

01 December 2021

## Oil & Gas

### Petronas Sees Another Strong Quarter

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**NEUTRAL**



A read-through of Petronas Group's 3QFY21 results shows yet another strong set of numbers, driven by higher product prices, and continued recovery from last year's lows. However, capex spending still remains relatively slow, with YTD capex at RM20.4b (-9% YoY) – approximately half of the group's full-year capex guidance of RM39-40b for FY2021, or RM40-45b for the next five years (versus FY2020 capex of RM33b). The group largely attributed the slower capex to slower progress and delays in projects following prolonged movement restrictions. The strong set of Petronas results also did not translate to better sector earnings. In fact, in this recently concluded results season, all but three names within our sector coverage have posted disappointing results. Overall, this was largely due to slow job flows amidst continued movement restrictions. With most of the local names being equipment/services providers to Petronas, this was more of a reflection of Petronas' slow spending instead of its strong earnings. That said, with borders gradually reopening, we see 2022 to be a year of recovery – premised on the work flow resumption after numerous stop-starts over the past two years. We maintain **OVERWEIGHT** on the sector. Ultimately, with activity levels expected to see a massive recovery in 2022, coupled with the sector still trading at a steep discount, we still see some selective opportunities within the sector. Additionally, recent weakness in Brent crude oil prices is also not too worrying, as we believe current levels will still be more than healthy enough to sustain a recovery in activities. Top picks include **DIALOG (OP, TP: RM3.50)** and **YINSON (OP, TP: RM7.35)**.

**Stronger earnings driven by higher prices.** Petronas Group recorded 9MFY21 core PATAMI of RM28b (arrived after adjusting for net impairments) which recovered more than double YoY, predominantly due to the higher average realised product prices (as a comparison, Brent crude prices averaged USD68/barrel versus USD43/barrel for the same period last year), partially offset by the effects of a weakening US Dollar against the Ringgit. The quarter of 3QFY21 recorded a core PATAMI of RM12.3b – jumping 48%/693% QoQ/YoY, similarly thanks to the favourable average realised prices for major products.

**Capex spending remains slow.** YTD-9MFY21, the group has incurred total capital investments of RM20.4b – lower 9% YoY, with bulk of the capex still in upstream. This is still approximately half of the group's earlier guidance of RM39-40b capex for FY2021, or RM40-45b capex per annum for the next five years (versus FY2020 capex of RM33b). The group attributed the slow capex due to slower progress and delay in projects following prolonged movement restrictions. As such, assuming the group is still keen on fulfilling its earlier capex guidance, we believe huge spending back-loaded to the 4Q of the year seems necessary. The group is still scheduled to pay in 4QFY21 the remaining RM9b of the total dividend commitment of RM25b for FY2021, although we do not believe this to be a huge bottle-neck considering the group's net-cash position of ~RM64b.

**Strong Petronas results did not translate to corporate earnings.** We see a mismatch between the strong set of Petronas' results against the largely disappointing set of corporate earnings within the oil and gas sector. In this recently concluded results season, all but three names (ARMADA, PCHEM, DIALOG) have reported disappointing earnings. Overall, the quarter was still hit by the ongoing project delays and slow job flows amidst continued movement restrictions. With most of the local names being equipment/services providers to Petronas, this was more of a reflection on Petronas' slow spending rather than its strong earnings. That said, with borders gradually reopening, we see 2022 to be more of a recovery year – premised on the resumption of projects after numerous stop-starts over the past two years.

**Maintain OVERWEIGHT on the sector.** Overall, the sector is still trading at a deep discount, with the KLENG index still trading at 2SD below its mean valuations on 2022E. Additionally, we look towards 2022 to be a year of a sector-wide recovery, on the back of activity levels resumption amidst the reopening of borders. We are also not overly worried of the recent weakness in oil prices, as we believe that current levels should be more than healthy enough to drive a recovery in activity levels, with our average Brent crude oil assumption of USD65/barrel in 2022 maintained. Top picks include **DIALOG (OP, TP: RM 3.50)** and **YINSON (OP, TP: RM7.35)**.



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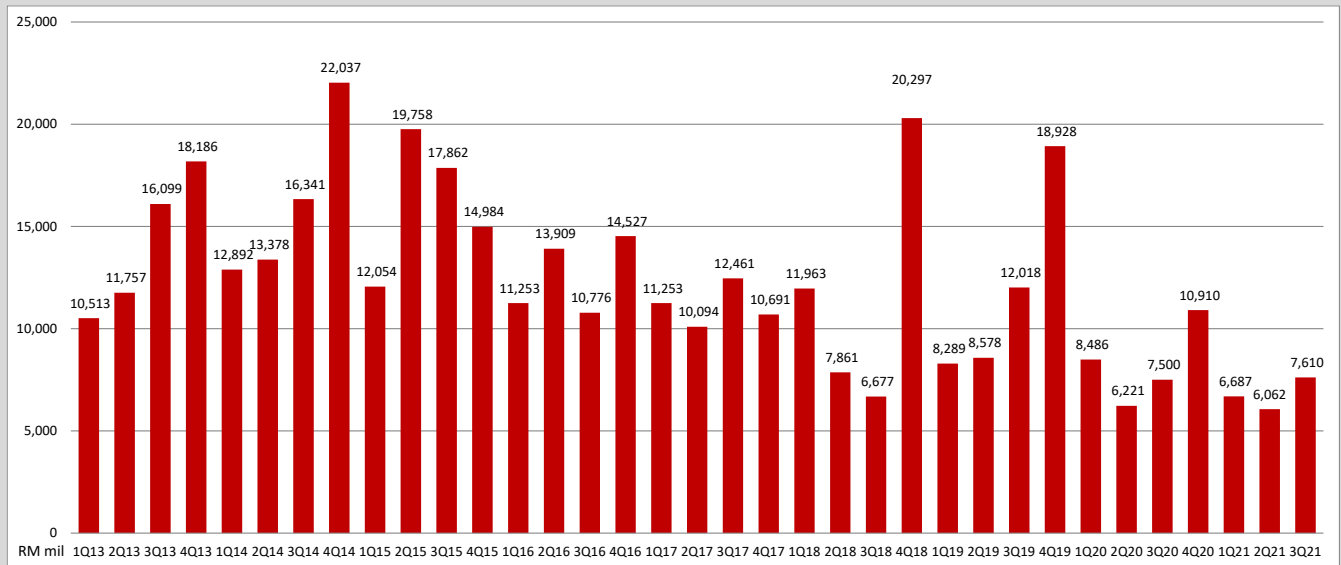
Income Statement								
Y/E: Dec (RM m)	3Q FY21	2Q FY21	Q-o-Q Chg	3Q FY20	Y-o-Y Chg	9M FY21	9M FY20	Y-o-Y Chg
Revenue	61,773	57,072	8.2%	41,070	50.4%	171,391	134,699	27.2%
Cost of revenue	(39,928)	(36,717)	8.7%	(30,585)	30.5%	(110,471)	(98,763)	11.9%
<b>Gross profit</b>	<b>21,845</b>	<b>20,355</b>	<b>7.3%</b>	<b>10,485</b>	<b>108.3%</b>	<b>60,920</b>	<b>35,936</b>	<b>69.5%</b>
Selling and distribution	(2,245)	(2,387)	-5.9%	(1,739)	29.1%	(6,730)	(5,669)	18.7%
Administration expenses	(2,435)	(2,853)	-14.7%	(1,993)	22.2%	(7,597)	(7,250)	4.8%
Net impairments	1,720	57	2917.5%	(5,710)	-130.1%	1,960	(32,125)	-106.1%
Other expenses	(33)	(277)	-88.1%	(657)	-95.0%	(1,159)	(3,610)	-67.9%
Other income	1,000	1,740	-42.5%	707	41.4%	4,444	2,633	68.8%
<b>Operating profit</b>	<b>19,852</b>	<b>16,635</b>	<b>19.3%</b>	<b>1,093</b>	<b>1716.3%</b>	<b>51,838</b>	<b>(10,085)</b>	<b>N.M.</b>
Finance costs	(1,443)	(1,440)	0.2%	(1,183)	22.0%	(4,019)	(2,729)	47.3%
Associates and JVs	509	504	1.0%	280	81.8%	1,396	333	319.2%
<b>Profit before taxation</b>	<b>18,918</b>	<b>15,699</b>	<b>20.5%</b>	<b>190</b>	<b>9856.8%</b>	<b>49,215</b>	<b>(12,481)</b>	<b>N.M.</b>
Tax expense	(2,606)	(6,063)	-57.0%	(3,563)	-26.9%	(13,972)	(12,481)	11.9%
Non-controlling interests	(2,329)	(1,313)	77.4%	791	-394.4%	(5,248)	(1,951)	169.0%
<b>PATAMI</b>	<b>13,983</b>	<b>8,323</b>	<b>68.0%</b>	<b>(4,164)</b>	<b>N.M.</b>	<b>29,995</b>	<b>(21,843)</b>	<b>N.M.</b>
<b>Core PATAMI</b>	<b>12,263</b>	<b>8,266</b>	<b>48.4%</b>	<b>1,546</b>	<b>693.2%</b>	<b>28,035</b>	<b>10,282</b>	<b>172.7%</b>
Gross margin	35.4%	35.7%		25.5%		35.5%	26.7%	
Operating margin	32.1%	29.1%		2.7%		30.2%	-7.5%	
PBT margin	30.6%	27.5%		0.5%		28.7%	-9.3%	
PATAMI margin	22.6%	14.6%		-10.1%		17.5%	-16.2%	
Core PATAMI margin	19.9%	14.5%		3.8%		16.4%	7.6%	
Effective tax rate	13.8%	38.6%		1875.3%		28.4%	-100.0%	

Source: Petronas, Kenanga Research

Segmental Breakdown								
Y/E: 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>Revenue</b>								
Upstream	9,232	9,442	-2.2%	7,610	21.3%	28,199	21,583	30.7%
Gas and New Energy	18,454	15,029	22.8%	10,139	82.0%	48,751	41,732	16.8%
Downstream	31,466	29,947	5.1%	20,583	52.9%	86,548	62,559	38.3%
Corporate and Others	2,621	2,654	-1.2%	2,738	-4.3%	7,893	8,825	-10.6%
<b>Profit After Tax</b>								
Upstream	9,816	6,053	62.2%	(62)	N.M.	22,790	(11,878)	N.M.
Gas and New Energy	3,668	1,611	127.7%	(4,735)	N.M.	7,352	(10,989)	N.M.
Downstream	2,910	2,318	25.5%	947	207.3%	5,435	(467)	N.M.
Corporate and Others	232	(434)	N.M.	735	-68.4%	566	1,845	-69.3%
<b>PAT margins</b>								
Upstream	106.3%	64.1%		-0.8%		80.8%	-55.0%	
Gas and New Energy	19.9%	10.7%		-46.7%		15.1%	-26.3%	
Downstream	9.2%	7.7%		4.6%		6.3%	-0.7%	
Corporate and Others	8.9%	-16.4%		26.8%		7.2%	20.9%	

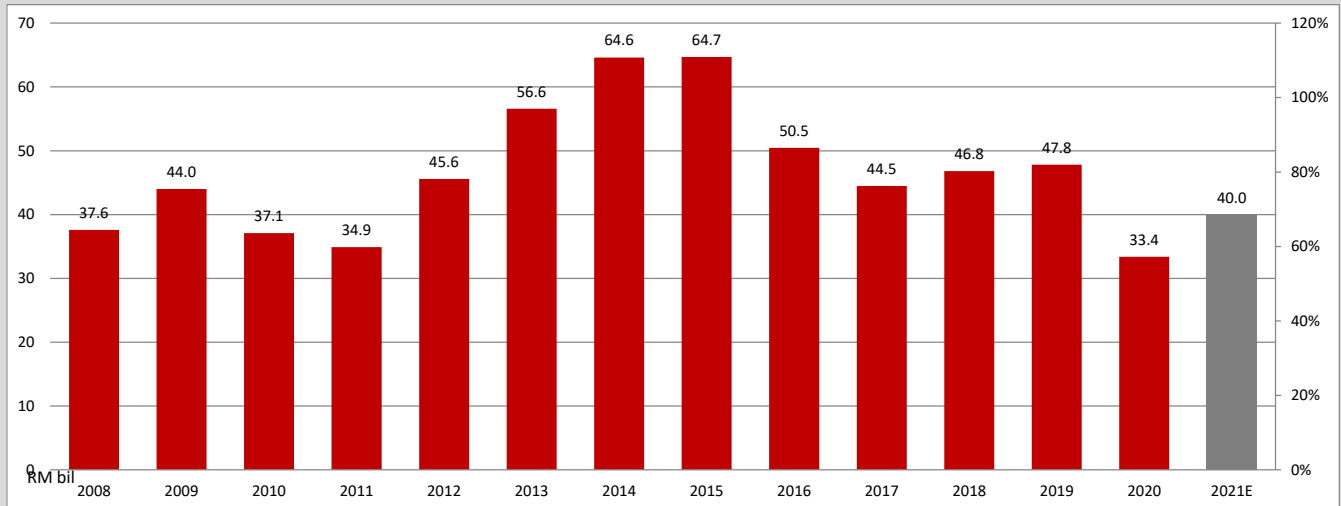
Source: Petronas, Kenanga Research

**Petronas Quarterly Capex (RM m)**



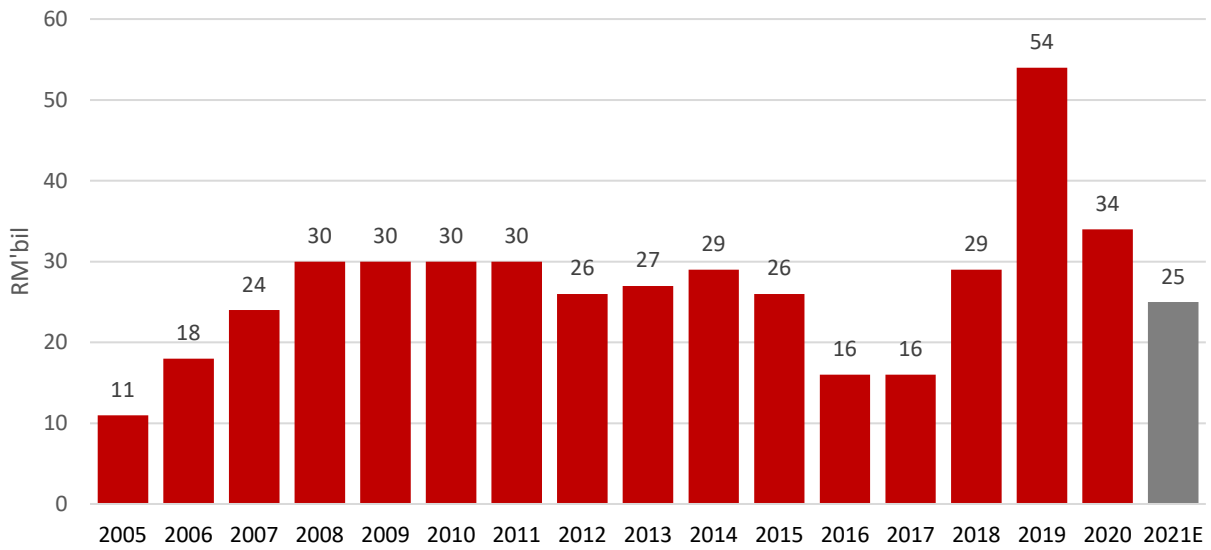
Source: Petronas, Kenanga Research

**Petronas Yearly Capex (RM b)**



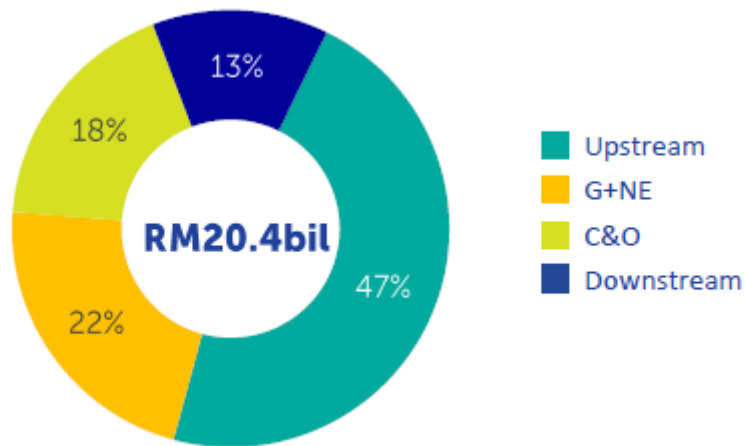
Source: Petronas, Kenanga Research

**Petronas' Historical Dividend Payments (RM b)**



Source: Petronas

**Petronas Capex Breakdown for 9MFY21**



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	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	0.440	2,599.1	N	12/2021	4.7%	-0.4%	35.9%	-13.2%	5.4	4.0	4.6	0.8	0.7	18.6%	0.0%	0.570	OP
DAYANG ENTERPRISE HLDGS BHD	0.790	914.6	Y	12/2021	-14.5%	12.0%	-98.5%	4844.4%	13.7	931.6	18.8	0.6	0.6	0.1%	1.9%	1.00	MP
DIALOG GROUP BHD	2.56	14,445.0	Y	06/2022	-38.1%	28.1%	-7.9%	15.4%	24.0	26.1	22.6	3.5	3.2	12.8%	1.2%	3.50	OP
MISC BHD	6.65	29,683.9	Y	12/2021	7.8%	14.2%	-10.0%	1.4%	13.7	15.3	15.1	0.9	0.8	5.7%	5.0%	8.05	OP
PETRONAS CHEMICALS GROUP BHD	8.50	68,000.0	Y	12/2021	48.1%	-8.1%	247.1%	-34.4%	35.4	10.2	15.6	2.2	2.0	20.7%	4.9%	8.75	MP
PETRONAS DAGANGAN BHD	19.90	19,769.7	Y	12/2021	10.2%	10.2%	91.6%	32.4%	69.4	36.2	27.3	3.5	3.5	9.7%	3.1%	18.90	MP
SAPURA ENERGY BHD	0.085	1,358.2	Y	01/2022	11.9%	-40.6%	-879.6%	-118.9%	N.A.	N.A.	N.A.	0.2	0.2	-30.4%	0.0%	0.070	UP
SERBA DINAMIK HOLDINGS	0.350	1,298.4	Y	06/2022	-52.6%	10.0%	-80.2%	24.6%	1.7	8.5	6.9	0.3	0.3	3.8%	0.0%	CEASE	CEASE
UZMA BHD	0.440	154.9	Y	06/2022	15.2%	10.0%	4.6%	11.9%	6.5	6.2	5.5	0.3	0.3	4.9%	0.0%	0.670	OP
VELESTO ENERGY BHD	0.130	1,068.0	Y	12/2021	-44.1%	15.0%	-548.7%	-139.0%	N.A.	N.A.	N.A.	0.5	0.5	-8.6%	0.0%	0.100	UP
WAH SEONG CORP BHD	0.695	538.1	Y	12/2021	-14.8%	41.7%	-132.8%	-20.6%	N.A.	N.A.	37.7	0.8	0.8	-2.6%	0.0%	0.630	UP
YINSON HOLDINGS BHD	5.68	6,049.0	N	01/2022	-6.6%	-15.5%	-20.3%	-18.1%	9.7	12.2	14.9	3.4	2.7	24.7%	1.1%	7.35	OP
<b>Simple Average</b>					<b>-6.1%</b>	<b>6.4%</b>	<b>-116.6%</b>	<b>382.2%</b>	<b>20.0</b>	<b>116.7</b>	<b>16.9</b>	<b>1.4</b>	<b>1.3</b>	<b>5.0%</b>	<b>1.4%</b>		

Source: Bloomberg, Kenanga Research

**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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