

01 December 2022

Oil & Gas

Strong 3QFY22 Petronas Results

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OVERWEIGHT



A read-through of Petronas' 9MFY22 results shows stronger earnings (+159% YoY), thanks to the higher oil prices, with capex spending also higher at RM27.4b (+34% YoY), reflective of the ongoing recovery in activity levels. We believe 4QFY22 capex will be seasonally stronger in order to meet its full-year capex guidance of RM60b. Petronas' net-cash position currently stands at a healthy RM103b – highest since end-FY18, and hence, we see little difficulty for the group in meeting capex and dividend commitments, which is also expected to be doubled from last year. Meanwhile, the recently concluded 3QCY22 results season was positive for the sector, with no disappointments and 64% of our sector coverage beating expectations. We believe this to be a tell-tale sign that the resurgence of activity levels is beginning to translate into corporate earnings. We maintain OVERWEIGHT on the sector, with top picks including PCHEM and ARMADA.

Strong Petronas' results thanks to elevated oil prices. Petronas' 9MFY22 core PATAMI of RM72b (adjusted for net impairments) soared more than double YoY, on the back of favourable average realised prices for major products. As a reference, Brent crude oil price averaged at USD101/barrel in 9MFY22, versus USD70/barrel in 9MFY21. Meanwhile, for the quarter of 3QFY22, core PATAMI of RM29b also came in 27% stronger QoQ, largely thanks to higher volumes from petroleum and petrochemical products, coupled with the favourable impact from foreign exchange.

Higher capex in line with recovery of activities. Petronas incurred a capex of RM27.4b in 9MFY22 – representing a 34% jump, YoY. This is reflective of the overall recovery as activity levels are normalising in a post-pandemic era. That said, we expect capex to further pick up in the upcoming 4QFY22 quarter, in order to meet Petronas' full-year capex guidance of RM60b. We note that 4Q has always been the seasonally strongest quarter for Petronas capex spend over the past few years (as reference, 4QFY21 capex spend constituted 41% of the full-year's capex spend of RM30.5b), and as such, we believe Petronas meeting its own capex guidance figure is still very plausible. Meanwhile, in line with the record high earnings this year, Petronas' committed dividends of RM50b is double that of last year's – of which RM25b has already been paid, with the remainder to be paid in the upcoming quarter. Petronas' net-cash position currently stands at a healthy RM103b (highest it has ever been since end-FY18), and hence, we see little difficulty in the group meeting its dividend commitments as well as its capex guidance simultaneously.

Activity levels to continue picking up in the second half of the year. With anticipated further ramp-up in capex by Petronas, we are expecting the upcoming quarters to see a continued recovery trajectory in local activity levels. Earlier in our read-through of Petronas' latest activity outlook, we have highlighted DAYANG to be one of the key beneficiaries, given the planned increase in offshore maintenance, construction and modification (MCM), and hook-up and commissioning (HUC) works. Meanwhile, we believe UZMA could also benefit from the increased level of brownfield activities – especially in an environment of higher oil prices as producers would be more incentivised to enhance well productions. Additionally, demand for jack-up rigs is also expected to improve in 2H 2022 and going into 2023 – benefitting rig provider VELESTO.

Vastly improved quarter for corporate earnings. Meanwhile, the recently concluded 3QCY22 reporting season saw a vast improvement in corporate earnings. None of the counters within our sector coverage posted disappointing results – versus 30% of our sector coverage in the previous 2QCY22 quarter. More impressively, 64% of our sector coverage managed to beat expectations (versus 30% from the previous quarter). Overall, we see these as tell-tale signs that the higher activity levels in light of the elevated oil prices are beginning to translate into corporate earnings starting this quarter.

Maintain OVERWEIGHT on the sector, underpinned by the healthy oil prices, and anticipation of continued recovery in activity levels, with our current average 2022/2023 Brent crude oil price assumption of USD100/USD90 per barrel (revised downwards from USD110/USD100 per barrel previously amidst slightly milder demand growth assumptions). Current top picks for the sector are **PCHEM (OP, TP: RM11.00)** and **ARMADA (OP, TP: RM0.63)**.

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Quarterly Results Performance

Consumer	2QCY22						1QCY22					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
ARMADA	1			1			1			1		
DAYANG	1			1			1			1		
DIALOG		1			1				1			1
MISC	1			1					1			1
PCHEM		1			1			1			1	
PETDAG	1			1				1			1	
PETRONM		1										
UZMA	1			1			1			1		
VELESTO		1			1				1			1
WASEONG	1					1		1				1
YINSON	1			1				1			1	
Total	7	4	0	6	3	1	3	4	3	3	3	4
Total (%)	64	36	0	60	30	10	30	40	30	30	30	40

Income Statement

Y/E: Dec (RM'mil)	3Q FY22	2Q FY22	Q-o-Q Chg	3Q FY21	Y-o-Y Chg	9M FY22	9M FY21	Y-o-Y Chg
Revenue	99,224	93,352	6.3%	61,773	60.6%	271,326	171,391	58.3%
Cost of revenue	(59,103)	(51,416)	15.0%	(39,928)	48.0%	(152,007)	(110,524)	37.5%
Gross profit	40,121	41,936	-4.3%	21,845	83.7%	(152,007)	60,867	-349.7%
Selling and distribution	(2,143)	(1,870)	14.6%	(2,245)	-4.5%	(6,089)	(6,730)	-9.5%
Administration expenses	(2,760)	(4,858)	-43.2%	(2,435)	13.3%	(10,457)	(7,597)	37.6%
Net impairments	(620)	(1,902)	-67.4%	1,720	-136.0%	(2,820)	1,960	-243.9%
Other expenses	(302)	(745)	-59.5%	(33)	815.2%	(2,429)	(1,159)	109.6%
Other income	5,743	1,588	261.6%	1,000	474.3%	8,465	4,444	90.5%
Operating profit	40,039	34,149	17.2%	19,852	101.7%	105,989	51,785	104.7%
Finance costs	(1,386)	(1,409)	-1.6%	(1,443)	-4.0%	(4,123)	(4,019)	2.6%
Associates and JVs	485	389	24.7%	504	-3.8%	1,510	1,339	12.8%
Profit before taxation	39,138	33,129	18.1%	18,913	106.9%	103,376	49,105	110.5%
Tax expense	(8,374)	(10,131)	-17.3%	(2,606)	221.3%	(26,179)	(13,972)	87.4%
Non-controlling interests	(2,726)	(2,395)	13.8%	(2,329)	17.0%	(7,669)	(5,248)	46.1%
PATAMI	28,038	20,603	36.1%	13,978	100.6%	69,528	29,885	132.7%
Core PATAMI	28,658	22,505	27.3%	12,258	133.8%	72,348	27,925	159.1%
Gross margin	40.4%	44.9%		35.4%		-56.0%	35.5%	
Operating margin	40.4%	36.6%		32.1%		39.1%	30.2%	
PBT margin	39.4%	35.5%		30.6%		38.1%	28.7%	
PATAMI margin	28.3%	22.1%		22.6%		25.6%	17.4%	
Core PATAMI margin	28.9%	24.1%		19.8%		26.7%	16.3%	
Effective tax rate	21.4%	30.6%		13.8%		25.3%	28.5%	

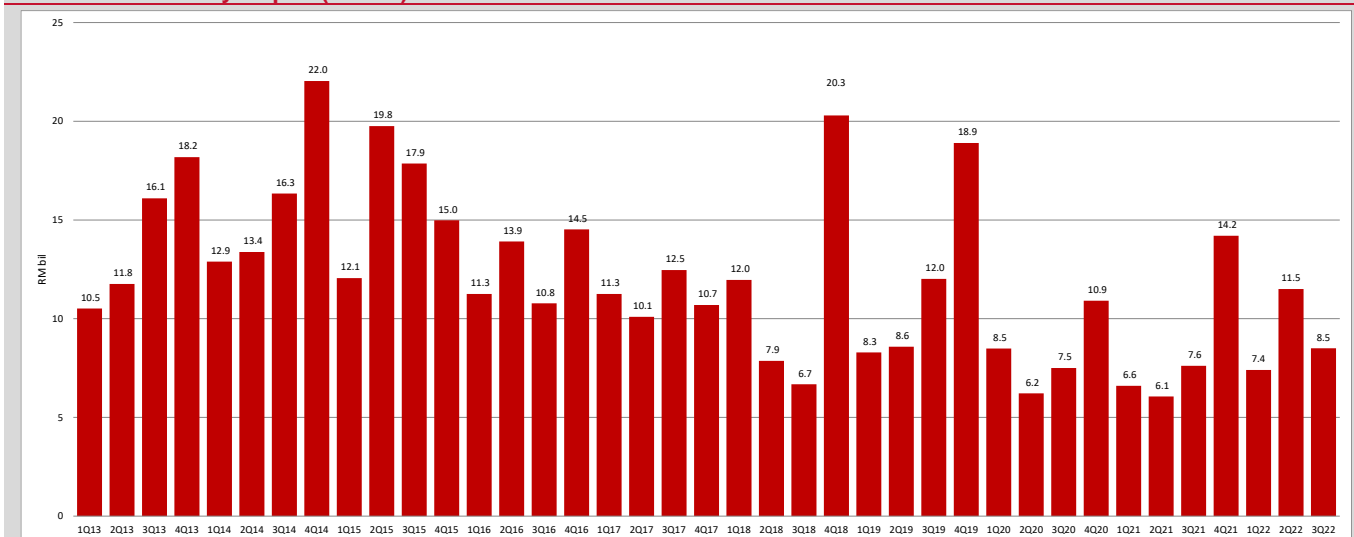
Source: Petronas, Kenanga Research

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Segmental Breakdown								
	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
Y/E: Dec (RM'mil)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Revenue								
Upstream	15,104	17,740	-14.9%	9,232	63.6%	46,314	28,199	64.2%
Gas	33,183	29,246	13.5%	18,369	80.6%	86,785	48,498	78.9%
Downstream	46,472	42,571	9.2%	31,466	47.7%	126,717	86,548	46.4%
Corporate and Others	4,465	3,795	17.7%	2,706	65.0%	11,510	8,146	41.3%
Profit After Tax								
Upstream	16,102	11,228	43.4%	9,816	64.0%	39,194	22,790	72.0%
Gas	10,311	9,083	13.5%	3,650	182.5%	27,838	7,363	278.1%
Downstream	923	3,375	-72.7%	2,905	-68.2%	9,354	5,378	73.9%
Corporate and Others	2,232	193	1056.5%	250	792.8%	1,949	493	295.3%
PAT margins								
Upstream	106.6%	63.3%		106.3%		84.6%	80.8%	
Gas	31.1%	31.1%		19.9%		32.1%	15.2%	
Downstream	2.0%	7.9%		9.2%		7.4%	6.2%	
Corporate and Others	50.0%	5.1%		9.2%		16.9%	6.1%	

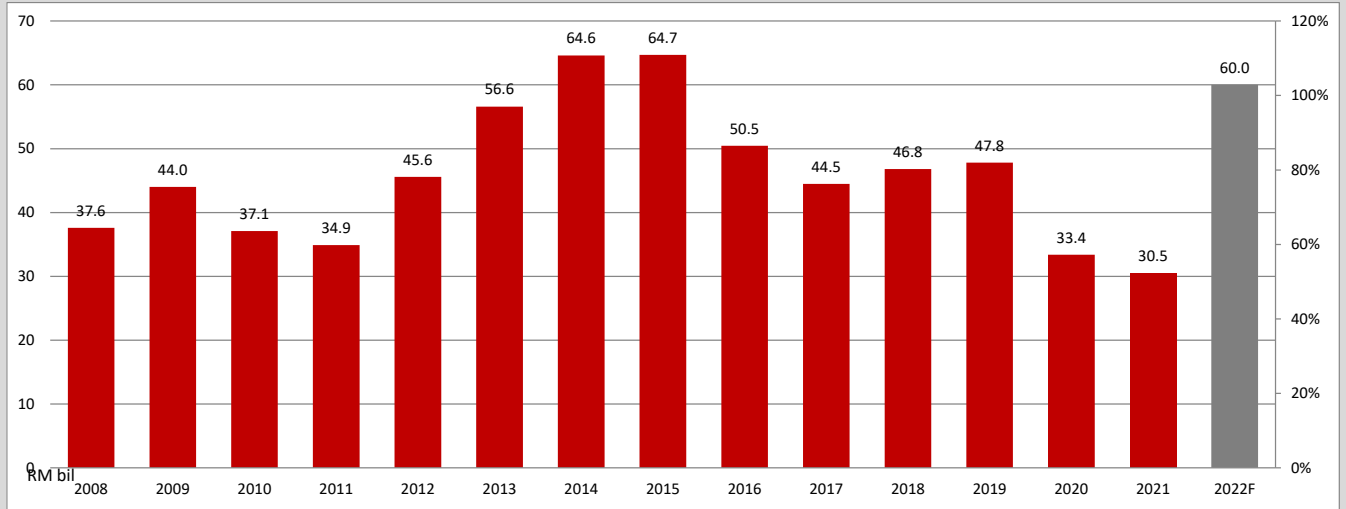
Source: Petronas, Kenanga Research

Petronas Quarterly Capex (RM bil)



Source: Petronas, Kenanga Research

Petronas Yearly Capex (RM bil)



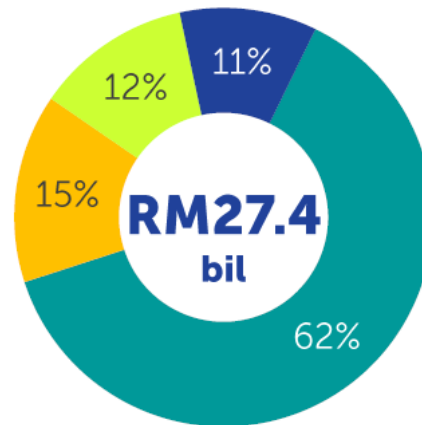
Source: Petronas, Kenanga Research

Petronas Capex Breakdown

YTD 2022
RM27.4bil

34%

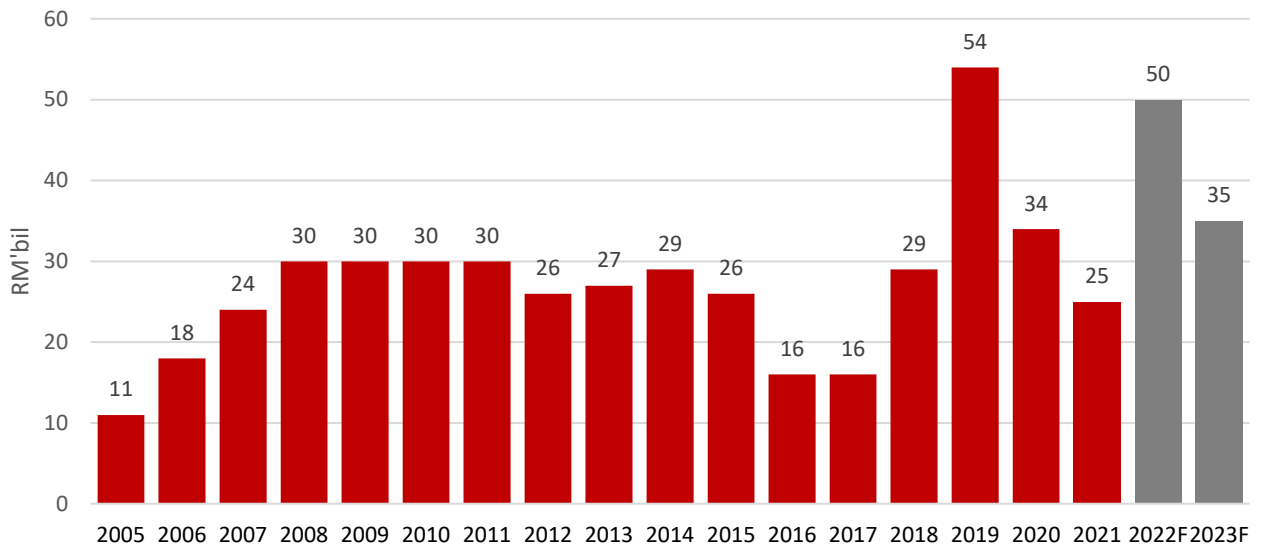
YTD 2021
RM20.4bil



■ Upstream ■ Gas ■ Downstream ■ C&O

Source: Petronas

Petronas' Historical Dividend Payments



Source: Petronas

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BUMI ARMADA BHD	OP	0.450	0.630	40.00%	2,663.1	N	12/2022	12.4	11.7	7.9%	-5.1%	3.6	3.8	0.6	16.8%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	1.40	1.70	21.43%	1,620.9	Y	12/2022	10.2	11.2	170.1%	10.1%	13.7	12.4	1.1	8.6%	0.0	0.0%
DIALOG GROUP BHD	OP	2.27	3.10	36.56%	12,808.6	Y	06/2023	9.5	9.9	5.1%	4.8%	24.0	22.9	2.4	10.2%	2.8	1.2%
MISC BHD	MP	7.20	7.30	1.39%	32,139.0	Y	12/2022	43.1	33.8	1.9%	-21.6%	16.7	21.3	0.9	5.6%	33.0	4.6%
PETRONAS CHEMICALS GROUP BHD	OP	8.54	11.00	28.81%	68,320.0	Y	12/2022	87.2	68.8	-3.9%	-21.1%	9.8	12.4	1.8	19.0%	43.6	5.1%
PETRONAS DAGANGAN BHD	MP	23.78	23.90	0.50%	23,624.3	Y	12/2022	70.4	74.0	27.6%	5.2%	33.8	32.1	4.2	12.5%	70.4	3.0%
SAPURA ENERGY BHD	MP	4.35	4.65	6.90%	1,174.5	Y	12/2022	161.1	98.1	82.8%	-39.1%	2.7	4.4	0.5	20.1%	16.0	3.7%
UZMA BHD	OP	0.460	0.670	45.65%	161.9	Y	06/2023	6.6	7.3	57.9%	11.4%	7.0	6.3	0.3	4.3%	0.0	0.0%
VELESTO ENERGY BHD	OP	0.145	0.160	10.34%	1,191.3	Y	12/2022	(0.7)	1.1	-135.6%	41.3%	N.A.	13.8	0.5	-2.8%	0.0	0.0%
WAH SEONG CORP BHD	OP	0.650	0.800	23.08%	503.3	Y	12/2022	6.2	8.8	101.7%	43.1%	10.5	7.4	0.8	7.8%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.35	3.15	34.04%	6,809.2	N	01/2023	21.9	24.1	16.3%	10.3%	10.7	9.7	1.8	18.3%	6.0	2.6%
Simple Average								38.9	31.7	30.1%	3.6%	13.3	13.3	1.4	11.0%		1.8%

Source: 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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