

18 November 2020

Petronas Dagangan Bhd

Earnings Rebound in 3QFY20

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3QFY20 core earnings jumped exponentially QoQ, exceeding our expectation, as the easing of travel restrictions during the quarter led to higher sales volumes and ASPs. Nonetheless moving forward, we believe the implementation of the CMCO in 4QFY20 may have an impact on upcoming results, while weak air travels would also continue to drag its commercial segment. Maintain UP, with TP of RM16.00 given lofty valuation.

9MFY20 above our expectations. 9MFY20 recorded core net profit of RM224m, coming in above our expectation at 85% of full-year earnings forecast, due to stronger-than-expected sales in the 3QFY20 following the easing of travel restrictions nationwide. However, the results were below consensus, making up only 67% of the forecast. We believe this is due to consensus over-estimating sales recovery in 3QFY20. Meanwhile, announced interim dividend of 11.0 sen brings YTD dividends to 21.0 sen per share – also exceeding our expectation.

Stronger quarter following easing of travel restrictions. 3QFY20 core net profit of RM209m jumped exponentially QoQ, following the easing of travel restrictions nationwide. This resulted in higher sales volumes and average selling prices for both its core retail and commercial segments. YoY, 3QFY20 declined 14%, dragged by the weaker commercial segment following the decrease in sales volumes amidst lower demand for jet fuel. Nonetheless, this was offset by better performance in its retail segment. While retail segment saw lower revenue following poorer sales volumes and product prices, the segment's contribution managed to increase given the lower operating expenditure from less advertising and promotional activities during the quarter.

Cumulatively, YTD-9MFY20 saw core earnings plunging 68% YoY, as lockdown efforts following the outbreak of the Covid-19 pandemic saw near annihilation of earnings in 1H FY20.

Potential impact from CMCO in 4QFY20. We believe the recent implementation of the Conditional Movement Control Order (CMCO) in several states across the country is likely to impact sales demand for its retail segment going into 4QFY20. Meanwhile, the immediate outlook for its commercial segment is also expected to remain sluggish as air travel has yet to recover amidst the global pandemic.

Maintain UNDERPERFORM, with higher TP of RM16.00 (from RM15.60 previously), pegged to unchanged valuation of 26x PER on FY21E EPS – roughly in-line with its historical average. Post-results, our FY20E/FY21E earnings forecasts were raised by 25%/2% as we raised our sales assumptions.

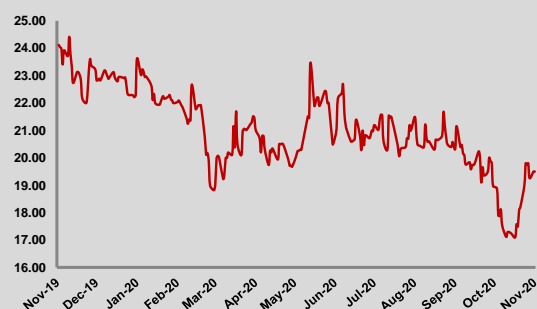
While we feel that our applied valuations have been rather generous (ascribing close to mean valuations despite the challenging economic environment), our TP still implies a significant downside from current prices. At current level, valuations are extremely lofty (trading at forward PER of 32x on FY21E EPS).

Risks to our call include: (i) better-than-expected ASPs, (ii) sudden surge in oil prices, and (iii) higher-than-expected sales volumes.

UNDERPERFORM ↔

Price: RM19.50
Target Price: RM16.00 ↑

Share Price Performance



KLCI	1,610.15
YTD KLCI chg	1.3%
YTD stock price chg	-15.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PETD MK Equity
Market Cap (RM m)	19,372.4
Shares outstanding	993.5
52-week range (H)	26.41
52-week range (L)	17.08
3-mth avg daily vol:	291,019
Free Float	21%
Beta	0.8

Major Shareholders

Petroleum Nasional Bhd	63.9%
Employees Provident Fund	10.9%
Amanah Saham Bumiputera	4.0%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Revenue	30,294	17,706	23,372
EBIT	1,147	443	818
PBT	1,129	436	814
Net Profit	830	328	612
Core Net Profit (CNP)	822	328	612
Consensus (CNP)		334	690
Earning Revision (%)		24.7	2.4
EPS (sen)	82.7	33.0	61.6
EPS growth (%)	-1.9	-60.1	86.7
DPS (sen)	85.0	26.4	49.3
BV/Share (RM)	6.02	6.08	6.20
PER (x)	23.6	59.1	31.6
PBV (x)	3.2	3.2	3.1
Net-Gearing (x)	N. Cash	N. Cash	N. Cash
Div. Yield (%)	4.4	1.4	2.5

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Results Highlights								
Y/E : Dec (RM m)	3Q FY20	2Q FY20	Q-o-Q Chg	3Q FY19	Y-o-Y Chg	9M FY20	9M FY19	Y-o-Y Chg
Revenue	4,830.5	2,931.8	64.8%	7,807.2	-38.1%	14,316.1	22,499.4	-36.4%
Operating profit	292.1	5.7	5053.8%	321.7	-9.2%	283.5	949.5	-70.1%
Finance cost	(3.5)	(4.0)	-11.1%	(5.0)	-29.6%	(12.0)	(15.5)	-22.1%
Associates and JV	(0.3)	(0.5)	-51.7%	1.0	-125.8%	(0.4)	4.2	-109.2%
Profit before taxation	288.3	1.2	24624.7%	317.7	-9.3%	271.0	938.3	-71.1%
Taxation	(77.5)	0.5	N.M.	(77.2)	0.4%	(86.3)	(229.8)	-62.5%
Non-controlling interests	1.9	1.8	1.3%	(1.5)	N.M.	2.0	(5.5)	N.M.
Net profit	212.7	3.5	5958.7%	239.0	-11.0%	186.8	702.9	-73.4%
Core Net profit	209.4	2.9	7003.9%	243.7	-14.1%	223.8	690.1	-67.6%
Operating margin	6.0%	0.2%		4.1%		2.0%	4.2%	
PBT margin	6.0%	0.0%		4.1%		1.9%	4.2%	
Net margin	4.4%	0.1%		3.1%		1.3%	3.1%	
Core net margin	4.3%	0.1%		3.1%		1.6%	3.1%	
Effective tax rate	26.9%	-43.3%		24.3%		31.8%	24.5%	

Source: Company

Segmental Breakdown								
Y/E : Dec (RM m)	3Q FY20	2Q FY20	Q-o-Q Chg	3Q FY19	Y-o-Y Chg	9M FY20	9M FY19	Y-o-Y Chg
Revenue								
Retail	3,166.4	1,827.8	73.2%	3,947.3	-19.8%	8,392.6	11,454.2	-26.7%
Commercial	1,662.1	1,102.8	50.7%	3,852.8	-56.9%	5,914.4	11,025.3	-46.4%
PBT								
Retail	200.5	22.5	791.1%	170.3	17.7%	136.9	513.6	-73.3%
Commercial	106.7	(2.9)	N.M.	154.0	-30.7%	177.2	431.5	-58.9%
PBT margins								
Retail	6.3%	1.2%		4.3%		1.6%	4.5%	
Commercial	6.4%	-0.3%		4.0%		3.0%	3.9%	

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	0.265	1,559.8	N	12/2020	1.4%	4.8%	17.9%	7.2%	5.5	4.7	4.4	0.5	0.4	9.8%	0.0%	0.300	OP
DAYANG ENTERPRISE HLDGS BHD	1.00	1,157.8	Y	12/2020	-35.3%	15.2%	-74.8%	34.2%	4.9	19.6	14.6	0.7	0.7	3.7%	0.0%	1.20	MP
DIALOG GROUP BHD	3.76	21,203.8	Y	06/2021	29.4%	11.7%	7.8%	8.2%	35.2	32.7	30.2	5.1	4.6	14.9%	0.9%	4.35	OP
MALAYSIA MARINE AND HEAVY EN	0.380	608.0	Y	12/2020	-1.8%	29.8%	-371.3%	-144.8%	N.A.	N.A.	N.A.	0.3	0.3	-4.0%	0.0%	0.380	OP
MISC BHD	7.41	33,076.4	Y	12/2020	-4.1%	13.5%	24.0%	0.9%	20.5	16.6	16.4	1.0	0.9	5.6%	4.0%	8.90	OP
PANTECH GROUP HOLDINGS BHD	0.395	295.1	Y	02/2021	-41.9%	57.1%	-47.6%	79.8%	9.0	17.1	9.5	0.5	0.5	2.8%	2.5%	0.310	UP
PETRONAS CHEMICALS GROUP BHD	6.65	53,200.0	Y	12/2020	-16.4%	10.4%	-47.7%	61.6%	18.4	35.1	21.7	1.8	1.7	5.0%	1.4%	6.45	MP
PETRONAS DAGANGAN BHD	19.50	19,372.4	Y	12/2020	-41.6%	32.0%	-60.1%	86.6%	23.6	59.1	31.7	3.2	3.2	5.5%	1.4%	16.00	UP
SAPURA ENERGY BHD	0.120	1,917.5	Y	01/2021	-11.4%	8.7%	-112.1%	-242.4%	N.A.	N.A.	N.A.	0.2	0.2	-1.8%	0.0%	0.050	UP
SERBA DINAMIK HOLDINGS	1.71	5,759.8	Y	12/2020	15.0%	15.0%	9.6%	12.1%	11.6	10.6	9.4	2.4	1.8	19.5%	3.2%	2.70	OP
UZMA BHD	0.490	156.8	Y	06/2021	-6.8%	2.3%	681.5%	43.1%	58.1	7.4	5.2	0.4	0.3	4.7%	0.0%	0.570	MP
VELESTO ENERGY BHD	0.130	1,068.0	Y	12/2020	-15.8%	6.9%	-222.8%	-131.0%	33.4	N.A.	N.A.	0.4	0.4	-1.4%	0.0%	0.130	UP
WAH SEONG CORP BHD	0.440	340.7	Y	12/2020	-56.3%	45.5%	-283.5%	-185.5%	4.9	N.A.	N.A.	0.3	0.4	-14.1%	0.0%	0.430	UP
YINSON HOLDINGS BHD	5.11	5,442.5	Y	01/2021	44.8%	4.9%	121.4%	4.1%	25.4	11.5	11.0	3.4	2.7	26.4%	1.2%	5.50	OP
Simple Average					-10.1%	18.4%	-25.6%	-26.1%	20.9	21.4	15.4	1.4	1.3	5.5%	1.0%		

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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