Kenanga maintains neutral on O&G sector with a positive bias

ANALYST REPORTS

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KUALA LUMPUR: Kenanga Research maintained neutral on the oil and gas sector with a positive bias, underpinned by Petronas' FY17 earnings result which improved 27% on year on the back of better performance in both upstream and downstream segments.

The research firm projected a better outlook on stronger crude demand, and sustained disciplined production cuts by Opec and non-Opec members in 2018 and potentially, beyond.

"In all, we still prefer counters with strong earnings delivery such as SERBADK, WASEONG, YINSON and DIALOG with opex-related names like UZMA and DAYANG potentially joining the list, riding on higher work orders. Maintain NEUTRAL view on the sector with positive bias," it said in a research note.

According to Kenanga Research, Petronas recorded better core profit after tax of RM17.7bil in 4Q17 due to stronger upstream performance, which led to higher average realised prices recorded, masking weaker downstream and weakening of the USD against the ringgit.

"Cumulatively, FY17 core earnings also improved by 30% to RM46.16b backed by 16% revenue growth due to both better upstream (+9.3x) and downstream (+40%) as a result of higher average realised prices (Brent prices +24%; ICC 31%), strengthening of USD (+4%), and lower well costs write off."

Over the fourth quarter, the research firm said results improved with five counters - Dayang, Gas Malaysia, MHB, Yinson ans Wa Seong - recording earnings surprises while the disappointment ratio was at the lowest in three years at 13% versus 25% in Q3.

"On the other hand, the earnings disappointment largely came from SAPNRG and ALAM, dragged by lower-than-expected work orders and delay of contract award by oil majors."

It said, FPSO players continued to deliver positive results driven by incoming and existing long-term FPSO charters.

"All in, we trim our FY18E earnings by 2% on lower services/charter rates while FY19E numbers were introduced, implying an average growth of 11%.

"We upgraded MMHE and COASTAL to MP and OP, respectively, as potential laggards backed with undemanding valuations and healthy balance.

"On the flipside, we downgraded SAPNRG to UP call after the release of disappointing results last December but subsequently upgraded it to OP call given share price retracement of c.30% offering better risk-reward ratio.

"Lastly, we also downgraded PCHEM to MP as we believe most positives have been priced in."

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