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BUDGET NEWS

Higher Petronas Dividend Could Weigh On Upstream Investments, Analyst Warns

By **Editor** *October 11, 2026*

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Petroliam Nasional Bhd's (Petronas) higher dividend commitment to the government under Budget 2027 could constrain funding for upstream oil and gas investments, potentially affecting local service providers, according to Hong Leong Investment Bank (HLIB) Research.

The research house said Petronas' dividend contribution is projected to increase by 18.5% to RM32 billion in 2027 from RM27 billion expected in 2026, significantly higher than the original RM20 billion estimated under Budget 2026.

While the higher payout would strengthen federal revenue, HLIB cautioned that it could reduce the national oil company's capacity to fund upstream exploration and production activities.

"We believe Petronas' increased dividend payout could limit funding available for upstream investments," HLIB said in its Budget 2027 oil and gas sector review.

The research house identified Dayang Enterprise Holdings Bhd, Deleum Bhd, Velesto Energy Bhd, Perdana Petroleum Bhd and Keyfield International Bhd as among the upstream service providers potentially exposed to slower investment spending.

Despite these concerns, HLIB maintained its OVERWEIGHT recommendation on the oil and gas sector, with Dialog Group Bhd remaining its top pick.

Maritime Tax Extension Positive For MISC, Shipping Companies

HLIB welcomed the government's decision to extend the maritime income tax exemption for qualifying Malaysian shipping companies until assessment year 2036, beyond its original expiry at the end of 2026.

The move is expected to provide greater long-term tax certainty for domestic shipping operators, including MISC Bhd, MTT Shipping and Orkim.

Budget 2027 also introduced a fixed stamp duty of RM2,000 for vessel financing agreements of up to RM100 million and RM5,000 for financing exceeding RM100 million.

HLIB said the measures would provide a more favourable operating environment for Malaysian shipping companies by improving tax certainty and reducing certain financing costs.

The research house maintained its BUY recommendation on MISC, with a target price of RM9.22.

LNG Canada Expansion To Benefit MISC, Wasco

HLIB also highlighted Petronas' decision to expand its investment in Phase 2 of LNG Canada, which could create additional opportunities for Malaysian oil and gas service providers.

MISC is expected to benefit from its involvement in providing long-term chartered liquefied natural gas (LNG) vessels.

Meanwhile, Wasco Bhd could potentially secure further project-related contracts, having previously won work involving the design and supply of four substations for LNG Canada in 2021.

HLIB maintained its BUY recommendation on Wasco, with a target price of RM1.14.

The research house also noted Petronas' petroleum discoveries in Suriname and potential collaboration opportunities involving the Galkynysh gas field in Turkmenistan, which could support the national oil company's international upstream portfolio.

Pengerang Biorefinery To Support Dialog's Storage Expansion

On the downstream segment, HLIB viewed Petronas' transition to full ownership of the Pengerang Integrated Complex as an important development in strengthening Malaysia's fuel security and higher-value downstream activities.

The integrated complex is expected to benefit from further optimisation of its value chain and collaboration with international technology partners.

HLIB also highlighted the development of the Pengerang Biorefinery through partnerships involving Enilive and Euglena.

The facility will produce low-carbon fuels, including sustainable aviation fuel (SAF), hydrotreated vegetable oil (HVO) and bio-naphtha, supporting Malaysia's energy transition agenda.

The research house said Dialog's ongoing 272,000 cubic metre storage expansion at Pengerang Terminals Two Sdn Bhd (PT2SB), scheduled for completion in the second half of financial year 2028, would support the biorefinery's development.

HLIB maintained its BUY recommendation on Dialog, with a target price of RM2.49.

RM40 Billion Fuel Subsidies To Continue

Budget 2027 also maintains fuel subsidies at approximately RM40 billion, with the BUDI95 quota remaining at 300 litres per month.

The BUDI Diesel quota for eligible jeeps and pickup trucks stands at 400 litres per month, while subsidised diesel for eligible fishermen remains at RM1.65 per litre.

HLIB said the higher BUDI Diesel quota could provide some additional retail sales volume for Petronas Dagangan Bhd (PetDag), although the overall impact is expected to be limited.

Diesel accounts for only approximately 20% to 25% of PetDag's total retail fuel sales volume, limiting the potential earnings benefit from the additional quota.

The research house maintained its BUY recommendation on PetDag, with a target price of RM21.34.

Minimum Wage Increase To Have Limited Impact

HLIB expects the increase in Malaysia's minimum wage from RM1,700 to RM2,000 per month under Budget 2027 to have minimal impact on oil and gas companies.

Based on its industry checks, the research house noted that most employees in the sector are skilled and technical workers who already earn above the revised minimum wage.

As such, the higher wage requirement is unlikely to significantly affect operating costs across the industry.

Overall, HLIB maintained its OVERWEIGHT stance on the oil and gas sector, citing opportunities arising from LNG expansion, maritime tax incentives, downstream investments and energy transition projects.

However, the research house cautioned that Petronas' higher dividend commitments could become a headwind for upstream service providers if they result in reduced capital expenditure.

HLIB continues to favour Dialog as its top sector pick, supported by its exposure to storage infrastructure and downstream developments at Pengerang.