

# Petronas Gas

## 3QFY21 In Line; Cut To MP

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9MFY21 results came in line as the strong 3QFY21 core profit of RM589.9m was largely due to a solid RGT earning on lower IGC cost which may not be repeatable. Having said that, we still like its earnings resiliency but near-term positives are already factored in its share price. Thus, we downgrade the stock to MP with a lowered TP of RM17.02.

**3QFY21 results within expectations.** At 76%/79% of house and street's FY21 full-year estimates, 9MFY21 core profit which rose 2% to RM1.58m matched expectations. Meanwhile, it declared 3<sup>rd</sup> interim regular NDPS of 18.0 sen (ex-date: 06 Dec; payment date: 20 Dec) in 3QFY21 vs. 16.0 sen paid in 2QFY21 and 18.0 sen paid in 3QFY20. This totalled 9MFY21 NDPS to 50.0 sen as opposed to 100.0 sen (50.0 sen regular and 50.0 sen special) distributed in 9MFY20.

**Earnings normalised sequentially.** 3QFY21 core profit rebounded strongly by 35% QoQ to RM589.9m from RM438.6m in 2QFY21 while revenue rose 3% as earnings normalised from the previous quarter which was hit by broad-base higher opex across all segments. RGT's earnings jumped 94% to RM268.9m owing to lower internal gas consumption (IGC) cost partly on adjustment for overstating in 2QFY21 while Gas Processing's (GP) EBIT recovered 15% to RM245.2m as it was hit by higher depreciation previously. Gas Transportation's (GT) operating profit grew 15% after higher maintenance cost in 2QFY21 while profit for Utilities rose 5% to RM73.6m on higher sales volume. Meanwhile, share of associate and JV incomes leapt 49% to RM38.7m as there was a higher provision of tax at Kimanis Power in the preceding quarter.

**RGT and Utilities led earnings growth.** YoY, 3QFY21 core profit jumped 15% from RM512.2m in 3QFY20 though revenue inched up only 1%. The improved results were largely driven by: (i) strong RGT earnings on lower IGC cost as mentioned above as well as utilities cost, and (ii) Utilities segment earnings which were boosted by lower depreciation expense attributable to fully depreciated assets which are still in use. YTD, 9MFY21 core profit rose 2% to RM1.58b, despite revenue dipping 1%, which was also largely led by higher RGT earnings on lower utilities cost while Utilities earnings were helped by lower depreciation charges as mentioned above.

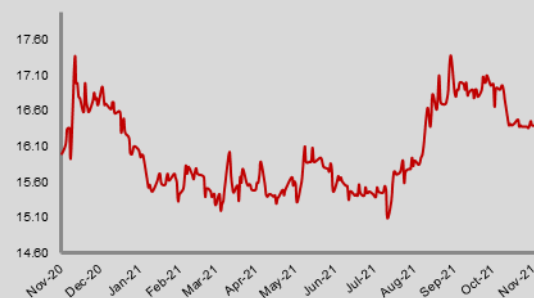
**Forward earnings to stay resilient.** While 4QFY21 results could be weaker as the strong RGT earnings in 3QFY21 may not be repeatable and the one-off prosperity tax will impact FY22 negatively, the IBR framework provides safeguard to its earnings for 2020-2022 under the RP1. The new RM541m gas pipeline project to cater for an IPP in Pulau Indah should be a new earnings growth avenue in RP2 when the project is ready in 1QFY23. Besides, it has announced a non-binding expression of interest for a potential development of additional LNG storage tank in Pengerang, could be a new earnings kicker.

**In the price; cut to MP.** Post results, we keep FY21 estimates unchanged but cut FY22 forecast by 6% to reflect the one-off prosperity tax. This leads to a lower SoP-driven TP of RM17.02 from RM17.06. On the other hand, while we still like its resilient earnings profile, we cut the stock to MP from OP following the recent price movement which has priced in the fundamentals. However, the MP rating is supported by a sustainable >5% dividend yield. **Risk to our downgrade** is higher-than-expected business volume for non-regulated business.

## MARKET PERFORM

Price : RM16.40  
Target Price : RM17.02

### Share Price Performance



KLCI 1,526.87  
YTD KLCI chg -6.2%  
YTD stock price chg -4.2%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PTG MK
Market Cap (RM m)	32,451.2
Shares Outstanding	1,978.7
52-week range (H)	18.10
52-week range (L)	15.24
3-mth avg daily vol:	817,978
Free Float	16%
Beta	0.7

### Major Shareholders

Petroleum Nasional Bhd	51.0%
Employees Provident Fund	13.2%
Kumpulan Wang Persaraan	10.5%

### Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	5592	5629	5706
EBIT	2670	2726	2727
PBT	2610	2711	2724
<b>Net Profit (NP)</b>	<b>2010</b>	<b>2072</b>	<b>1951</b>
<b>Core Net Profit</b>	<b>2001</b>	<b>2072</b>	<b>1951</b>
Consensus (NP)		1999	2005
Earnings Revision (%)			-6.3
Core EPS (sen)	101.1	104.7	98.6
CNP growth (%)	6.2	3.5	-5.8
NDPS (sen)	127.0	89.0	83.8
BV/Share (RM)	6.39	6.54	6.69
NTA/Share (RM)	6.39	6.54	6.69
Core PER (x)	17.0	15.7	16.6
PBV (x)	2.69	2.51	2.45
Price/NTA (x)	2.63	2.45	2.40
Gearing (%)	0.01	N Cash	N Cash
Dividend Yield (%)	7.7	5.4	5.1

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Income Statement								
FY Dec (RM m)	3Q FY21	2Q FY21	Q-o-Q Chg	3Q FY20	Y-o-Y Chg	9M FY21	9M FY20	Y-o-Y Chg
Turnover	1,427.8	1,383.9	3%	1,407.4	1%	4,151.7	4,203.4	-1%
EBITDA	1,032.2	852.8	21%	1,076.1	-4%	2,799.1	2,769.6	1%
Depreciation	-255.3	-260.3	-2%	-243.2	5%	-762.6	-768.8	-1%
EBIT	776.8	592.4	31%	832.9	-7%	2,036.5	2,000.8	2%
Interest expense	-45.4	-41.6	9%	-52.7	-14%	-128.8	-163.3	-21%
Associates	38.7	26.0	49%	27.9	39%	109.7	131.5	-17%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	770.1	576.9	33%	808.1	-5%	2,017.4	1,969.0	2%
Taxation	-151.1	-113.0	34%	-168.6	-10%	-394.5	-407.7	-3%
Profit after tax	619.0	463.9	33%	639.5	-3%	1,622.9	1,561.3	4%
Minority interest	-38.2	-24.8	54%	-48.5	-21%	-86.6	-55.0	57%
Net profit	580.8	439.1	32%	591.0	-2%	1,536.3	1,506.2	2%
Core net profit	589.9	438.6	35%	512.2	15%	1,582.8	1,558.8	2%
EPS (sen)	29.8	22.2	35%	25.9	15%	80.0	78.8	2%
DPS (sen)	18.0	16.0	13%	18.0	0%	50.0	100.0	-50%
NTA/share (RM)	6.58	6.44	2%	6.31	4%	6.58	6.31	4%
EBITDA margin	72%	62%		76%		67%	66%	
EBIT margin	54%	43%		59%		49%	48%	
Pretax margin	54%	42%		57%		49%	47%	
Effective tax rate	20%	20%		21%		20%	21%	

Source: Company

Segmental Breakdown								
FY Dec (RM m)	3Q FY21	2Q FY21	Q-o-Q Chg	3Q FY20	Y-o-Y Chg	9M FY21	9M FY20	Y-o-Y Chg
<b>Turnover</b>								
Gas Processing	429.6	427.9	0%	427.0	1%	1,286.4	1,287.0	0%
Gas Transportation	295.1	291.3	1%	293.8	0%	874.8	878.9	0%
Utilities	346.3	311.6	11%	336.0	3%	933.1	991.9	-6%
RGT	356.9	353.1	1%	350.7	2%	1,057.5	1,045.6	1%
Others	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
<b>Group Turnover</b>	<b>1,427.8</b>	<b>1,383.9</b>	<b>3%</b>	<b>1,407.4</b>	<b>1%</b>	<b>4,151.7</b>	<b>4,203.4</b>	<b>-1%</b>
<b>Segment Results</b>								
Gas Processing	245.2	212.7	15%	247.8	-1%	701.3	720.0	-3%
Gas Transportation	204.9	178.5	15%	225.6	-9%	581.1	621.7	-7%
Utilities	73.6	70.1	5%	46.4	59%	218.6	129.6	69%
RGT	268.9	138.4	94%	216.0	24%	603.9	548.8	10%
Others	-15.8	-7.4	115%	97.2	N/M	-68.2	-19.3	253%
<b>Group EBIT</b>	<b>776.8</b>	<b>592.4</b>	<b>31%</b>	<b>832.9</b>	<b>-7%</b>	<b>2,036.5</b>	<b>2,000.8</b>	<b>2%</b>
<b>EBIT Margin</b>								
Gas Processing	57%	50%		58%		55%	56%	
Gas Transportation	69%	61%		77%		66%	71%	
Utilities	21%	23%		14%		23%	13%	
RGT	75%	39%		62%		57%	52%	
Others	N/A	N/A		N/A		N/A	N/A	
<b>Group EBIT Margin</b>	<b>54%</b>	<b>43%</b>		<b>59%</b>		<b>49%</b>	<b>48%</b>	

Source: Company

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Valuation				
(RM m)	Equity value	RM/Share	%	Valuation Basic
Gas Business	27,817.8	14.06	82.6%	DCF @ 6.6% WACC, g = 2%
Melaka RGT	1,707.3	0.86	5.1%	DCF @ 8.1% WACC
Kimanis IPP	798.5	0.40	2.4%	DCF @ 4.0% WACC
Pengerang RGT	2,331.8	1.18	6.9%	DCF @ 6.0% WACC
Gas Malaysia	554.1	0.28	1.6%	TP: RM3.00 @ 14.8% equity stake
Net Cash/(Debt)	463.3	0.23	1.4%	Adjusted FY21E at Group's level
	<b>33,672.8</b>	<b>17.02</b>	<b>100.0%</b>	
No of shares	1,978.7			
<b>SoP per share</b>	<b>RM17.02</b>			

Source: Kenanga Research

Valuation				
(RM m)	Equity value	RM/Share	%	Valuation Basic
Gas Business	27,901.5	14.10	82.7%	DCF @ 6.6% WACC, g = 2%
Melaka RGT	1,719.0	0.87	5.1%	DCF @ 8.1% WACC
Kimanis IPP	798.5	0.40	2.4%	DCF @ 4.0% WACC
Pengerang RGT	2,331.8	1.18	6.9%	DCF @ 6.0% WACC
Gas Malaysia	537.5	0.27	1.6%	TP: RM2.91 @ 14.8% equity stake
Net Cash/(Debt)	463.3	0.23	1.4%	Adjusted FY21E at Group's level
	<b>33,751.7</b>	<b>17.06</b>	<b>100.0%</b>	
No of shares	1,978.7			
<b>SoP per share</b>	<b>RM17.06</b>			

Source: Kenanga Research

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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)	
GAS MALAYSIA BHD	2.68	3,441.1	Y	12/2021	-11.9%	8.6%	7.8%	-7.7%	15.4	14.3	15.5	3.2	3.1	22.0%	6.3%	3.00	OP
MALAKOFF CORP BHD	0.775	3,787.4	Y	12/2021	-8.0%	0.4%	24.9%	3.3%	15.3	12.2	11.9	0.7	0.7	5.9%	6.6%	1.06	OP
PESTECH INTERNATIONAL BHD	1.00	761.2	Y	06/2022	12.4%	5.0%	4.7%	14.9%	10.6	10.1	8.8	1.3	1.2	12.2%	0.0%	1.39	OP
PETRONAS GAS BHD	16.40	32,451.2	Y	12/2021	0.7%	1.4%	3.5%	-5.8%	16.2	15.7	16.6	2.6	2.5	16.2%	5.4%	17.02	MP
TENAGA NASIONAL BHD	9.50	54,397.9	Y	12/2021	14.6%	1.0%	27.2%	8.9%	14.2	11.2	10.3	1.0	0.9	8.5%	4.5%	11.80	OP
YTL POWER INTERNATIONAL BHD	0.665	5,387.9	N	06/2022	-4.8%	1.6%	-3.9%	6.2%	10.3	10.7	10.1	0.4	0.4	3.4%	7.5%	0.890	OP
<b>Simple Average</b>					<b>0.5%</b>	<b>3.0%</b>	<b>10.7%</b>	<b>3.3%</b>	<b>13.7</b>	<b>12.4</b>	<b>12.2</b>	<b>1.5</b>	<b>1.5</b>	<b>11.4%</b>	<b>5.1%</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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