

01 March 2021

Oil & Gas

Worst Ever Year in FY20 for Petronas

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NEUTRAL



Petronas recorded its worst ever annual results in FY20, with a core PATAMI of RM8.8b (-78% YoY), dragged by lower product prices and volumes across all segments amidst the plunge in crude oil prices. In 4QFY20, the quarter also plunged into core losses amidst margins compression and higher opex. The group's net-cash position further dwindled 15% to RM52b during the quarter, and throughout the year, the group's net-cash position had dwindled down a total of 36% from end-FY19. In fact, over the course of the past two years, the group's net-cash position has more than halved from RM117b in end-FY18. As such, the group did not guide on any continued payments of special dividends, and will be committed to RM18b dividend payments for FY21 – a great reduction versus the past three years. During the year, Petronas cut capex by 30% YoY to RM33b given the industry down-cycle. Nonetheless, the group is now guiding a ramp-up of capex to RM40-45b per annum over the next five years. While this is still below pre-pandemic levels, increased capex from Petronas could be the catalyst needed to see an increase in local activities, with immediate beneficiaries to include fabricators (e.g. SAPNRG, MHB, SERBADK), drillers (e.g. VELESTO) and hook-up and commissioning contractors (e.g. DAYANG). We maintain NEUTRAL on the segment, seeing possible downside risks to oil prices, with activity levels realistically not returning to pre-pandemic levels any time soon. Top picks include SERBADK (OP, TP: RM2.80) and DIALOG (OP, TP: RM4.35).

Worst ever annual results for Petronas. Petronas recorded their worst ever financial results in FY20, reporting its first ever annual losses of RM23.8b (after non-controlling interests). Stripping-off net-impairments, Petronas reported core FY20 PATAMI of RM8.8b – down 78% YoY. During the year, Petronas was badly hit by the plunge in crude oil prices, resulting in lower product prices and volumes across all segments. In the individual quarter of 4QFY20, Petronas plunged into core losses of RM1.5b. Sequentially from 3QFY20, while there were improvements in its upstream, and gas and new energy segments amidst improved product prices and sales volumes, bottom-line still suffered from margins compression in its downstream segment, coupled with higher opex during the quarter.

Dwindling net-cash position and lowered dividend commitments. Notably, Petronas' net-cash position shrunk a further 15% during the quarter to RM52b, down from RM61b in 3QFY20. Throughout the year, the group's net-cash position had dwindled down a total of 36%, from RM82b in end-FY19. In fact, over the course of the past two years, the group's net-cash position has more than halved from RM117b in end-FY18. Nonetheless, somewhat encouragingly, the group stated that it has not received any requests from the government for special dividends in 2021 thus far, and is happy to meet its dividend obligation of RM18b in 2021. This is a far below the dividend payouts for the past three years, where it paid RM34b in 2020 and RM54b in 2019 (refer table below). We are encouraged by this, as the lowered dividends could allow Petronas to preserve its balance sheet and recoup its financial footing as it weathers through this difficult period.

Petronas to ramp up capex spending in the coming years. For FY20, the group's capex spending declined 30% YoY to RM33.4b. Of which, most of the capex were being spent on local and upstream projects. Gas and new energy continue to be the group's second largest area of investment, taking up 23% of the capex, as the group further acknowledges its targets of emission reductions amidst the trend of energy transition. Going forward, Petronas has guided that it will be spending RM40-45b in annual capex for the next five years, with the focus still on domestic investments (~55% of capex). New energy initiatives will also see an almost doubling of allocation of capex (from 5% to ~9%) as the group gradually embrace its transition into renewable energy. While these capex spending will still be lower as compared to pre-Covid levels (refer table below), we are still slightly encouraged by this, as the increased capex spending could mean the gradual resumption of activities over the coming years.

Increased capex could mean gradual recovery of activities. While the latest Petronas Activity Outlook did guide a sluggish activity outlook in 2021, bear in mind that the report was drafted when Brent crude oil prices were in the USD40+ per barrel level (versus USD64/barrel currently). While we believe there are still some downside risks to oil prices, the increased capex spending from Petronas could be the catalyst to spark a recovery in activities, at least versus 2020 levels. Nonetheless, we do not realistically expect activity levels to resume back to pre-Covid levels any time soon. Value-chain-wise, we see immediate beneficiaries of an increased Petronas capex to include fabricators (e.g. SAPNRG, MHB, SERBADK), drilling rig providers (e.g. VELESTO), and hook-up and commissioning contractors (e.g. DAYANG).

Maintain NEUTRAL. Following the down-cycle in 2020, we are slightly more optimistic (albeit still cautious) on the sector's rebound in activity levels going forward. Nonetheless, we note that downside risk to crude oil prices are still present, and that activity levels are not realistically expected to revert to pre-Covid levels anytime soon. Our sector top picks include **SERBADK** (OP, TP: RM2.80) and **DIALOG** (OP, TP: RM4.35), while our top trading picks to capitalise on a recovery-play include **UZMA** (OP, TP: RM0.83) and **ARMADA** (OP, TP: RM0.49).



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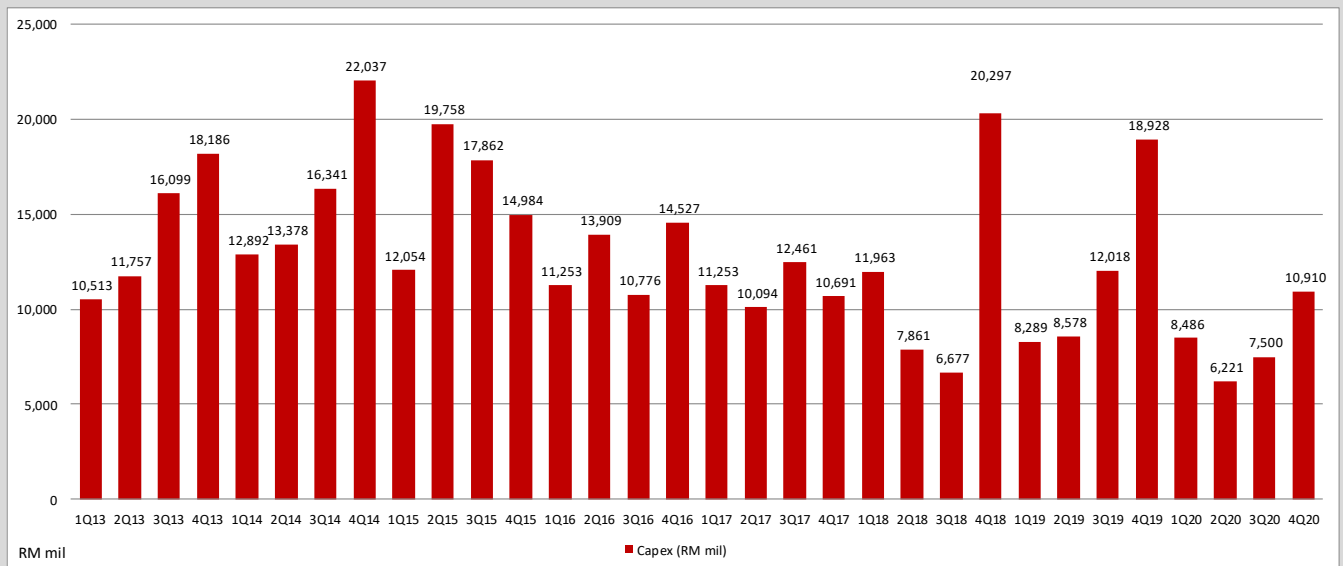
Income Statement								
Y/E: Dec (RM m)	4Q FY20	3Q FY20	Q-o-Q Chg	4Q FY19	Y-o-Y Chg	12M FY20	12M FY19	Y-o-Y Chg
Revenue	44,042	41,070	7.2%	64,036	-31.2%	178,741	240,263	-25.6%
Cost of revenue	(36,195)	(30,585)	18.3%	(43,870)	-17.5%	(134,958)	(115,926)	16.4%
Gross profit	7,847	10,485	-25.2%	20,166	-61.1%	43,783	84,337	-48.1%
Selling and distribution expenses	(2,505)	(1,739)	44.0%	(2,130)	17.6%	(8,174)	(7,536)	8.5%
Administration expenses	(2,425)	(1,993)	21.7%	(3,432)	-29.3%	(9,675)	(12,862)	-24.8%
Net impairments	(556)	(5,710)	-90.3%	(4,863)	-88.6%	(32,681)	(7,151)	357.0%
Other expenses	(2,261)	(567)	298.8%	(1,973)	14.6%	(5,871)	(2,261)	159.7%
Other income	1,469	707	107.8%	2,707	-45.7%	4,102	5,158	-20.5%
Operating profit	1,569	1,093	43.5%	10,475	-85.0%	(8,516)	59,685	-114.3%
Finance costs	(1,404)	(1,183)	18.7%	(1,239)	13.3%	(4,133)	(3,734)	10.7%
Associates and JVs	(5)	280	-101.8%	602	-100.8%	328	1,019	-67.8%
Profit before taxation	160	190	-15.8%	9,838	-98.4%	(12,321)	56,970	-121.6%
Tax expense	(1,297)	(3,563)	-63.6%	(5,728)	-77.4%	(8,708)	(16,498)	-47.2%
Non-controlling interests	(871)	(791)	10.1%	(1,901)	-54.2%	(2,822)	(7,451)	-62.1%
PATAMI	(2,008)	(4,164)	-51.8%	2,209	-190.9%	(23,851)	33,021	N.M.
Core PATAMI	(1,452)	1,546	N.M.	7,072	N.M.	8,830	40,172	-78.0%
Gross margin	17.8%	25.5%		31.5%		24.5%	35.1%	
Operating margin	3.6%	2.7%		16.4%		-4.8%	24.8%	
PBT margin	0.4%	0.5%		15.4%		-6.9%	23.7%	
PATAMI margin	-4.6%	-10.1%		3.4%		-13.3%	13.7%	
Core PATAMI margin	-3.3%	3.8%		11.0%		4.9%	16.7%	
Effective tax rate	810.6%	1875.3%		58.2%		-70.7%	29.0%	

Source: Petronas, Kenanga Research

Segmental Breakdown								
Y/E: Dec (RM m)	4Q FY20	3Q FY20	Q-o-Q Chg	4Q FY19	Y-o-Y Chg	12M FY20	12M FY19	Y-o-Y Chg
Revenue								
Upstream	7,151	7,610	-6.0%	10,930	-34.6%	28,734	37,766	-23.9%
Gas and New Energy	12,889	10,139	27.1%	18,703	-31.1%	54,621	74,666	-26.8%
Downstream	21,624	20,583	5.1%	30,656	-29.5%	84,183	114,157	-26.3%
Corporate and Others	2,378	2,738	-13.1%	3,747	-36.5%	11,203	13,674	-18.1%
Profit After Tax								
Upstream	1,660	(62)	N.M.	5,043	-67.1%	(10,218)	22,199	N.M.
Gas and New Energy	1,006	(4,735)	N.M.	(384)	N.M.	(9,983)	9,780	N.M.
Downstream	(2,991)	947	N.M.	381	N.M.	(3,458)	5,166	N.M.
Corporate and Others	(1,603)	735	N.M.	(283)	466.4%	242	4,675	-94.8%
PAT margins								
Upstream	23.2%	-0.8%		46.1%		-35.6%	58.8%	
Gas and New Energy	7.8%	-46.7%		-2.1%		-18.3%	13.1%	
Downstream	-13.8%	4.6%		1.2%		-4.1%	4.5%	
Corporate and Others	-67.4%	26.8%		-7.6%		2.2%	34.2%	

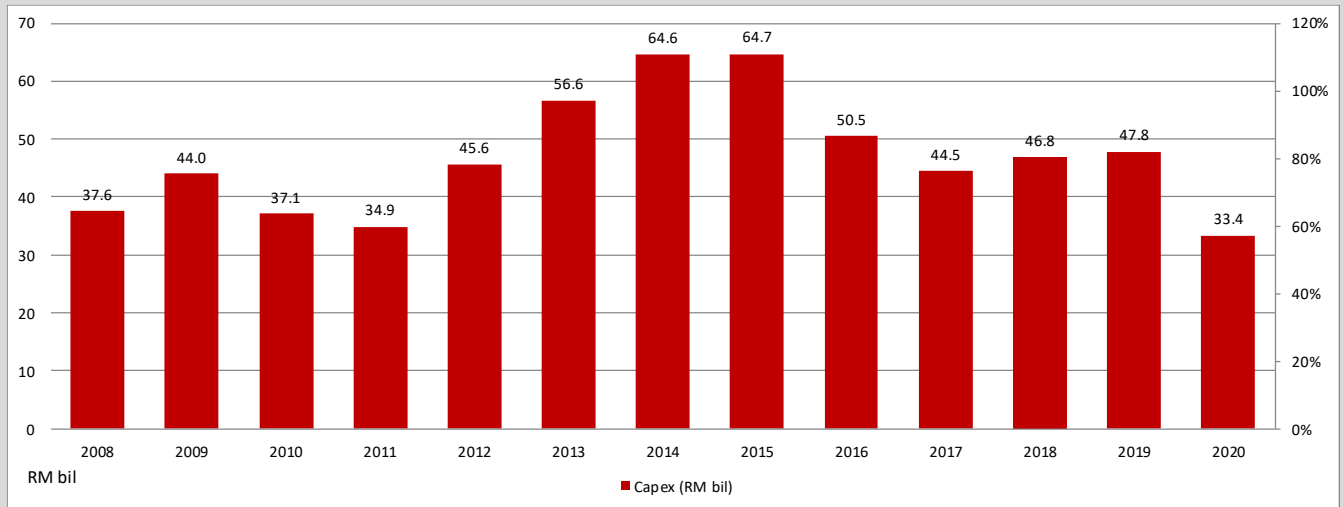
Source: Petronas, Kenanga Research

Petronas Quarterly Capex



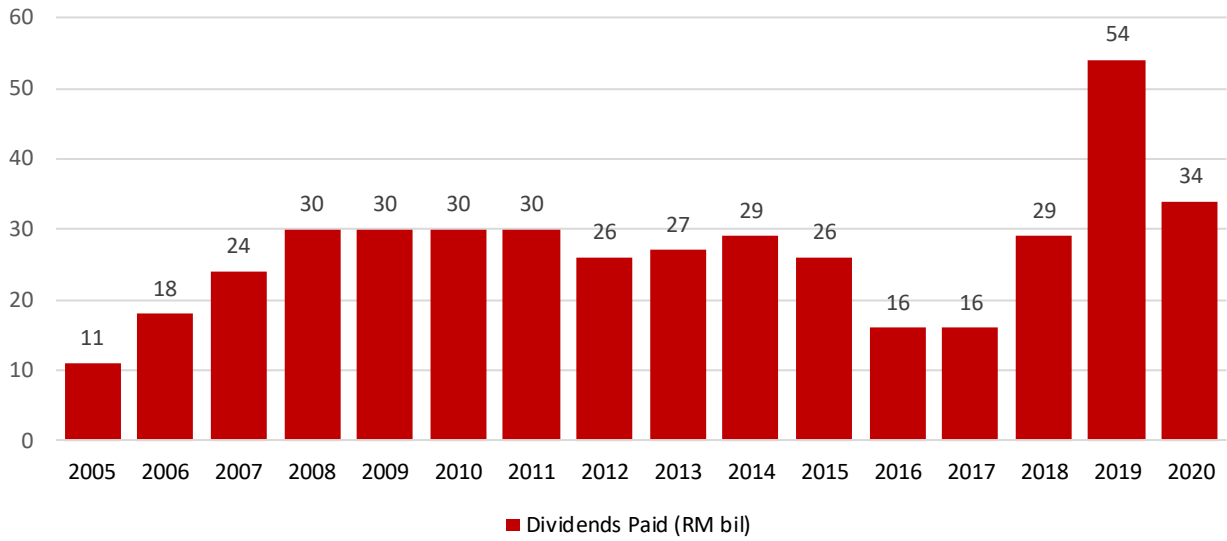
Source: Petronas, Kenanga Research

Petronas Yearly Capex



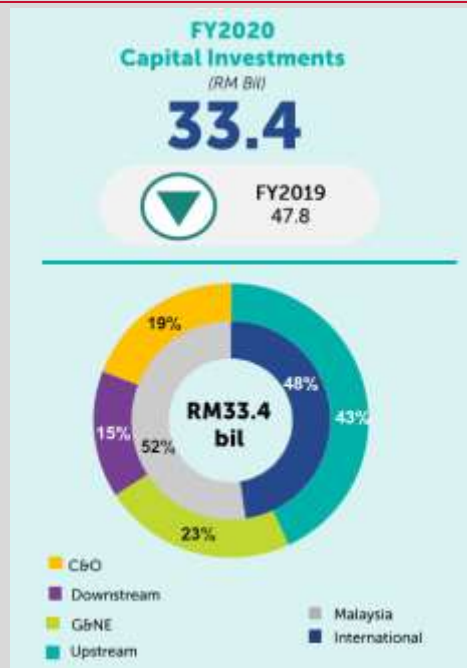
Source: Petronas, Kenanga Research

Petronas' Historical Dividend Payments



Source: Petronas

Petronas Capex Breakdown



Source: Petronas

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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	0.395	2,324.9	N	12/2021	4.3%	0.0%	-6.4%	7.1%	4.9	5.2	4.9	0.7	0.6	13.2%	0.0%	0.490	OP
DAYANG ENTERPRISE HLDGS BHD	1.51	1,748.2	Y	12/2021	13.6%	16.1%	42.9%	60.5%	26.1	18.3	11.4	1.1	1.1	6.0%	0.0%	1.45	MP
DIALOG GROUP BHD	3.23	18,224.2	Y	06/2021	-33.7%	26.3%	1.8%	11.5%	30.3	29.7	26.7	4.4	4.0	14.1%	0.9%	4.35	OP
MISC BHD	6.78	30,264.2	Y	12/2021	20.3%	7.3%	0.2%	1.0%	14.0	14.0	13.9	0.9	0.9	6.6%	4.9%	8.10	OP
PETRONAS CHEMICALS GROUP BHD	7.43	59,440.0	Y	12/2021	9.3%	10.3%	30.8%	16.4%	31.0	23.7	20.3	2.0	1.9	8.1%	2.1%	7.50	MP
PETRONAS DAGANGAN BHD	20.00	19,869.1	Y	12/2021	10.2%	10.2%	58.9%	48.3%	69.7	43.9	29.6	3.5	3.5	8.0%	2.3%	17.60	UP
SAPURA ENERGY BHD	0.145	2,317.0	Y	01/2021	-11.4%	8.7%	-112.1%	-242.4%	N.A.	N.A.	N.A.	0.3	0.3	-1.8%	0.0%	0.050	UP
SERBA DINAMIK HOLDINGS	1.71	6,343.5	Y	12/2021	12.0%	12.0%	10.0%	10.0%	10.0	9.1	8.3	1.9	1.5	18.7%	3.3%	2.80	OP
UZMA BHD	0.735	235.2	Y	06/2021	-6.8%	2.3%	851.9%	20.2%	87.1	9.2	7.6	0.5	0.5	5.5%	0.0%	0.830	OP
VELESTO ENERGY BHD	0.165	1,355.6	Y	12/2020	-15.8%	6.9%	-133.1%	-215.1%	42.4	N.A.	N.A.	0.5	0.5	-0.4%	0.0%	0.130	MP
WAH SEONG CORP BHD	0.715	553.6	Y	12/2021	34.8%	15.8%	-59.0%	203.6%	N.A.	24.6	8.1	0.8	0.8	3.1%	0.0%	0.720	MP
YINSON HOLDINGS BHD	5.32	5,667.4	Y	01/2021	92.4%	-0.4%	206.8%	-15.1%	26.4	8.6	10.1	3.6	2.6	34.8%	1.1%	6.95	OP
Simple Average					10.8%	9.6%	74.4%	-7.8%	34.2	18.6	14.1	1.7	1.5	9.7%	1.2%		

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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