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'OPEC+ output cut to boost O&G firms'

SURPRISE MOVE

'OPEC+ OUTPUT CUT TO BOOST O&G FIRMS'

The Organisation of the Petroleum Exporting Countries and allies recently announced they would cut crude oil output by a combined 1.15 million barrels per day until year end. AFP PIC

Upstream segment to be major beneficiary of rise in crude oil price, says analyst

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MARKET analysts believe that Malaysia's oil and gas (O&G) companies may benefit further from the surprise oil production cut by Organisation of the Petroleum Exporting Countries and allies (Opec+) a week ago.

Bank Muamalat Malaysia Bhd economics and market analysis head Mohd Afzanizam Abdul Rashid said the cartel's decision to cut output by around 1.15 million barrels per day (mbpd) until year end meant crude oil price would continue to be well supported.

He said this would further incentivise oil majors to maintain a decent capital expenditure (capex), translating into more jobs for the upstream players.

"Judging from the share prices, investors are positive on the O&G sector in the immediate term. The players are in a 'sweet spot' at the moment," he added.

MIDF Research said the Opec+ move would stabilise oil price and support the recovery of upstream operations.

However, the research firm said downside risks remained, including a rapid increase in United States oil production, decreased demand from China, and inflationary pressures from rising interest rates.

"In consideration that Malaysia has more than 1,300 O&G, services and equipment companies, we believe that the upstream segment will be a major beneficiary of the increase in crude oil price in the near term," it said.

RHB Investment Bank Bhd (RHB Research) deemed the Opec+ move as a positive surprise, especially as it had anticipated price-supportive measures to appear only in the latter part of this year.

"The 1.15 mbpd cut is also seen as a preemptive step to accommodate any potential demand weakness," said its analyst Sean Lim.

Conversely, the research firm noted how this latest cut might strain Saudi Arabia's relationship with the US, given that the latter had stated such an action was not "advisable".

"We project oil price to average US$87 per barrel in the second half of this year. We also increase our price assumption for this year to US$85 per barrel from US$83, and maintain our 2024–2025 projections at US$80 per barrel."

RHB Research added that while oil demand was projected to see a positive growth of 2.3 mbpd, it did not discount the possibility of a decline in the coming quarters.

Juwai IQI global chief economist Shan Saeed said oil price could not go below US$80 per barrel as break-even point remained high for many industry players.

He also does not expect major capex investments coming into the energy market.

However, he noted that the energy market needed US$2 trillion to US$3 trillion investments over the next five to seven years to keep pace with the growing demand.