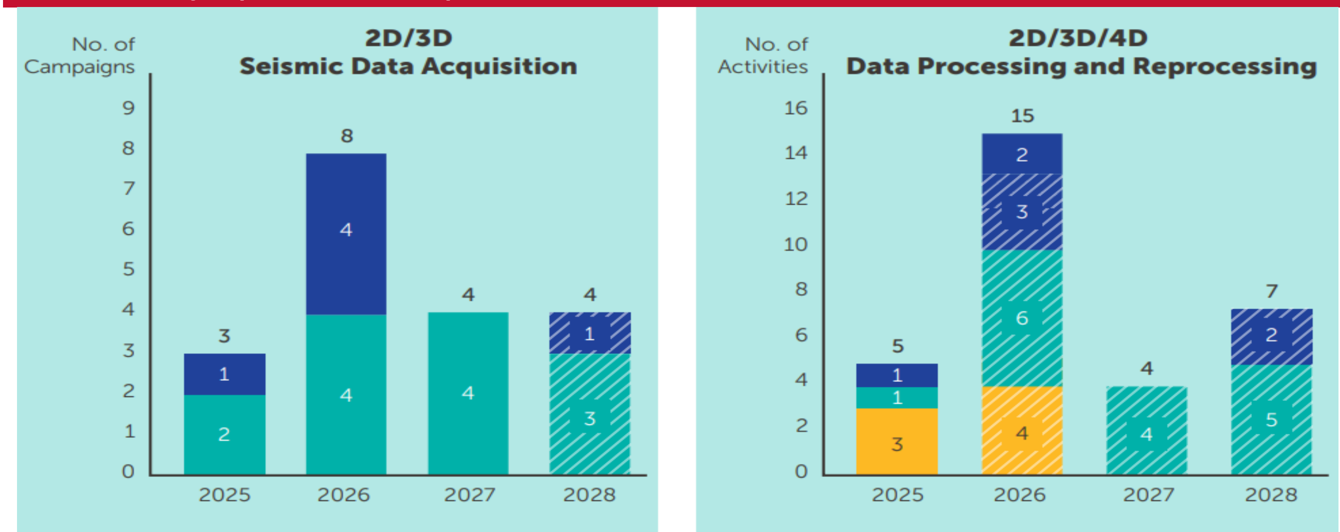
**We maintain our NEUTRAL stance on the sector. Petronas released its activity outlook for 2026-2028 and we have concluded that it is largely a neutral outlook report to the upstream services sector due to aging vessel and rig supply in the local market which is currently being offset by weaker demand outlook for 2026 upstream activities. Exploration activities are expected to ramp up significantly in 2026 which set up for more upside potential for service providers (DAYANG, VELESTO and KEYFIELD) in the longer haul (2027 or beyond). However, upstream maintenance, drilling and OSV requirement guidance has declined for 2026 compared to the outlook released for 2025-2027, indicating weaker activity outlook by Petronas. Nevertheless, we believe that the weaker outlook has been largely priced in by the market on listed upstream service providers and we took comfort that rig and OSV activities are expected to be largely flattish YoY in 2026 compared to actual 2025 data. We maintain that the upstream service providers may have reached bottom-valuation with low risks of further asset impairments but catalysts remains lacking for the sector, at least for the medium term. Our top picks remain PCHEM (OP; TP: RM4.70) and DIALOG (OP; TP: RM2.28).**

**Upstream service players remain critical to the O&G ecosystem.** Petronas group have just released Petronas Activity Outlook (2026-2028) and on a macro level, the group emphasizes that supporting and partnering with oil and gas service companies in Malaysia remains a key focus, and Petronas still maintains that it is seeking to build Malaysian capabilities in emerging areas, i.e. carbon capture, renewable energy development and hydrogen infrastructure. That aside, Petronas aims to sustain a production close to 2.2m bbls of oil equivalent through continued exploration, deepwater development, enhanced oil recovery and new production sharing contracts (PSCs) awarded under Malaysia Bid Round 2024. All in all, it also targets to work with service providers to improve project delivery times and quality including local fabrication yards. In addition the group has also made a landmark discovery with Lebah Emas-1 well, located offshore Peninsular Malaysia in Block PM6/12.

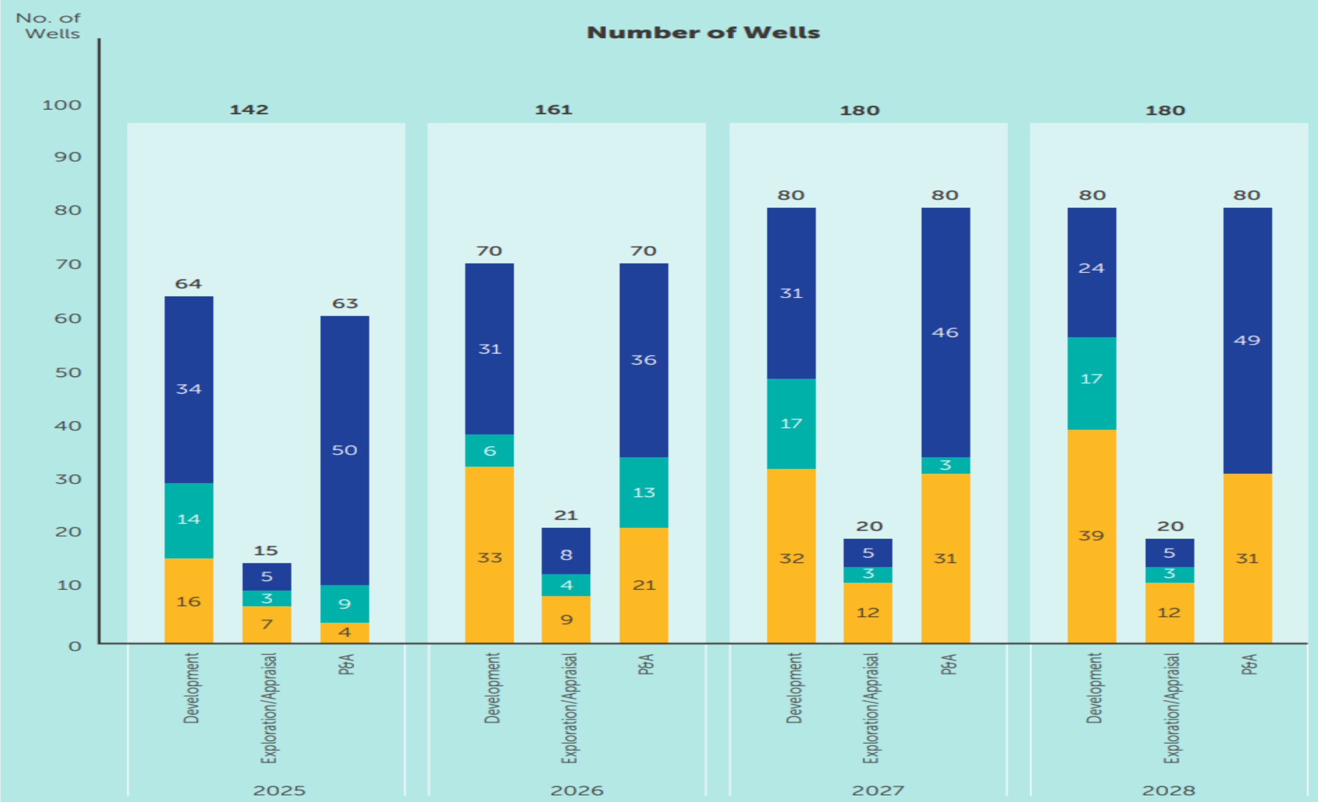
**Exhibit 1: Heavy Exploration Work Expected in 2026**




*Source: Petronas*

**More exploration works in 2026.** Petronas appears to be ramping up its seismic data acquisition and reprocessing activity in 2026 (ref Exhibit 1) and this sets a strong base for future drilling and development activities which could benefit upstream service providers beyond 2026 (after exploration is completed, the upstream service providers could only benefit when the field is proved to be viable for development). In this activity outlook, the 2026 seismic data acquisition and processing are revised up by 60% and 36%, respectively, compared to Petronas Activity Outlook 2024-2027 released last year.

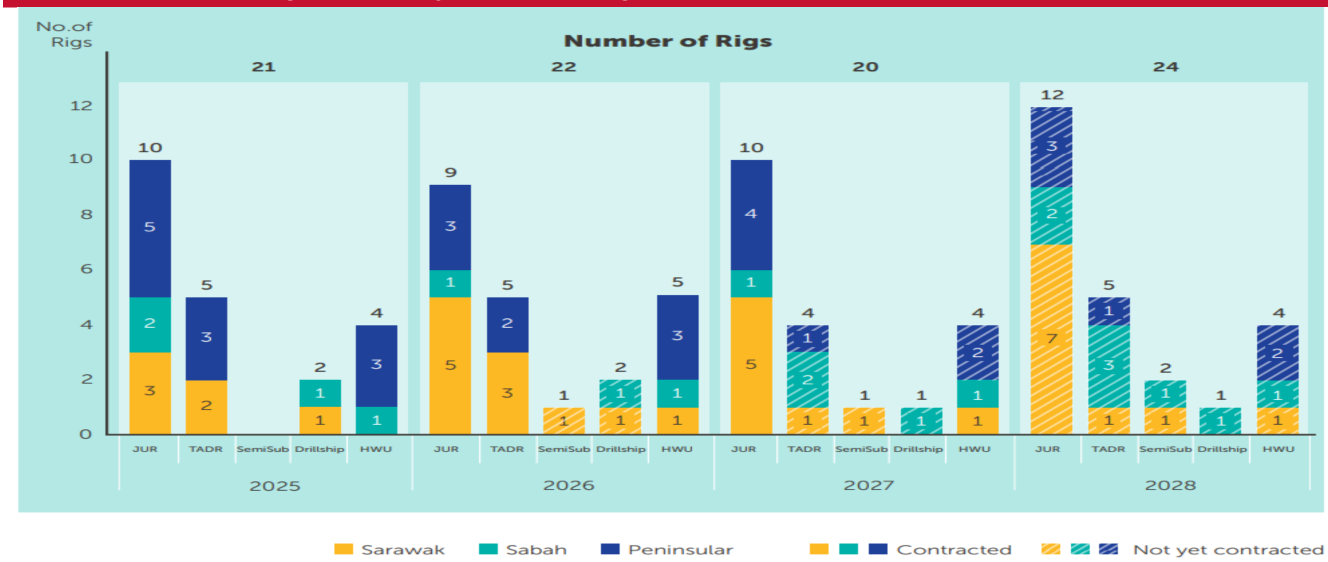
**Exhibit 2 : Drilling Activities to be on Uptrend**




*Source: Petronas*

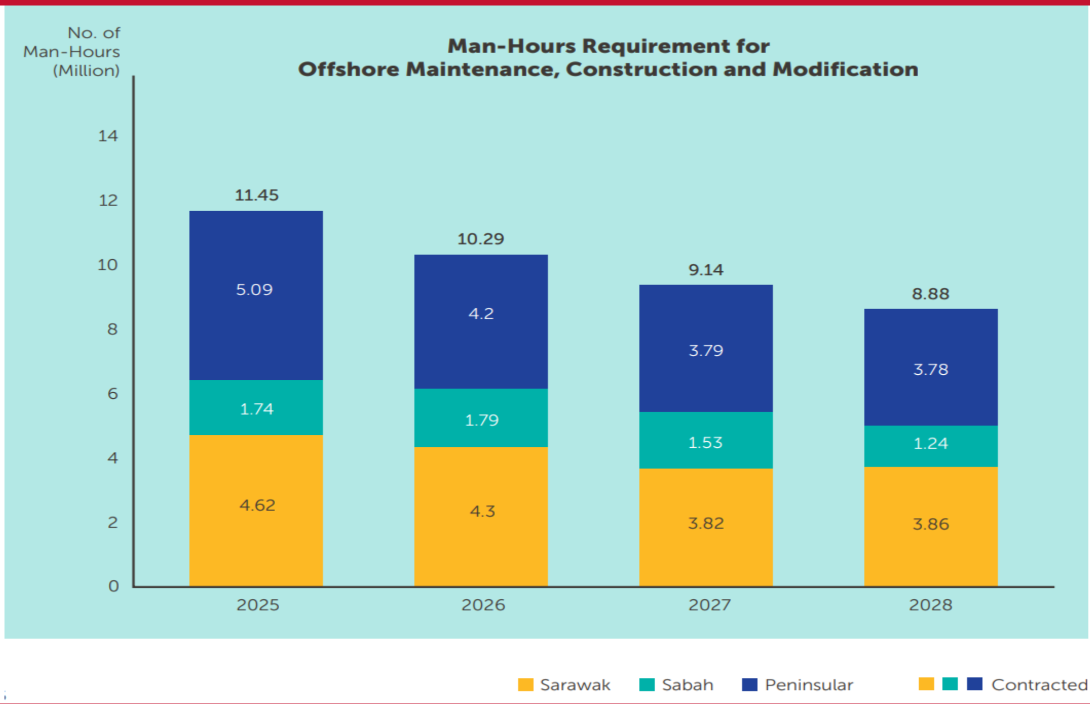
**More exploration works in 2026.** From 2026 onwards, more wells will be drilled compared to 2025, signalling that 2025 could be the cycle-trough for drilling activities in Malaysia. However, rig count needed in Malaysia are still expected to remain modest with 22 rigs needed for 2026 (including 9 jack ups), a decline when compared to Petronas Activity Outlook 2024-2027 (25 rigs with 11 jack ups required). This is slightly negative for drilling players locally but we believe the impact will be largely marginal as they only has a fleet of 5 rigs, which are not sufficient to even meet the reduced demand. Therefore, we believe that rig utilisation would not be a concern for VELESTO. However, that gap in rig supply could be filled up by LFG (OP; TP: RM2.40) through chartered rigs.

**Exhibit 3: Number of Rigs to Be Fairly Stable with Slight Growth**




*Source: Petronas*

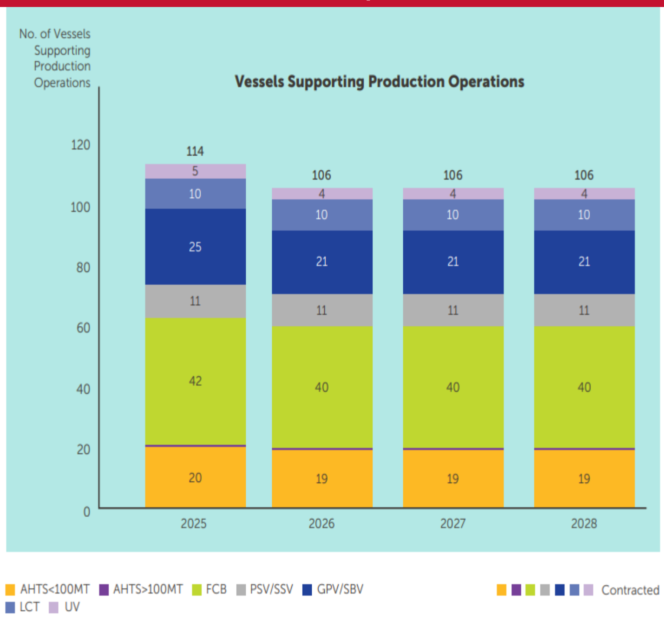
## Exhibit 4: MCM on Downtrend




*Source: Petronas*

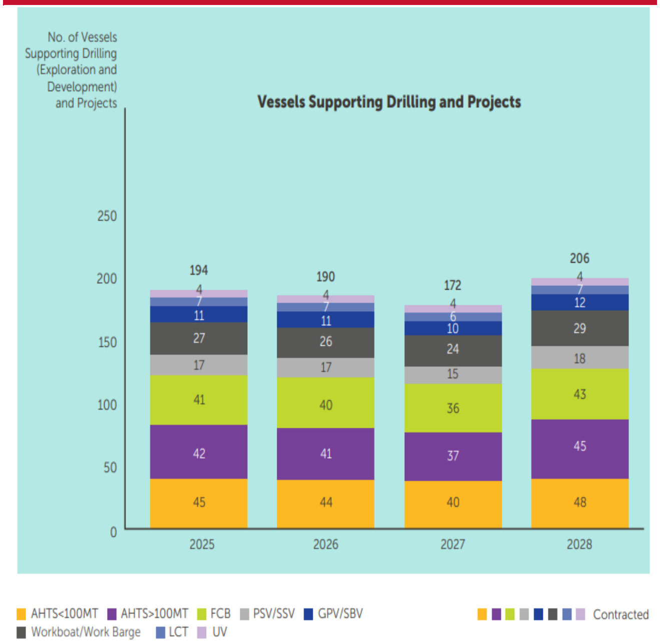
**Gradual slowdown in upstream maintenance.** For the upstream maintenance sub-segment, things appear to be murkier as the outlook implies a downtrend starting from 2025. If we were to look back at last year's outlook, the expected 2026 MCM hours were 6% lower, implying a slightly more conservative view taken by Petronas for upstream maintenance. HUC activities are also revised down for 2026 (38% compared to previous year's outlook) albeit it will be an increase compared to 2025 actual hours done for HUC. This implies that upstream maintenance players like DAYANG (MP; TP: RM1.60) will see tepid activities in the coming years but the company's balance sheet remains robust to be able to weather the slight slowdown.

## Exhibit 5: Production Vessel Requirement




*Source: Petronas*

## Exhibit 6: Drilling Vessel Requirement




*Source: RIM Intelligence, Market Data Forecast*

**Vessel requirements flattish.** From 2025 actual number of vessels requirements, the vessels required to support production will drop in 2026 while vessel supporting drilling will be largely flattish from 2026 onwards. However, compared to the previous outlook, vessels to support production in 2026 have dropped 10% while vessel requirement for drilling has dropped 19%. This does not bode well for vessel owners like KEYFIELD (MP; TP: RM1.57) in terms of overall vessel demand but we reckon vessel DCRs could be supported by the ageing fleet in Malaysia and chronic lack of investment in newbuild by local shipowners. That aside, KEYFIELD is also diversifying its country exposure for its OSV business by venturing into the Middle East market with potentially lower DCRs than Malaysia but higher utilisation because there is no monsoon season.

**Conclusion**

Overall, we believe that the Petronas Activity Outlook (2026-2028) will have a largely neutral impact on the change of industry fundamentals at least in 2026 as the majority of upstream activities will be flattish YoY or slightly down. On the flipside we believe that the undersupplied dynamics on OSVs and rigs will help to partially negate the overall weakening of activity outlook by Petronas group compared to the outlook released a year ago. We maintain our **NEUTRAL** call on the sector despite the weaker forward guidance by Petronas as we believe that the valuations for upstream service providers have largely priced in the weaker demand while also the overall subsector's balance sheet is in a much better shape compared to the previous cycles and risks of asset impairments are low.

**Change in stock call:**

**VELESTO (MP ↔; TP: RM0.32↑).** We decided to upgrade the stock's PBV valuation target from 0.7x to 0.9x to reflect the higher certainty of its dividend payout in FY26/27F as the group has indicated that it is willing to pay above reported profit to reward its shareholders due to its strong war chest. At last price of RM0.305, the implied dividend yield could still be at 9%-10% for FY26-27.

## Peer Table Comparison

| Name | Rating | Last Price (RM) | Target Price (RM) | Upside | Market Cap (RM m) | Shariah Compliant | Current FYE | Core EPS (sen) | | Core EPS Growth | | PER (x) - Core Earnings | | PBV (x) | ROE | Net. Div. (sen) | Net Div Yld |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. |
| **Stocks Under Coverage** | | | | | | | | | | | | | | | | | |
| BUMI ARMADA BHD | OP | 0.310 | 0.450 | 45.2% | 1,837.7 | Y | 12/2025 | 6.1 | 5.4 | -45.7% | -10.9% | 5.1 | 5.7 | 0.4 | 7.6% | 0.0 | 0.0% |
| DAYANG ENTERPRISE HLDGS BHD | MP | 1.75 | 1.60 | -8.6% | 2,026.1 | Y | 12/2025 | 13.6 | 16.0 | -42.3% | 17.4% | 12.9 | 11.0 | 1.1 | 8.3% | 10.0 | 5.7% |
| DIALOG GROUP BHD | OP | 1.71 | 2.28 | 33.3% | 9,649.0 | Y | 06/2026 | 10.4 | 11.4 | 31.4% | 9.7% | 16.4 | 15.0 | 1.6 | 9.9% | 5.0 | 2.9% |
| KEYFIELD INTERNATIONAL | MP | 1.52 | 1.57 | 3.3% | 1,226.5 | Y | 12/2025 | 14.0 | 17.5 | -49.6% | 24.3% | 10.8 | 8.7 | 1.6 | 15.6% | 6.0 | 3.9% |
| LIANSON FLEET GROUP BHG | OP | 2.20 | 2.28 | 3.6% | 2,529.2 | Y | 12/2025 | 8.7 | 10.3 | 0.0% | 18.7% | 25.4 | 21.4 | 2.4 | 11.9% | 0.0 | 0.0% |
| MISC BHD | OP | 7.70 | 8.55 | 11.0% | 34,370.8 | Y | 12/2025 | 50.1 | 52.1 | 2.9% | 4.0% | 15.4 | 14.8 | 0.9 | 5.9% | 36.0 | 4.7% |
| PETRONAS CHEMICALS GROUP | OP | 3.30 | 4.70 | 42.4% | 26,400.0 | Y | 12/2025 | (6.1) | 10.3 | - | 70.4% | N.A. | 32.0 | 0.7 | -1.3% | 5.0 | 1.5% |
| PETRONAS DAGANGAN BHD | MP | 20.88 | 21.20 | 1.5% | 20,743.3 | Y | 12/2025 | 110.4 | 113.0 | -0.8% | 2.3% | 18.9 | 18.5 | 3.4 | 18.0% | 88.0 | 4.2% |
| VELESTO ENERGY BHD | MP | 0.305 | 0.320 | -10.7% | 2,300.4 | Y | 12/2025 | 2.0 | 2.1 | -21.5% | 7.3% | 14.1 | 13.1 | 0.8 | 6.1% | 3.0 | 10.7% |
| WASCO BHD | OP | 0.870 | 1.17 | 34.5% | 673.7 | Y | 12/2025 | 1.5 | 1.7 | -41.5% | 9.4% | 57.0 | 52.1 | 5.5 | 10.1% | 5.0 | 5.7% |
| YINSON HOLDINGS BHD | OP | 2.41 | 2.84 | 17.8% | 7,042.9 | N | 01/2026 | 16.6 | 20.4 | 20.3% | 22.3% | 14.5 | 11.8 | 1.4 | 10.1% | 6.0 | 2.5% |
| **SECTOR AGGREGATE** | | | | | **109,034.7** | | | | | **-29.4%** | **32.2%** | **21.5** | **16.2** | **1.7** | **9.3%** | | **3.5%** |

*Source: Kenanga Research*

**Stock Ratings are defined as follows:**

**Stock Recommendations**

| | |
|---|---|
| OUTPERFORM | : A particular stock's Expected Total Return is MORE than 10% |
| MARKET PERFORM | : A particular stock's Expected Total Return is WITHIN the range of -5% to 10% |
| UNDERPERFORM | : A particular stock's Expected Total Return is LESS than -5% |

**Sector Recommendations*****

| | |
|---|---|
| OVERWEIGHT | : A particular sector's Expected Total Return is MORE than 10% |
| NEUTRAL | : A particular sector's Expected Total Return is WITHIN the range of -5% to 10% |
| UNDERWEIGHT | : A particular sector's Expected Total Return is LESS than -5% |

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***



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