

KERATAN AKHBAR

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PETALING JAYA: Oil and gas sector analysts expect Petrolia Nasional Bhd (PETRONAS) to raise its capital expenditure (capex) in the fourth quarter of 2022 (4Q22), backed by its higher income and earnings in an elevated energy price environment.

The national oil company spent RM8.1bil in capex in 3Q22, which was 30% lower quarter-on-quarter despite its nine months (9M22) earnings rising 120% year-on-year (y-o-y) to RM77.2bil.

Its capex for the 9M22 was up 34% y-o-y to RM27.4bil, or 45% of the RM60bil guided to by PETRONAS for 2022.

"This alludes to bumper spend in 4Q22 to enable PETRONAS to achieve its FY22 target.

The 9M22 capex mix remains largely status quo vis-a-vis the first half of this year.

Spending was largely focused on the upstream segment (62%), downstream (12%) and gas (15%) segments," TA Research noted in a report yesterday.

PETRONAS' 9M22 revenue improved by 58% y-o-y to RM271bil on higher average product prices and a stronger US dollar.

It noted that PETRONAS' balance sheet remains robust with a cash pile to RM210bil at the end of 3Q22, as compared to RM204bil in 2Q22.

The cash pile gives the company ample

means to pay the remaining RM25bil of the RM50bil in dividends committed to the government in 4Q22.

"We note that the 4Q has always been the seasonally strongest quarter for PETRONAS capex spend over the past few years (as reference, 4Q21 capex spend constituted 41% of the full year's capex spend of RM30.5bil), and as such, we believe PETRONAS meeting its own capex guidance figure is still very plausible," Kenanga Research added.

Analysts generally remain "overweight" on the sector in anticipation of the large outstanding capex spend expected from the company in the 4Q22 and the improved corporate earnings posted by sector companies in the recently concluded 3Q22 period.

"The 3Q22 reporting season saw a vast improvement in corporate earnings. None of the counters within our sector coverage posted disappointing results – versus 30% of our sector coverage in the previous 2Q22 quarter.

"More impressively, 64% of our sector coverage managed to beat expectations (versus 30% from the previous quarter).

"We see these as tell-tale signs that the higher activity levels in light of the elevated oil prices are beginning to translate into corporate earnings starting this quarter," Kenanga Research added.

The research house's top picks are PETRONAS Chemicals Group Bhd (target price or TP of RM11 a share) and Bumi Armada Bhd (TP of 63 sen).

RHB Research's top picks are Bumi Armada (TP of 61 sen), Yinson Holdings Bhd (TP of RM2.91) and Coastal Contracts Bhd (TP of RM2.68).

The research house will keep an eye on the upcoming developments in the energy market such as the Organisation of the Petroleum Exporting Countries and its allies meeting, European Union embargo and price cap on Russian oil in December to see where energy prices are headed into the new year.

TA Research downgraded the sector to "neutral" from "overweight" on the belief current companies valuations have baked-in advanced expectations of contract flow traction, earnings turnaround and higher asset utilisation.

It retained "buy" recommendations on select upstream service contractors such as Pantech Group Holdings Bhd and Coastal but stated stocks like Velesto Energy Bhd and Malaysia Marine and Heavy Engineering Holdings Bhd's current valuations have priced in the positives and reflected in their share price appreciation over the past three months.