

26 February 2020

Petronas Dagangan Bhd

4QFY19 Disappoints

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FY19 results were a big let-down which saw 4QFY19 core profit plunging 46% QoQ due to higher product costs and opex. Meanwhile, the sharp fall in oil prices since beginning of the year coupled with the Covid-19 outbreak could put its upcoming 1QFY20 results under pressure. We believe its current share price has partly factored these issues. Hence, we keep our MP rating unchanged with revised TP of RM21.35 supported by decent dividend yields of >3.0%.

FY19 missed forecasts. At 87%/89% of house/street's estimates, FY19 core profit of RM822.5m fell short of expectations, as 4QFY19 core income plunged 46% sequentially to RM131.7m, which was due to higher product costs and operating expenses arising from higher A&P and network upgrade costs. Meanwhile, it declared 4th interim NDPS of 25.0 sen with a surprise special NDPS of 15.0 sen in 4QFY19, (ex-date: 10 Mar; payment date: 26 Mar) totalling FY19 NDPS to 85.0 sen or 103% payout which is higher than 70.0 sen or 83% payout paid in FY18 and our estimate of 66.6 sen or 70% payout.

4QFY19 earnings hit by high product costs and opex. While revenue was flatish at RM7.79b, 4QFY19 core profit plummeted 46% sequentially to RM131.7m from RM244.4m in the preceding quarter due to lower volume and higher product costs. In addition, operating expenses jumped on higher A&P and network upgrade costs at Retail Segment. Looking into segmentation, Retail Segment experienced a 60% contraction in operating profit to RM68.3m while Commercial Segment saw EBIT falling 19% over the quarter to RM124.9m.

Last year's results partly hit by MOPS. YoY, 4QFY19 core profit rebounded solidly by 172% from RM48.4m in 4QFY18 as last year's earnings were badly hit by unfavourable Mean of Platts Singapore (MOPS) price trend while the 6% hike in sales volume at Retail Segment following improved station productivity helped to boost profit margin. FY19 core profit fell marginally by 2% to RM822.5m from RM837.4m albeit revenue inching up slightly by 1%. The slight dip in earnings was due to abovementioned higher A&P and network upgrade costs for Retail Segment but Commercial Segment posted slightly higher earnings due to higher volume.

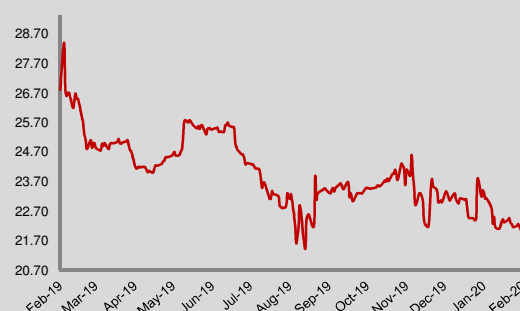
Crude oil prices yet again volatile which would lead to margin compression. After a fairly stable uptrend in oil prices in 4QCY19, the recent sharp decline in Brent from c.USD70/bbl in early Jan to c.USD53/bbl in early Feb could mean that MOPS prices are likely to be unfavourable, thus affecting profit margin in 1QFY20. On other hand, the Covid-19 outbreak since end-Jan is impacting air travel volume badly. As such, this will add pressure to the already lacklustre volume growth or worse still a downward trend. With all these background, we cut FY20 estimates by 11% but raise NDPS as our earnings payout assumption is increased to 80% from 70% previously. We also introduce FY21 forecasts in which we expect earnings to grow marginally by 2%.

MARKET PERFORM maintained. Post earnings revision, we cut our target price to RM21.35 from RM22.75 as we based it on -1.5SD 3-year moving average of 23.3x from -1.0SD 3-year moving average of 22.2x as the potential higher risk of MOPS trend could hit bottomline in the coming 1QFY20. Thus, we keep our MARKET PERFORM rating which is supported by a decent dividend yields of >3%. **Upside risks to our recommendation** include sudden plunge in MOPS prices and weaker-than-expected business volume.

MARKET PERFORM ↔

Price: RM21.40
Target Price: RM21.35 ↓

Share Price Performance



KLCI 1,500.88
YTD KLCI chg -5.5%
YTD stock price chg -7.4%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker PETD MK
Market Cap (RM m) 21,259.9
Shares outstanding 993.5
52-week range (H) 28.48
52-week range (L) 21.10
3-mth avg daily vol: 470,522
Free Float 22%
Beta 0.9

Major Shareholders

Petroleum Nasional Bhd 63.9%
Employees Provident Fund 10.4%
Amanah Saham Bumiputera 1.6%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	30294	30692	31309
EBIT	1147	1216	1241
PBT	1129	1209	1236
Net Profit	830	910	930
Core Net Profit	822	910	930
Consensus		960	1011
Earnings Revision (%)		-10.6	New
Core EPS (sen)	82.8	91.6	93.6
Core EPS growth (%)	-1.8	10.6	2.2
NDPS (sen)	85.0	73.3	74.9
BV/Share (RM)	6.02	6.20	6.39
NTA/Share (RM)	6.02	6.20	6.39
Core PER (x)	27.9	23.4	22.9
PBV (x)	3.84	3.45	3.35
Price/NTA (x)	3.41	3.45	3.35
Net Gearing (x)	N Cash	N Cash	N Cash
Dividend Yield (%)	3.7	3.4	3.5

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Income Statement

FY Dec (RM m)	4Q FY19	3Q FY19	Q-o-Q Chg	4Q FY18	Y-o-Y Chg	12M FY19	12M FY18	Y-o-Y Chg
Turnover	7,794.2	7,807.2	0%	7,901.3	-1%	30,293.6	30,068.8	1%
EBITDA	324.5	441.4	-26%	152.2	113%	1,618.3	1,518.6	7%
Depreciation	(127.3)	(119.8)	6%	(82.7)	54%	(471.5)	(340.5)	38%
EBIT	197.3	321.7	-39%	69.5	184%	1,146.8	1,178.1	-3%
Interest expense	(6.4)	(5.0)	28%	(0.5)	1212%	(21.8)	(4.5)	380%
Associates	(0.4)	1.0	-134%	1.1	-132%	3.9	3.5	11%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	190.6	317.7	-40%	70.1	172%	1,128.9	1,177.0	-4%
Taxation	(61.4)	(77.2)	-20%	(22.6)	171%	(291.2)	(315.6)	-8%
Profit after tax	129.2	240.5	-46%	47.5	172%	837.6	861.5	-3%
Minority interest	(2.6)	(1.5)	71%	(0.8)	223%	(8.1)	(11.6)	-30%
Net profit	126.6	239.0	-47%	46.7	171%	829.5	849.9	-2%
Core net profit	131.7	244.4	-46%	48.4	172%	822.5	837.4	-2%
EPS (sen)	13.3	24.6	-46%	4.9	172%	82.8	84.3	-2%
NDPS (sen)	40.0	16.0	150%	25.0	60%	85.0	70.0	21%
NTA/share (RM)	6.0	6.1	-1%	5.9	1%	6.02	5.94	1%
EBITDA margin	4%	6%		2%		5%	5%	
EBIT margin	3%	4%		1%		4%	4%	
Pretax margin	2%	4%		1%		4%	4%	
Effective tax rate	32%	24%		32%		26%	27%	

Source: Company

Segmental Breakdown

FY Dec (RM m)	4Q FY19	3Q FY19	Q-o-Q Chg	4Q FY18	Y-o-Y Chg	12M FY19	12M FY18	Y-o-Y Chg
Turnover								
Retail	3,934.9	3,928.0	0%	3,783.8	4%	15,369.8	15,033.5	2%
Commercial	3,852.6	3,872.0	-1%	4,112.6	-6%	14,897.1	15,014.8	-1%
Others	6.7	7.1	-6%	5.0	35%	26.6	20.4	30%
Group Turnover	7,794.2	7,807.2	0%	7,901.3	-1%	30,293.6	30,068.8	1%
Segment Results								
Retail	68.3	170.3	-60%	(41.0)	-267%	581.9	596.1	-2%
Commercial	124.9	154.0	-19%	106.3	18%	556.4	534.2	4%
Others	4.1	(2.6)	-258%	4.2	-3%	8.5	47.8	-82%
Group EBIT	197.3	321.7	-39%	69.5	184%	1,146.8	1,178.1	-3%
EBIT Margin								
Retail	1.7%	4.3%		-1%		4%	4%	
Commercial	3.2%	4.0%		3%		4%	4%	
Others	61%	-36%		85%		32%	234%	
Group EBIT Margin	3%	4%		1%		4%	4%	

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	0.380	2,233.1	N	12/2019	-15.9%	0.0%	34.4%	2.3%	9.9	7.4	7.2	0.7	0.7	9.0%	0.0%	0.530	OP
DAYANG ENTERPRISE HLDGS BHD	2.67	3,002.5	Y	12/2020	8.7%	9.0%	8.6%	9.9%	14.4	13.2	12.1	2.1	1.8	15.0%	0.0%	3.40	OP
DIALOG GROUP BHD	3.35	18,888.3	Y	06/2020	17.7%	6.1%	4.5%	9.7%	35.3	33.7	30.8	5.0	4.7	14.4%	1.2%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.765	1,224.0	Y	12/2020	3.2%	28.4%	360.0%	23.2%	N.A.	128.8	104.6	0.5	0.5	0.4%	0.0%	0.890	OP
MISC BHD	7.50	33,478.1	Y	12/2020	3.4%	5.4%	0.6%	1.0%	20.8	20.7	20.5	1.0	0.9	4.6%	4.0%	8.70	OP
PANTECH GROUP HOLDINGS BHD	0.480	359.7	Y	02/2020	1.3%	5.9%	-19.3%	8.9%	8.2	10.2	9.4	0.7	0.6	6.1%	4.2%	0.570	OP
PETRONAS CHEMICALS GROUP BHD	6.40	51,200.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	10.3	14.7	12.9	1.7	1.6	11.1%	3.4%	7.70	MP
PETRONAS DAGANGAN BHD	21.40	21,259.9	Y	12/2020	1.3%	2.0%	10.7%	2.2%	25.9	23.4	22.9	3.6	3.5	15.0%	3.4%	21.35	MP
SAPURA ENERGY BHD	0.225	3,595.3	Y	01/2020	67.1%	-25.1%	-200.9%	-166.8%	N.A.	N.A.	N.A.	0.3	0.3	-3.2%	0.0%	0.330	OP
SERBA DINAMIK HOLDINGS	2.35	7,247.0	Y	12/2019	23.2%	14.3%	17.2%	13.3%	18.7	15.9	14.1	3.5	3.0	20.2%	4.0%	2.50	OP
UZMA BHD	0.815	260.8	Y	06/2020	21.4%	2.2%	215.5%	9.8%	26.9	8.5	7.8	0.5	0.5	6.2%	0.0%	0.850	MP
VELESTO ENERGY BHD	0.340	2,793.3	Y	12/2019	7.6%	2.6%	105.0%	19.4%	87.3	42.6	35.7	1.0	1.0	2.3%	0.0%	0.430	OP
WAH SEONG CORP BHD	1.27	978.5	Y	12/2020	16.5%	4.1%	-3.4%	6.6%	14.0	14.5	13.6	1.0	0.9	6.7%	0.0%	1.40	MP
YINSON HOLDINGS BHD	7.10	7,596.8	Y	01/2020	0.1%	70.1%	-17.9%	66.8%	29.1	35.5	21.3	4.4	4.0	11.9%	0.8%	8.80	OP
Simple Average					10.1%	9.3%	34.6%	1.5%	25.1	28.4	24.0	1.8	1.7	8.5%	1.5%		

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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