

25 November 2019

# Petronas Dagangan Bhd

## 3QFY19 In Line; Still Lack of Catalysts

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**Recovering from earnings shock in 2QFY19 which was due to MOPS price volatility, 3QFY19 rebounded strongly which was partly driven by volume growth of 4% albeit a 1% dip in ASP. Going forth, 4QFY19 may see seasonally low volume but stable crude oil prices so far should support earnings stability. We believe near-term negatives are mostly priced in but lack of price catalyst led us to keep MP on the stock with revised TP of RM22.75.**

**9MFY19 met expectations.** At 73% of both house/street's FY19 estimates, 9MFY19 core profit of RM690.8m came in within expectations with 3QFY19 rebounding strongly by 41% sequentially to RM244.4m as the preceding quarter results were hit by the plunge in Mean of Platts Singapore (MOPS) prices. Meanwhile, it declared 3<sup>rd</sup> interim NDPS of 16.0 sen (ex-date: 06 Dec; payment date: 20 Dec) in 3QFY19 vs. 14.0 sen and 16.0 sen paid in 2QFY19 and 3QFY18, respectively, totalling YTD 9MFY19 NDPS to 45.0 sen which is the same as 9MFY18.

**3QFY19 recovered from MOPS price hit sequentially.** 3QFY19 core profit surged substantially by 41% to RM244.4m from RM173.1m, while revenue rose 3%, as the 2QFY19 results were badly hit by MOPS price volatility. The normalisation of earnings is reflected in its segment results where EBIT for Retail Segment jumped 48% to RM170.3m while Commercial Segment saw its operating profit rising 18%. On the other hand, improved revenue was largely due to higher sales volume by 4% which was offset by lower ASP by 1%.

**Yearly results also affected by unfavourable MOPS prices.** YoY, 3QFY19 core profit declined 9% from RM269.9m in 3QFY18 with flattish revenue, which was due to higher product costs and depreciation charges, higher by 39%. Overall, earnings for Retail Segment which plummeted by 28% due to higher product cost and less favourable MOPS prices trend and higher depreciation. Meanwhile, Commercial Segment's operating profit fell 2% on higher opex. Group's revenue remained flattish as 9MFY19 core profit contracted 12% to RM690.8m despite revenue inching up 1%. This was largely due to the abovementioned MOPS price volatility hit in 2QFY19, in addition to higher A&P and system maintenance costs for Retail Segment. The increase in revenue was backed by 6% rise in sales volume but was dented by 4% decline in ASP.

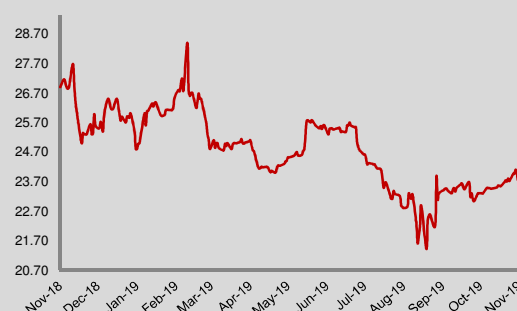
**Crude oil prices stabilised should offer earnings stability.** After the deep hit in 2QFY19 and to some extent 3QFY19, crude oil prices are fairly stable for the past two months. This signals some indication towards a stable MOPS movement. Nonetheless, the key earning driver i.e. volume growth remains lacklustre or worse still a trend downwards for its fuel segment given the change in means of commuting especially in Klang Valley with the launch of MRT as well as the trend of electric vehicles. In the coming 4QFY19, volume could be seasonally lower given more air travel volume for year-end holiday compared to ground travel.

**It is still in the price; MARKET PERFORM maintained.** While keeping our estimates, we upped our target price slightly to RM22.75 based on unchanged -1SD 3-year moving average of 22.2x from RM22.45 at 21.9x. In our opinion, all fundamentals have been largely priced in, and with the lack of price catalyst, we are keeping our MARKET PERFORM recommendation which is supported by a decent dividend yield of c.3%. **Upside risks to our recommendation** include sudden plunge in MOPS prices and weaker-than-expected business volume.

## MARKET PERFORM ↔

**Price:** RM24.10  
**Target Price:** RM22.75 ↑

### Share Price Performance



KLCI	1,596.84
YTD KLCI chg	-5.5%
YTD stock price chg	-9.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PETD MK
Market Cap (RM m)	23,942.2
Shares outstanding	993.5
52-week range (H)	28.48
52-week range (L)	21.20
3-mth avg daily vol:	345,905
Free Float	20%
Beta	0.8

### Major Shareholders

Petroleum Nasional Bhd	69.9%
Employees Provident Fund	6.6%
Amanah Saham Bumiputera	1.6%

### Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	30069	28400	28971
EBIT	1178	1264	1354
PBT	1177	1253	1350
<b>Net Profit</b>	<b>850</b>	<b>945</b>	<b>1018</b>
<b>Core Net Profit</b>	<b>837</b>	<b>945</b>	<b>1018</b>
Consensus		952	996
Earnings Revision (%)		-	-
Core EPS (sen)	84.3	95.1	102.5
Core EPS growth (%)	-24.7	12.8	7.7
NDPS (sen)	70.0	66.6	71.7
BV/Share (RM)	5.94	6.22	6.53
NTA/Share (RM)	5.94	6.22	6.53
Core PER (x)	31.4	25.3	23.5
PBV (x)	4.46	3.87	3.69
Price/NTA (x)	4.46	3.87	3.69
Net Gearing (x)	N Cash	N Cash	N Cash
Dividend Yield (%)	2.6	2.8	3.0

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Income Statement								
FY Dec (RM m)	3Q FY19	2Q FY19	Q-o-Q Chg	3Q FY18	Y-o-Y Chg	9M FY19	9M FY18	Y-o-Y Chg
Turnover	7,807.2	7,606.2	3%	7,819.3	0%	22,499.4	22,167.4	1%
EBITDA	441.4	358.7	23%	481.6	-8%	1,293.7	1,366.4	-5%
Depreciation	(119.8)	(118.3)	1%	(86.3)	39%	(344.2)	(257.8)	34%
EBIT	321.7	240.4	34%	395.3	-19%	949.5	1,108.6	-14%
Interest expense	(5.0)	(5.0)	0%	(4.8)	5%	(15.5)	(4.1)	280%
Associates	1.0	2.3	-55%	0.9	11%	4.2	2.4	77%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	317.7	237.6	34%	391.5	-19%	938.3	1,106.9	-15%
Taxation	(77.2)	(63.2)	22%	(120.4)	-36%	(229.8)	(292.9)	-22%
Profit after tax	240.5	174.4	38%	271.1	-11%	708.5	814.0	-13%
Minority interest	(1.5)	(1.6)	-7%	(0.8)	78%	(5.5)	(10.8)	-49%
Net profit	239.0	172.8	38%	270.3	-12%	702.9	803.2	-12%
Core net profit	244.4	173.1	41%	269.9	-9%	690.8	788.9	-12%
EPS (sen)	24.6	17.4	41%	27.2	-9%	69.5	79.4	-12%
NDPS (sen)	16.0	14.0	14%	16.0	0%	45.0	45.0	0%
NTA/share (RM)	6.1	5.9	2%	6.0	0%	6.05	6.05	0%
EBITDA margin	6%	5%		6%		6%	6%	
EBIT margin	4%	3%		5%		4%	5%	
Pretax margin	4%	3%		5%		4%	5%	
Effective tax rate	24%	27%		31%		24%	26%	

Source: Company

Segmental Breakdown								
FY Dec (RM m)	3Q FY19	2Q FY19	Q-o-Q Chg	3Q FY18	Y-o-Y Chg	9M FY19	9M FY18	Y-o-Y Chg
<b>Turnover</b>								
Retail	3,928.0	3,874.1	1%	3,856.5	2%	11,434.9	11,249.8	2%
Commercial	3,872.0	3,726.1	4%	3,957.2	-2%	11,044.6	10,902.2	1%
Others	7.1	6.0	18%	5.6	27%	19.9	15.5	29%
<b>Group Turnover</b>	<b>7,807.2</b>	<b>7,606.2</b>	<b>3%</b>	<b>7,819.3</b>	<b>0%</b>	<b>22,499.4</b>	<b>22,167.4</b>	<b>1%</b>
<b>Segment Results</b>								
Retail	170.3	114.9	48%	235.2	-28%	513.6	637.1	-19%
Commercial	154.0	130.6	18%	156.6	-2%	431.5	428.0	1%
Others	(2.6)	(5.1)	-49%	3.6	-172%	4.4	43.5	-90%
<b>Group EBIT</b>	<b>321.7</b>	<b>240.4</b>	<b>34%</b>	<b>395.3</b>	<b>-19%</b>	<b>949.5</b>	<b>1,108.6</b>	<b>-14%</b>
<b>EBIT Margin</b>								
Retail	4.3%	3.0%		6%		4%	6%	
Commercial	4.0%	3.5%		4%		4%	4%	
Others	-36%	-84%		64%		22%	282%	
<b>Group EBIT Margin</b>	<b>4%</b>	<b>3%</b>		<b>5%</b>		<b>4%</b>	<b>5%</b>	

Source: Company

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
BUMI ARMADA BHD	0.505	2,967.6	N	12/2019	-15.9%	0.0%	34.4%	2.3%	13.1	9.8	9.6	0.9	0.9	9.0%	0.0%	0.530	MP
DAYANG ENTERPRISE HLDGS BHD	2.07	2,106.2	Y	12/2019	0.3%	31.9%	4.6%	6.0%	14.6	14.0	13.2	2.1	1.9	14.2%	0.0%	2.35	OP
DIALOG GROUP BHD	3.43	19,339.4	Y	06/2020	17.7%	6.1%	4.5%	9.7%	36.1	34.5	31.5	5.1	4.8	14.4%	1.2%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.895	1,432.0	Y	12/2019	-10.1%	43.0%	-445.8%	121.1%	N.A.	N.A.	63.1	0.6	0.6	-1.1%	0.0%	1.05	OP
MISC BHD	8.31	37,093.7	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	28.1	21.6	20.5	1.0	1.1	4.9%	3.6%	8.90	OP
PANTECH GROUP HOLDINGS BHD	0.490	367.5	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.4	8.3	7.8	0.7	0.6	7.6%	3.3%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	7.11	56,880.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	11.4	16.4	14.3	1.9	1.8	11.1%	3.1%	7.70	MP
PETRONAS DAGANGAN BHD	24.10	23,942.2	Y	12/2019	-5.6%	2.0%	12.9%	7.7%	28.6	25.3	23.5	4.1	3.9	15.6%	2.8%	22.75	MP
SAPURA ENERGY BHD	0.285	4,542.7	Y	01/2020	5.9%	20.7%	-445.5%	236.1%	N.A.	N.A.	55.8	0.3	0.3	-1.4%	0.0%	0.330	OP
SERBA DINAMIK HOLDINGS	4.29	6,299.9	Y	12/2019	23.2%	14.3%	17.2%	13.3%	16.4	14.0	12.4	3.0	2.6	20.2%	2.2%	5.25	OP
UZMA BHD	0.955	305.6	Y	06/2020	21.4%	2.2%	240.2%	8.8%	31.5	9.3	8.5	0.6	0.6	6.7%	0.0%	1.05	MP
VELESTO ENERGY BHD	0.385	3,163.0	Y	12/2019	5.3%	17.2%	119.7%	298.0%	N.A.	208.1	52.3	1.1	1.1	0.5%	0.0%	0.400	OP
WAH SEONG CORP BHD	1.26	970.8	Y	12/2019	-13.9%	22.7%	-6.2%	26.9%	15.4	16.4	12.9	1.0	1.0	5.3%	0.0%	1.30	MP
YINSON HOLDINGS BHD	6.49	7,004.3	Y	01/2020	0.1%	70.1%	-17.9%	66.8%	26.6	32.5	19.5	4.1	3.7	11.9%	0.9%	7.75	OP
<b>Simple Average</b>					<b>1.3%</b>	<b>17.0%</b>	<b>-34.3%</b>	<b>58.8%</b>	<b>20.9</b>	<b>34.2</b>	<b>24.6</b>	<b>1.9</b>	<b>1.8</b>	<b>8.5%</b>	<b>1.2%</b>		

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:**

**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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