

23 February 2022

# Petronas Gas

## FY21 Results Well On Track

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**FY21 results matched expectations with flattish earning versus last year which reinforced that its earnings are safeguarded by the IBR framework. Going forth, we expect predictable FY22 earnings while the RP2 which starts from Jan 2023 should also see comparable returns as RP1. In all, we maintain MP on the stock which is supported by its decent yield, with a higher TP of RM17.44.**

**FY21 results within expectations.** FY21 results matched expectations with core profit of RM2.03b which was 2% below our forecast and 1% below market consensus. It declared 4<sup>th</sup> interim regular NDPS of 22.0 sen and special NDPS of 10.0 sen (both ex-date: 09 Mar and payment date: 22 Mar) in 4QFY21 vs. 27.0 sen (22.0 sen regular and 5.0 sen special) in 4QFY20. This totalled FY21 NDPS to 82.0 sen (72.0 sen regular and 10.0 sen special) against our projection of 89.0 sen and 127.0 sen (72.0 sen regular and 55.0 sen special) paid in FY20.

**Sequential results impacted by IGC cost.** Despite revenue rising 5%, 4QFY21 core profit declined 25% QoQ to RM442.3m from RM589.9m due to higher opex mainly attributable to higher internal gas consumption (IGC) cost for Gas Transportation (GT) and RGT. In addition, RGT had an adjustment in 3QFY21 with a lower IGC cost due to prior overstatement in 2QFY21. Meanwhile, the improved revenue was solely driven by Utilities segment which jumped 19% owing to higher product prices as well as higher sales volume. On the other hand, share of associate and JV incomes improved to RM47.4m from RM38.7m.

**A flattish YoY earning.** YoY, 4QFY21 core profit barely changed from RM442.1m in 4QFY20, although revenue expanded 8% as higher IGC cost mentioned above as well as higher fuel gas cost at Utilities impacted its profitability. YTD, FY21 core profit inched up 1% to RM2.03b from RM2.00b in FY20 with revenue also decreasing slightly by 1% over the year. Segmental-wise, RGT saw its operating profit rising 14% due to lower utilities expenses while Utilities posted earnings which jumped 34% on lower depreciation as depreciated assets remained in use. However, this was mitigated by lower GT earnings by 12% on higher IGC and maintenance costs.

**Forward earnings to stay resilient.** While FY22 earnings are expected to be negatively impacted by one-off prosperity tax, the IBR framework provides safeguard to its earnings for the final year under RP1. We believe PETGAS will continue to see earnings certainty in RP2 which starts from Jan 2023. 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. In addition, there is a potential 3<sup>rd</sup> storage tank in Pengerang, could be a new earnings kicker.

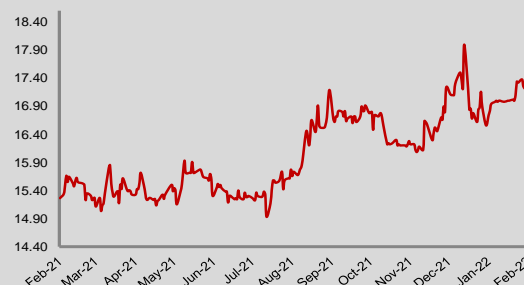
**Maintain MP for its decent yield.** Post results, we keep FY22 estimates and introduce new FY23 forecast with earnings expected to grow at 4.5%. Our FY23 forecast did not factor in the new gas pipeline project yet. Going forth, we still like its resilient earnings profile which is well reflected in the price. Thus, MP rating is maintained with revised TP of RM17.44 from RM17.02 after rolling over valuation base to FY22. Our rating is supported by a sustainable c.5% dividend yield.

**Risk to our call** is higher-than-expected business volume for non-regulated business.

## MARKET PERFORM ↔

Price : RM17.10  
Target Price : RM17.44 ↑

### Share Price Performance



KLCI	1,576.96
YTD KLCI chg	0.6%
YTD stock price chg	-5.0%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PTG MK
Market Cap (RM m)	33,836.3
Shares Outstanding	1,978.7
52-week range (H)	18.00
52-week range (L)	15.24
3-mth avg daily vol:	926,932
Free Float	15%
Beta	0.7

### Major Shareholders

Petroleum Nasional Bhd	51.0%
Employees Provident Fund	13.9%
Kumpulan Wang Persaraan	10.5%

### Summary Earnings Table

FY Dec (RM m)	2021A	2022E	2022E
Turnover	5649	5706	5662
EBIT	2660	2727	2659
PBT	2642	2724	2668
<b>Net Profit (NP)</b>	<b>1989</b>	<b>1951</b>	<b>2038</b>
<b>Core Net Profit</b>	<b>2025</b>	<b>1951</b>	<b>2038</b>
Consensus (NP)		2035.9	1925.4
Earnings Revision (%)		-	New
Core EPS (sen)	102.3	98.6	103.0
CNP growth (%)	1.2	-3.7	4.5
NDPS (sen)	82.0	83.8	87.6
BV/Share (RM)	6.62	6.69	6.84
NTA/Share (RM)	6.62	6.69	6.84
Core PER (x)	16.8	17.3	16.6
PBV (x)	0.00	2.56	2.50
Price/NTA (x)	2.35	2.50	2.44
Gearing (%)	-0.03	-0.08	-0.13
Dividend Yield (%)	4.8	4.9	5.1

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Income Statement								
FY Dec (RM m)	4Q FY21	3Q FY21	Q-o-Q Chg	4Q FY20	Y-o-Y Chg	12M FY21	12M FY20	Y-o-Y Chg
Turnover	1,496.9	1,427.8	5%	1,388.7	8%	5,648.6	5,592.1	1%
EBITDA	843.4	1,032.2	-18%	917.4	-8%	3,642.5	3,687.1	-1%
Depreciation	-220.4	-255.3	-14%	-248.0	-11%	-983.0	-1,016.9	-3%
EBIT	623.0	776.8	-20%	669.4	-7%	2,659.5	2,670.2	0%
Interest expense	-46.2	-45.4	2%	-56.5	-18%	-175.0	-219.8	-20%
Associates	47.4	38.7	23%	28.3	67%	157.1	159.8	-2%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	624.2	770.1	-19%	641.2	-3%	2,641.7	2,610.2	1%
Taxation	-135.7	-151.1	-10%	-120.2	13%	-530.3	-527.9	0%
Profit after tax	488.5	619.0	-21%	521.0	-6%	2,111.4	2,082.3	1%
Minority interest	-35.9	-38.2	-6%	-17.7	103%	-122.5	-72.7	68%
Net profit	452.6	580.8	-22%	503.4	-10%	1,988.9	2,009.6	-1%
Core net profit	442.3	589.9	-25%	442.1	0%	2,025.2	2,001.0	1%
EPS (sen)	22.4	29.8	-25%	22.3	0%	102.3	101.1	1%
DPS (sen)	32.0	18.0	78%	27.0	19%	82.0	127.0	-35%
NTA/share (RM)	6.62	6.58	1%	6.39	4%	6.62	6.39	4%
EBITDA margin	56%	72%		66%		64%	66%	
EBIT margin	42%	54%		48%		47%	48%	
Pretax margin	42%	54%		46%		47%	47%	
Effective tax rate	22%	20%		19%		20%	20%	

Source: Company

Segmental Breakdown								
FY Dec (RM m)	4Q FY21	3Q FY21	Q-o-Q Chg	4Q FY20	Y-o-Y Chg	12M FY21	12M FY20	Y-o-Y Chg
<b>Turnover</b>								
Gas Processing	433.4	429.6	1%	423.7	2%	1,719.8	1,710.7	1%
Gas Transportation	295.2	295.1	0%	294.0	0%	1,169.9	1,172.9	0%
Utilities	412.3	346.3	19%	316.7	30%	1,345.4	1,308.6	3%
RGT	356.0	356.9	0%	354.4	0%	1,413.5	1,400.0	1%
Others	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
<b>Group Turnover</b>	<b>1,496.9</b>	<b>1,427.8</b>	<b>5%</b>	<b>1,388.7</b>	<b>8%</b>	<b>5,648.6</b>	<b>5,592.1</b>	<b>1%</b>
<b>Segment Results</b>								
Gas Processing	235.2	245.2	-4%	224.6	5%	936.4	944.6	-1%
Gas Transportation	117.5	204.9	-43%	173.1	-32%	698.6	794.9	-12%
Utilities	55.2	73.6	-25%	74.3	-26%	273.7	203.8	34%
RGT	207.1	268.9	-23%	164.3	26%	811.0	713.1	14%
Others	8.0	-15.8	>100%	33.1	-76%	-60.2	13.8	-537%
<b>Group EBIT</b>	<b>623.0</b>	<b>776.8</b>	<b>-20%</b>	<b>669.4</b>	<b>-7%</b>	<b>2,659.5</b>	<b>2,670.2</b>	<b>0%</b>
<b>EBIT Margin</b>								
Gas Processing	54%	57%		53%		54%	55%	
Gas Transportation	40%	69%		59%		60%	68%	
Utilities	13%	21%		23%		20%	16%	
RGT	58%	75%		46%		57%	51%	
Others	N/A	N/A		N/A		N/A	N/A	
<b>Group EBIT Margin</b>	<b>42%</b>	<b>54%</b>		<b>48%</b>		<b>47%</b>	<b>48%</b>	

Source: Company

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<b>Valuation - New</b>				
<b>(RM m)</b>	<b>Equity value</b>	<b>RM/Share</b>	<b>%</b>	<b>Valuation Basic</b>
Gas Business	28,335.8	14.32	82.1%	DCF @ 6.6% WACC, g = 2%
Melaka RGT	1,530.4	0.77	4.4%	DCF @ 8.1% WACC
Kimanis IPP	733.1	0.37	2.1%	DCF @ 4.0% WACC
Pengerang RGT	2,247.0	1.14	6.5%	DCF @ 6.0% WACC
Gas Malaysia	554.1	0.28	1.6%	TP: RM3.00 @ 14.8% equity stake
Net Cash/(Debt)	1,099.1	0.56	3.2%	Adjusted FY22E at Group's level
	<b>34,499.5</b>	<b>17.44</b>	<b>100.0%</b>	
No of shares	1,978.7			
<b>SoP per share</b>	<b>RM17.44</b>			

Source: Kenanga Research

<b>Valuation - Old</b>				
<b>(RM m)</b>	<b>Equity value</b>	<b>RM/Share</b>	<b>%</b>	<b>Valuation Basic</b>
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

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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	2.71	3,479.6	Y	12/2022	9.3%	8.3%	-7.4%	6.9%	13.8	15.0	14.0	3.1	3.0	20.4%	6.0%	3.00	OP
MALAKOFF CORP BHD	0.715	3,494.2	Y	12/2021	-8.0%	0.4%	24.9%	-4.9%	14.1	11.3	11.9	0.7	0.7	5.9%	7.1%	1.01	OP
PESTECH INTERNATIONAL BHD	0.715	680.9	Y	06/2022	12.4%	5.0%	4.7%	14.9%	9.4	9.0	7.9	1.2	1.0	12.3%	0.0%	1.11	OP
PETRONAS GAS BHD	17.10	33,836.3	Y	12/2022	1.0%	-0.8%	-3.7%	4.5%	16.7	17.3	16.6	2.6	2.6	14.8%	4.9%	17.44	MP
TENAGA NASIONAL BHD	9.01	51,592.1	Y	12/2021	14.6%	1.0%	27.2%	5.8%	13.5	10.6	10.0	0.9	0.9	8.5%	4.7%	11.41	OP
YTL POWER INTERNATIONAL BHD	0.640	5,185.4	N	06/2022	-4.8%	1.6%	-15.7%	21.2%	11.3	13.4	11.0	0.4	0.4	3.0%	7.8%	0.890	OP
<b>Simple Average</b>					<b>4.1%</b>	<b>2.6%</b>	<b>5.0%</b>	<b>8.1%</b>	<b>13.1</b>	<b>12.8</b>	<b>11.9</b>	<b>1.5</b>	<b>1.4</b>	<b>10.8%</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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