KERATAN AKHBAR

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Upstream to gain from output cut

Opec+ production

'000 barrels per day	August 2022 required production	Voluntary adjustment	Voluntary production
Algeria	1,055	-48	1,007
Angola	1,525	-70	1,455
Congo	325	-15	310
Equatorial Guinea	127	-6	121
Gabon	186	-9	177
Iraq	4,651	-220	4,431
Kuwait	2,811	-135	2,676
Nigeria	1,826	-84	1,742
Saudi Arabia	11,004	-526	10,478
UAE	3,179	-160	3,019
Azerbaijan	717	-33	684
Bahrain	205	-9	196
Brunei	102	-5	97
Kazakhstan	1,706	-78	1,628
Malaysia	594	-27	567
Mexico	1,753	0	1,753
Oman	881	-40	841
Russia	11,004	-526	10,478
Sudan	75	-3	72
South Sudan	130	-6	124
Opec 10	26,689	-1,273	25,416
Opec+	43,856	-2,000	41,856

Source: The Organisation of the Petroleum Exporting Countries

The Star graphics

Upstream to gain from output cut

Earnings seen to benefit from stronger crude oil prices

OIL AND GAS

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KUALA LUMPUR: The planned crude oil output cut by the Organisation of the Petroleum Exporting Countries and its allies (Opec+) of two million barrels per day (bpd) will have a positive impact on the financial performance of Malaysian upstream oil and gas (O&G) companies.

This is particularly so for those involved in exploration and production "as their earnings will benefit from stronger crude oil prices," according to Tradeview Capital chief investment officer Nixon Wong.

"We see minimal impact on mid-and-downstream companies as their contract flows will remain in tandem with the overall Petroliam Nasional Bhd (PETRONAS) capital expenditure (capex) cycle, which we do not anticipate to change solely due to the production cut," Wong told *StarBiz*.

The crude oil output cut by Opec+ will start in November 2022 and is due to end in December 2023.

Also, it was reported that Malaysia will cut its daily crude oil output by 27,000 barrels to 567,000, following Opec+ agreeing on Wednesday to a cut of two million bpd – equal to 2% of global supply.

When contacted, BIMB Securities Research analyst Azim Faris Abdul Rahim said the planned cut in Malaysia's daily crude oil output was easily achievable, and would not make a significant difference to the domestic O&G industry.

Noting that the planned cut was around 4.5%, Azim Faris said this was not significant and would not impact PETRONAS' capex.

"This amount is not too big for them to cut – sometimes, oil production declines naturally because of lower pressure in the well. Sometimes, production is also reduced when maintenance work is done on the oil platforms," he said.

"Also, most of the O&G production companies did not really invest properly during the last five to 10 years, which has impacted production," added Azim Faris.

He also explained that small upstream players such as Hibiscus Petroleum Bhd won't be impacted in terms of crude oil output because their production levels would not make a substantial difference.

Meanwhile, Tradeview Capital fund manager Neoh Jia Man pointed out that PETRONAS has just begun to revise upward its capex spending on upstream O&G starting this year.

"As the cut in the daily crude oil output is short term in nature, this will not have a material impact on the longer-term capex plan by PETRONAS, as that spending has been long overdue after years of under-investments in our view," said Neoh.

Regarding further potential global oil production cuts in the near future, Azim Faris said Opec+ will continue to monitor factors such as the United States shale production levels.

"Opec+ cut production to sustain the elevated oil price levels, and also maintain its market share. But if the United States shale can replace its market share, then there's no point in Opec+ cutting production," said Azim Faris.

Wong also pointed out that potential further cuts to oil production by Malaysia in the near future will mainly be determined by the collective decision by Opec+ going forward, "and we believe this will be more likely if crude oil prices remain weak".

"We see minimal impact on mid-and-downstream companies as their contract flows will remain in tandem with the overall PETRONAS capital expenditure cycle."

Nixon Wong

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