

23 May 2023

Petronas Dagangan

Boosted by Robust Volumes

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PETDAG's 1QFY23 results beat expectations due to strong volumes and favourable product prices. Moving forward, volumes may be hurt by the implementation of targeted fuel subsidies. On the flipside, the resumption of international flights may boost commercial fuel volumes. We raise our FY23F and FY24F net profit by 27% and 6%, respectively, lift our TP by 4% to RM24.90 (from RM24.00) but maintain our MARKET PERFORM call.

Soaring volumes led to earnings beat. 1QFY23 core net profit of RM301m beat expectations, coming in at 36% and 37% of our full-year forecast and the full-year consensus estimate, respectively. The variance against our forecast came largely from stronger-than-expected sales volumes, particularly at the retail segment.

Dramatic turnaround at the commercial segment. 1QFY23 bottom line more than doubled YoY following a 13% surge in sales volume. This was underpinned by higher retail demand (+15%) due to the festive season and school holidays. Furthermore, commercial volumes spiked by 10% post-opening of international borders since 2QCY22. Correspondingly, this boosted Jet A1 volumes and enabled a turnaround in EBIT contribution by the Commercial segment. The above, coupled with lower taxes and opex, led to the improved performance. This was in spite of subdued average selling prices (ASP) (+1% YoY).

Product price fluctuations worked to PETDAG's advantage. On the other hand, QoQ expansion (+66%) was driven by the retail segment on the back of: (i) lower product costs, and (ii) 1QFY23 price trends that moved in PETDAG's favour. Additionally, to a lesser extent, earnings received a kicker from lower opex at the Convenience segment. The above more than offset drag from lower volumes (-2%) and ASP (-7%).

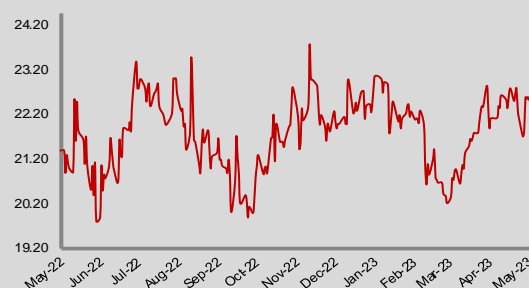
Possible setback from targeted fuel subsidies. Moving forward, we are concerned of volume downside risk for PETDAG. This is given the government's plans to implement targeted fuel subsidies next year. Following this, volumes may suffer a setback in the immediate term. Whilst we believe demand is elastic over the longer term, there may be a knee jerk reaction, resulting in lower consumption. Moreover, public transportation is emerging as a viable alternative given improved coverage and connectivity of mass transit lines, coupled with sustained government subsidies.

Beneficiary of revival in tourist arrivals. On the other hand, there is room for earnings expansion, as we believe that Jet A1 volumes have yet to revert to pre-pandemic levels. The company expects a revival of Malaysia's tourism industry in 2023 will propel aviation fuel volumes. This is underpinned by projections that international air passenger arrivals in Malaysia will surge to 9.6m in 2023 (2022: 2.9m). In turn, this implies an increase in international flights, and hence consumption of aviation fuel. Therefore, volume growth traction for the commercial segment is expected to sustain in 2023 (2022: +20% YoY, 2021: -50% YoY).

MARKET PERFORM ↔

Price: RM22.40
Target Price: RM24.90 ↑

Share Price Performance



KLCI	1,419.00
YTD KLCI chg	-5.1%
YTD stock price chg	-2.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PETD MK Equity
Market Cap (RM m)	22,253.4
Shares outstanding	993.5
52-week range (H)	23.62
52-week range (L)	19.55
3-mth avg daily vol:	216,333
Free Float	13%
Beta	0.9

Major Shareholders

Petroleum Nasional Bhd	63.9%
Employees Provident Fund	12.4%
Amanah Saham Nasional	7.8%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Revenue	36,749	37,484	39,358
EBIT	1,149	1,424	1,259
PBT	1,135	1,399	1,239
Net Profit	777	1,053	920
Core Net Profit (CNP)	745	1,053	920
Consensus (CNP)		819	883
Earnings Revision (%)		+27.3	+5.8
Core EPS (sen)	74.9	106.0	92.6
EPS growth (%)	35.8	41.4	-12.6
DPS (sen)	76.0	106.0	92.6
BV/Share (RM)	5.78	5.78	5.78
PER (x)	29.3	21.1	24.2
PBV (x)	3.8	3.9	3.9
Net-Gearing (x)	N.Cash	N.Cash	N.Cash
Div. Yield (%)	3.5	4.7	4.1

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Forecasts. We raise our FY23F and FY24F net profit forecasts by 27% and 6%, respectively, to reflect higher sales volume assumptions.

Correspondingly, we lift our TP by 4% to RM24.90 (from RM24.00) based on DCF valuation with a WACC and terminal growth assumptions of 10% and 1% respectively. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

We like PETDAG: (i) for the stable demand for fuels as the economy normalises, (ii) given its strong balance sheet with a huge war chest of RM2.8b and stable dividends, and (iii) for its strong shareholder, i.e. the national oil company Petronas. However, its valuations are fair with limited re-rating catalysts. Maintain **MARKET PERFORM**.

Risks to our call include: (i) the full removal of fuel subsidies for all income brackets, (ii) the global economy slips into recession and derails recovery of international air travel, and (iii) weak tourist arrivals.

Result Highlights

	1Q	4Q	Q-o-Q	1Q	Y-o-Y
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg
Revenue	8,645.5	9,498.8	-9.0%	7,618.3	13.5%
Operating profit	407.0	248.0	64.1%	180.7	125.2%
Finance cost	(2.7)	(10.5)	-74.5%	(2.8)	-4.0%
Associates and joint ventures	4.5	4.2	8.6%	0.8	476.5%
Profit before taxation	408.9	241.7	69.2%	178.7	128.8%
Taxation	(102.5)	(93.0)	10.2%	(58.4)	75.6%
Non-controlling interests	(4.5)	(4.2)	8.3%	(1.9)	144.1%
Net profit	301.8	144.5	108.9%	118.5	154.7%
Core Net profit	300.7	180.9	66.2%	126.2	138.3%
Operating margin	4.7%	2.6%		2.4%	
PBT margin	4.7%	2.5%		2.3%	
Net margin	3.5%	1.5%		1.6%	
Core net margin	3.5%	1.9%		1.7%	
Effective tax rate	25.1%	38.5%		32.7%	

Source: Company, Kenanga Research

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Segmental Breakdown

	1Q	4Q	Q-o-Q	1Q	Y-o-Y
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg
Revenue					
Retail	4,409.7	4,555.2	-3.2%	3,803.2	15.9%
Commercial	4,172.1	4,889.0	-14.7%	3,763.7	10.9%
Convenience	63.6	54.5	16.6%	51.5	23.6%
EBIT					
Retail	227.9	124.2	83.4%	212.6	7.2%
Commercial	160.3	130.6	22.7%	(41.1)	-489.8%
Convenience	18.9	(6.8)	-375.9%	9.3	103.3%
EBIT margins					
Retail	5.2%	2.7%		5.6%	
Commercial	3.8%	2.7%		-1.1%	
Convenience	29.6%	-12.5%		18.0%	

Source: Company, Kenanga Research

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.				
Stocks Under Coverage																	
BUMI ARMADA BHD	OP	0.665	0.750	12.78%	3,935.6	N	12/2023	13.1	13.6	1.0%	3.5%	5.1	4.9	0.7	13.9%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	1.37	1.90	38.69%	1,586.1	Y	12/2023	11.2	12.6	12.0%	11.8%	12.2	10.9	1.0	8.6%	3.0	2.2%
DIALOG GROUP BHD	OP	2.12	3.10	46.23%	11,962.3	Y	06/2023	9.5	9.9	5.1%	4.8%	22.4	21.4	2.2	10.2%	2.8	1.3%
MISC BHD	MP	7.38	7.50	1.63%	32,942.4	Y	12/2023	47.0	48.9	-11.6%	4.1%	15.7	15.1	0.9	5.6%	33.0	4.5%
PETRONAS CHEMICALS GROUP BHD	MP	6.96	7.80	12.07%	55,680.0	Y	12/2023	65.3	52.2	-18.9%	-20.0%	10.7	13.3	1.3	12.9%	33.0	4.7%
PETRONAS DAGANGAN BHD	MP	22.40	24.90	11.16%	22,253.4	Y	12/2023	106.0	92.6	41.3%	-12.6%	21.1	24.2	3.9	18.3%	106.0	4.7%
PETRONAS MALAYSIA REFINING	MP	4.50	4.35	-3.33%	1,215.0	Y	12/2023	81.9	91.9	-26.6%	12.2%	5.5	4.9	0.5	9.6%	16.0	3.6%
UZMA BHD	OP	0.640	0.900	40.63%	225.3	Y	06/2023	7.7	9.9	85.0%	28.5%	8.3	6.5	0.4	5.1%	0.0	0.0%
VELESTO ENERGY BHD	UP	0.260	0.190	-26.92%	2,136.1	Y	12/2023	0.7	1.3	-36.1%	73.3%	35.0	20.2	0.9	2.6%	0.0	0.0%
WAH SEONG CORP BHD	OP	0.920	0.970	5.43%	712.4	Y	12/2023	10.7	12.8	6.1%	19.1%	8.6	7.2	1.1	13.4%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.53	3.65	44.27%	7,353.8	N	01/2024	20.8	25.2	-18.4%	21.2%	12.1	10.0	1.6	13.7%	2.0	0.8%
Sector Aggregate					140,002.3					-9.8%	-7.4%	13.0	14.0	1.3	10.4%		2.0%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★			
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★	★	
	Corporate Governance	★	★			
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Transition to Low-Carbon Future	★	★			
	Conservation & Biodiversity	★	★	★		
	Effluent/Waste Management	★	★	★	★	
	Water Management	★	★	★		
	Supply Chain Management	★	★	★		
	Energy Efficiency	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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