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Oil & Gas

Petronas FY25 Results: Capex Below Target

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NEUTRAL



Petronas has reported a weaker profit YoY in FY25, mainly dragged by weaker upstream performance as well as its other business divisions. The group has also underspent on its capex in 2025 relative to its previous target of RM60b per annum (actual at RM41.6b). We believe that the Petronas and Petros gridlock will persist in the foreseeable future and Petronas would remain cautious on its Sarawak upstream capex in the near term. Meanwhile, it has guided for a stronger FY26F capex of up to RM50b and it is already working on multiple upstream projects domestically at early stages, setting up the stage for more development capex in the years ahead. Dividend commitment to the government is also lower at RM20b for FY26 (compared to RM32b paid last year) – but matching earlier expectations by government – partially allaying cash strains on its balance sheet. We switch our big cap top pick to DIALOG (OP; TP: RM2.28) for more predictable earnings recovery path and wish to highlight a smaller cap upstream services pick (UZMA; TP: RM0.60) as we believe that its stable fundamentals have been overly underpriced by the market, trading at below 1SD of 2-year mean while FY26F earnings are expected to still register growth YoY. We maintain our NEUTRAL call on the sector while we review our stance on the upstream services sector outlook for the upcoming 2QCY26 strategy piece for the sector.

Upstream was the main drag. Petronas' FY25 cumulative revenue declined 12% due to weaker upstream division top line (-20% YoY) due to forex and lower crude oil prices, lower gas & maritime division revenue (LNG due to weaker forex), and weaker downstream due to product price weakness. Core profit (after excluding EI of RM2.4b loss on disposal of joint arrangements, RM1.0b net impairment on a mix of assets) dropped 29% as a result, as opex for upstream declined at a lower rate coupled with weaker downstream product spreads. Gas & maritime division profitability was flattish YoY. Comparing 2HFY25 to 1HFY25, core profit declined 16% despite flattish revenue largely due to weaker upstream performance mainly dragged by lower crude prices.

Capex spending below target range. To recap, Petronas had a yearly capex target of RM60b (2023-2027) but in FY25 its actual capex was significantly below target at RM41.6b. We believe that the capex underspending was largely attributable to the gridlock between Petronas and PETROS on gas distribution rights as well as a decline in crude oil prices and gas prices. In 27th Feb 2026, Petronas was quoted on The Edge stating that it plans to target RM50b capex annually, with c. 60% allocated to Malaysia (RM30b compared to RM25b last year). That aside, the majority of its upstream capex in FY25 were directed to decarbonisation of Kasawari Gas Field and oil field development in Angola. CAPEX for Gentari, on the other hand, was at RM2.5b mainly for the acquisition of wind and solar assets in India. Dividends to be paid to the government has been approved to be at RM20b by the board, a significant drop from RM32b paid in FY25, this eases cash flow on Petronas for FY26F. Nevertheless, this amount was per initial expectations by the federal government (<https://www.malaymail.com/news/money/2026/02/27/petronas-to-pay-rm20b-dividend-to-govt-in-2026-says-ceo/210677>).

2025 major milestones. For upstream, Petronas has expanded Malaysia operatorship with three new offshore Sabah PSCs awarded and advanced Sabah East Coast upstream development via SB 505 3D seismic and Mutiara Cluster PSC award. That aside, it has also made 12 discoveries in Malaysia and overseas (Lebah Emas (Peninsular Malaysia)). Its Suriname's Block 52 (discovered in 2021) has also secured a declaration of commerciality. This paves the way for longer term ramp-up in upstream capex as these projects progress gradually from current stages, setting up a potentially stronger capex year in 2027 if global macro remains favourable. As for gas & maritime division, Petronas managed to commission LNG Canada Train 1&2, potentially allay further large capex in Canada and leaving room for more domestic capex.

In July 2025, PETRONAS CCS Ventures (PCCSV) signed a Key Principles Agreement (KPA) with TotalEnergies and MITSUI to advance the Duyong Carbon Capture and Storage (CCS) project and this potentially positions Petronas as an up-and-coming regional CCS hub, which could bode well for the group if carbon tax is enforced by more countries globally. As for downstream, together with Enilive S.p.A. and Euglena Co., Ltd., PETRONAS broke ground for its first biorefinery in Pengerang, Johor, with an annual processing capacity of 650,000 tonnes of renewable feedstock and projected to produce Sustainable Aviation Fuel (SAF), hydrogenated vegetable oil (HVO), as well as bio-naphtha to cater to the growing demands for cleaner energy solutions.

Maintain NEUTRAL with upstream outlook under review. We switch our top pick to DIALOG (OP; TP: RM2.28) from PCHEM (OP; TP: RM4.10) due to the former's more defensive earnings profile. That aside, we have also observed more promising signs in the upstream service providers with FY26F outlook largely flattish or slightly stronger YoY, pointing to the possibility of FY25 earnings for the subsector being the cycle bottom. Among the names that just went through 4QCY25 result season, UZMA (OP; TP: RM0.60) stands out as being severely underpriced in our view with 4x FY26F PER (-1SD of 2-year mean) at current price while its cash flows and PAT remain largely stable in FY25.

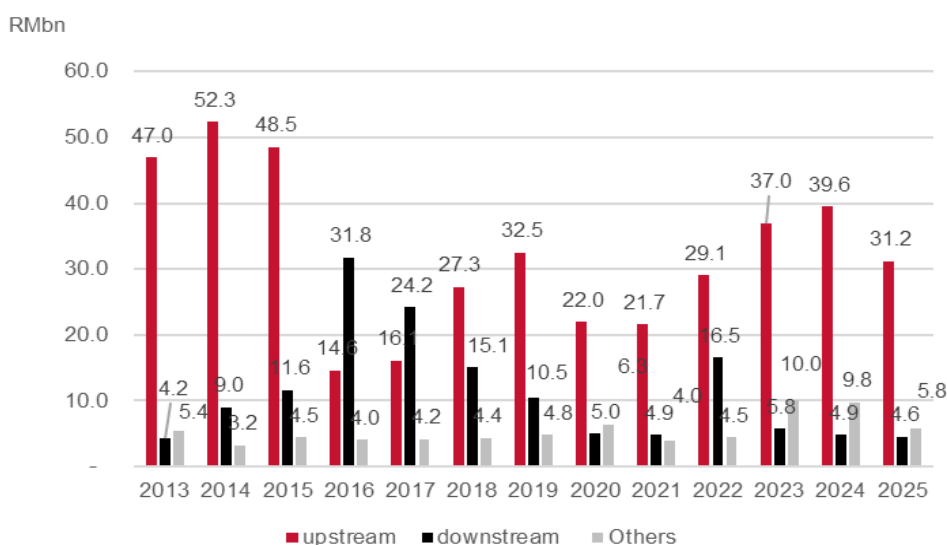
In FY26F, more exploration works could benefit UZMA more and if more decommissioning jobs are up for bid, the group will benefit as well. Even after we peg a lower target PER of 6x (which is extremely conservative given upstream are showing early signs of recovery) to FY27, the upside from its current share price remains large.

Exhibit 1: Results Highlights

	2H	1H	H-o-H	2H	Y-o-Y	FY25	FY24	Y-o-Y
	FY25	FY25		FY24				
FYE Dec (RM m)								
Revenue	133.6	132.6	0.8	146.4	-8.8	266.1	303.3	-12.3
Operating Profit	36.9	41.2	-10.6	40.0	-7.9	37.2	44.6	-16.7
Finance Costs	-4.1	-3.2	27.3	-3.3	24.6	-7.4	-5.9	25.0
Associates & JCEs	0.0	0.2	-85.3	0.4	-94.2	0.2	0.3	-32.1
EI	-3.1	-0.3	859.7	-3.9	-19.2	-3.4	-8.5	-59.3
Pretax Profit	29.7	37.8	-21.6	33.3	-11.0	67.5	81.8	-17.5
Tax	-10.5	-11.6	-10.2	-10.6	-1.4	-22.1	-26.4	-16.2
MI	2.1	2.6	-19.2	2.3	-8.4	4.6	1.4	239.6
Net Profit	17.1	23.6	-27.5	20.5	-16.2	40.8	54.1	-24.7
Core Net Profit	20.3	24.0	-15.5	24.3	-16.7	44.2	62.6	-29.3
EBIT Margin	27.6%	31.1%		27.4%		14.0%	14.7%	
Pretax Margin	22.2%	28.5%		22.8%		25.4%	27.0%	
Net Margin	12.8%	17.8%		14.0%		15.3%	17.8%	
Core Net Margin	15.2%	18.1%		16.6%		16.6%	20.6%	
Tax Rate	-35.3%	-30.8%		-31.8%		-32.7%	-32.2%	

Source: Petronas, Kenanga Research

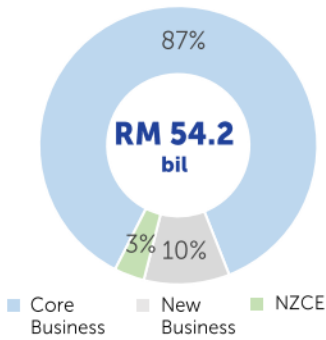
Exhibit 2: Petronas CAPEX Trend



Source: Company

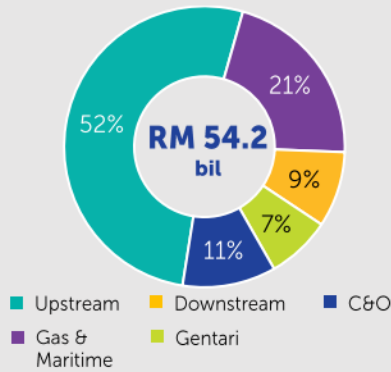
Exhibit 3: Petronas CAPEX Breakdown for FY25

CAPEX by Strategy



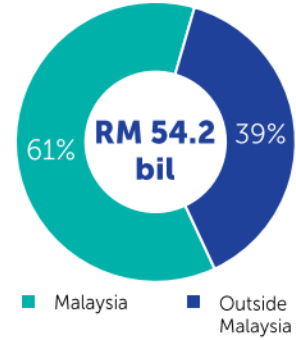
Over RM 6 bil of CAPEX was spent for cleaner energy solutions and decarbonisation projects mainly on renewables, hydrogen and CCS

CAPEX by Business



- Upstream investments mainly for Kasawari Gas Field Development and Integrated Bekok Oil
- Gentari's spending mainly for green ammonia and RE projects in India

CAPEX by Geography



- Close to 50% of Malaysia's CAPEX is for Upstream business

Source: Company

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	0.315	0.450	42.9%	1,867.3	Y	12/2026	6.1	5.4	-45.7%	-10.9%	5.2	5.8	0.4	7.6%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	1.79	1.90	6.1%	2,072.4	Y	12/2026	16.1	18.8	7.8%	17.0%	11.1	9.5	1.1	9.8%	11.0	6.1%
DIALOG GROUP BHD	OP	1.76	2.28	29.5%	9,931.1	Y	06/2026	10.4	11.4	31.4%	9.7%	16.9	15.4	1.6	9.9%	5.0	2.8%
LIANSON FLEET GROUP BHG	OP	2.00	2.30	20.0%	2,332.1	Y	12/2026	8.7	10.3	0.0%	18.7%	23.1	19.5	2.2	11.9%	0.0	0.0%
KEYFIELD INTERNATIONAL	MP	1.45	1.57	8.3%	1,170.7	Y	12/2026	14.0	17.5	-49.6%	24.3%	10.3	8.3	1.5	15.6%	6.0	4.1%
MISC BHD	OP	8.07	8.60	6.6%	36,022.4	Y	12/2026	47.3	49.5	-0.4%	4.6%	17.1	16.3	1.0	6.2%	36.0	4.5%
PETRONAS CHEMICALS GROUP	OP	3.00	4.10	36.7%	24,000.0	Y	12/2026	4.0	4.1	-48.7%	0.6%	74.2	73.8	0.7	0.9%	2.0	0.7%
PETRONAS DAGANGAN BHD	MP	21.98	21.20	-3.5%	21,836.1	Y	12/2026	116.9	116.5	5.7%	-0.4%	18.8	18.9	3.5	19.1%	94.0	4.3%
UZMA BHD	OP	0.395	0.600	51.9%	235.2	Y	06/2026	14.8	15.9	6.9%	7.5%	2.7	2.5	0.2	8.5%	0.0	0.0%
VELESTO ENERGY BHD	MP	0.305	0.320	4.9%	2,505.8	Y	12/2026	2.0	2.1	-21.5%	7.3%	15.4	14.3	0.9	6.1%	3.0	9.8%
WASCO BHD	OP	1.00	1.32	32.0%	774.3	Y	12/2026	1.5	1.7	-41.5%	9.4%	65.5	59.9	6.3	10.1%	5.0	5.0%
YINSON HOLDINGS BHD	OP	2.35	2.84	20.9%	6,867.6	N	01/2026	16.6	20.4	20.3%	22.3%	14.1	11.5	1.4	10.1%	6.0	2.6%
SECTOR AGGREGATE					109,612.0					12.1%	5.3%	18.7	17.8	1.7	9.8%		3.3%

Source: Kenanga Research

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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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