

23 May 2023

# Petronas Gas

## Win Some, Lose Some

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PETGAS's 1QFY23 results met expectations. The higher Imbalance Cost Pass-Through (ICPT) surcharge at its utilities segment, was offset by lower tariffs under Regulatory Period 2 (RP2) for its Pengerang Regassification Terminal (RGT). Thanks to the incentive-based Regulation (IBR) framework, PETGAS's earnings stability remains strong which anchors a consistent dividend yield of >4%. We maintain our forecasts, TP of RM17.13 and MARKET PERFORM call.

1QFY2 core net profit of RM421.4m met expectations at 22% each of both our full-year forecast and the full-year consensus estimate. It declared a first interim NDPS of 16.0 sen (ex-date: 06 Jun; payment date: 20 Jun) which is the same payout in 1QFY22.

**YoY**, 1QFY23 revenue grew 15% to RM1.46b driven by higher revenue from utilities segment (+55%) on higher product prices for steam and industrial gases which was in line with higher fuel gas price, coupled with higher electricity tariff on 20.0 sen ICPT surcharge for 1HFY23.

Conversely, operating profit fell 7% to RM555.4m in 1QFY23 owing to higher gas prices, leading to higher internal gas consumption (IGC) costs which was part of operating cost for its regulated businesses, i.e., gas processing (GP, EBIT: -11%) and gas transportation (GT, EBIT: -33%). Lower RP2 tariffs for its Pengerang RGT as well as higher opex resulted in lower earnings for its RGT segment (-9%). However, its utilities earnings (+164%) jumped on the higher ICPT surcharge as mentioned and 1QFY23 core profit inched up by 1% to RM421.4m due to tax incentives granted for Pengerang RGT.

**QoQ**, 1QFY23 revenue grew 3% to RM1.67b mainly led by higher revenue in utilities segment (+12%) on higher product prices and ICPT surcharge mentioned above. Core profit rose by a larger 11% to RM421.4m due to lower gas prices, leading to lower IGC costs for GP (EBIT: +5%) and GT (EBIT: +296%) as well as non-regulated utilities segment (EBIT: +69%) with gas fuel being the key input. The significant jump in GT's earnings was also due to the low base in 4QFY22 on annual reconciliation adjustments. Meanwhile, the ICPT surcharge also lifted utilities earnings. However, the earnings for RGT (EBIT: -23%) was negatively affected by the lower RP2 tariffs for Pengerang RGT as well as higher opex.

**Forecasts.** Maintained.

We also maintain our SoP-driven TP of RM17.13 (see Page 3). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

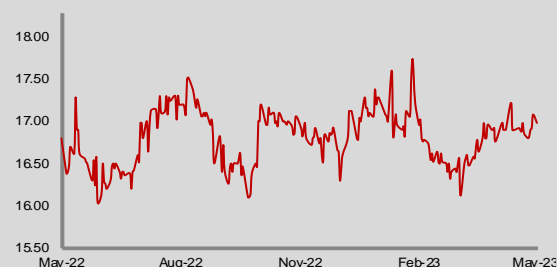
We continue to like PETGAS for its earnings stability of which >90% is safeguarded by the IBR framework, and the RP2 has reinforced its earnings stability which anchored a decent dividend yield of >4%. However, its valuation is already rich at current levels. Maintain **MARKET PERFORM**.

**Risks to our recommendation include:** (i) regulatory risk, and (ii) a global recession hurting demand for power, steam and industrial gases.

# MARKET PERFORM ↔

**Price :** RM16.98  
**Target Price :** RM17.13 ↔

## Share Price Performance



KLCI 1,419.00  
YTD KLCI chg -5.1%  
YTD stock price chg -0.8%

## Stock Information

Shariah Compliant Yes  
Bloomberg Ticker PTG MK Equity  
Market Cap (RM m) 33,598.9  
Shares Outstanding 1,978.7  
52-week range (H) 17.78  
52-week range (L) 15.92  
3-mth avg daily vol: 446,852  
Free Float 15%  
Beta 0.7

## Major Shareholders

Petroleum Nasional Bhd 51.0%  
Employees Provident Fund 14.3%  
Kumpulan Wang Persaraan 10.0%

## Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	6160	5763	5815
EBIT	2320	2523	2546
PBT	2269	2482	2518
<b>Net Profit (NP)</b>	<b>1645</b>	<b>1897</b>	<b>1924</b>
<b>Core Net Profit</b>	<b>1727</b>	<b>1897</b>	<b>1924</b>
Consensus (NP)	-	1890	1923
Earnings Revision (%)	-	-	-
Core EPS (sen)	87.3	95.8	97.2
CNP growth (%)	-14.7	9.8	1.4
NDPS (sen)	72.0	81.5	82.6
BV/Share (RM)	6.64	6.79	6.93
NTA/Share (RM)	6.64	6.79	6.93
Core PER (x)	19.6	17.7	17.5
PBV (x)	2.58	2.50	2.45
Price/NTA (x)	2.58	2.45	2.40
Gearing (%)	N Cash	N Cash	N Cash
Dividend Yield (%)	4.2	4.8	4.9

23 May 2023

Income Statement								
FY Dec (RM m)	1Q FY23	4Q FY22	Q-o-Q Chg	1Q FY22	Y-o-Y Chg	3M FY23	3M FY22	Y-o-Y Chg
Turnover	1,674.9	1,632.9	3%	1,457.9	15%	1,674.9	1,457.9	15%
EBITDA	823.9	831.3	-1%	844.9	-2%	823.9	844.9	-2%
Depreciation	-268.5	-274.9	-2%	-245.5	9%	-268.5	-245.5	9%
EBIT	555.4	556.3	0%	599.5	-7%	555.4	599.5	-7%
Interest expense	-42.8	-47.4	-10%	-43.1	-1%	-42.8	-43.1	-1%
Associates	44.4	18.6	139%	32.0	39%	44.4	32.0	39%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	556.9	527.5	6%	588.3	-5%	556.9	588.3	-5%
Taxation	-108.6	-65.4	66%	-150.7	-28%	-108.6	-150.7	-28%
Profit after tax	448.3	462.1	-3%	437.6	2%	448.3	437.6	2%
Minority interest	-24.1	-49.6	-51%	-27.0	-11%	-24.1	-27.0	-11%
Net profit	424.2	412.5	3%	410.6	3%	424.2	410.6	3%
Core net profit	421.4	378.9	11%	418.3	1%	421.4	418.3	1%
EPS (sen)	21.3	19.1	11%	21.1	1%	21.3	21.1	1%
DPS (sen)	16.0	22.0	-27%	16.0	0%	16.0	16.0	0%
NTA/share (RM)	6.64	6.64	0%	6.51	2%	6.64	6.51	2%
EBITDA margin	49%	51%		58%		49%	58%	
EBIT margin	33%	34%		41%		33%	41%	
Pretax margin	33%	32%		40%		33%	40%	
Effective tax rate	20%	12%		26%		20%	26%	

Source: Company

Segmental Breakdown								
FY Dec (RM m)	1Q FY23	4Q FY22	Q-o-Q Chg	1Q FY22	Y-o-Y Chg	3M FY23	3M FY22	Y-o-Y Chg
<b>Turnover</b>								
Gas Processing	443.9	438.2	1%	433.6	2%	443.9	433.6	2%
Gas Transportation	288.4	295.6	-2%	288.4	0%	288.4	288.4	0%
Utilities	608.4	541.8	12%	392.1	55%	608.4	392.1	55%
RGT	334.3	357.3	-6%	343.8	-3%	334.3	343.8	-3%
Others	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
<b>Group Turnover</b>	<b>1,674.9</b>	<b>1,632.9</b>	<b>3%</b>	<b>1,457.9</b>	<b>15%</b>	<b>1,674.9</b>	<b>1,457.9</b>	<b>15%</b>
<b>Segment Results</b>								
Gas Processing	207.6	197.2	5%	232.4	-11%	207.6	232.4	-11%
Gas Transportation	123.0	31.1	296%	183.2	-33%	123.0	183.2	-33%
Utilities	57.0	33.6	69%	21.6	164%	57.0	21.6	164%
RGT	159.5	206.5	-23%	175.0	-9%	159.5	175.0	-9%
Others	8.3	88.0	-91%	-12.7	-165%	8.3	-12.7	-165%
<b>Group EBIT</b>	<b>555.4</b>	<b>556.3</b>	<b>0%</b>	<b>599.5</b>	<b>-7%</b>	<b>555.4</b>	<b>599.5</b>	<b>-7%</b>
<b>EBIT Margin</b>								
Gas Processing	47%	45%		54%		47%	54%	
Gas Transportation	43%	11%		64%		43%	64%	
Utilities	9%	6%		6%		9%	6%	
RGT	48%	58%		51%		48%	51%	
Others	N/A	N/A		N/A		N/A	N/A	
<b>Group EBIT Margin</b>	<b>33%</b>	<b>34%</b>		<b>41%</b>		<b>33%</b>	<b>41%</b>	

Source: Company

23 May 2023

Valuation			
	RM m	RM/Share	Basis
Gas Business	26,590.9	13.44	DCF @ 8.1% WACC, g = 2%
Melaka RGT	1,288.0	0.65	DCF @ 8.1% WACC
Kimanis IPP	663.2	0.34	DCF @ 4.0% WACC
Pengerang RGT	1,974.7	1.00	DCF @ 6.0% WACC
Gas Malaysia	653.9	0.33	TP: RM3.43 @ 14.8% equity stake
Net Cash/(Debt)	2,733.3	1.38	Adjusted FY23F at group level
	<u>33,904.0</u>	<u>17.13</u>	

Source: Kenanga Research

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23 May 2023

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.
<b>Stocks Under Coverage</b>																	
GAS MALAYSIA BHD	MP	3.19	3.54	10.97%	4,096.0	Y	12/2023	27.1	25.2	-11.5%	-6.8%	11.8	12.6	3.0	26.2%	19.0	6.0%
MALAKOFF CORP BHD	OP	0.675	0.950	40.74%	3,298.7	Y	12/2023	6.5	7.1	3.7%	8.4%	10.4	9.6	0.6	5.9%	5.2	7.7%
PETRONAS GAS BHD	MP	16.98	17.13	0.88%	33,598.9	Y	12/2023	95.8	97.2	9.8%	1.4%	17.7	17.5	2.5	14.3%	81.5	4.8%
SAMAIDEN GROUP BHD	OP	0.925	1.15	24.32%	358.3	Y	06/2023	4.7	5.5	16.9%	15.9%	19.6	16.9	2.8	15.5%	0.0	0.0%
TENAGA NASIONAL BHD	MP	9.60	10.64	10.83%	55,229.5	Y	12/2023	83.2	84.4	24.1%	1.4%	11.5	11.4	0.9	8.0%	41.6	4.3%
YTL POWER INTERNATIONAL BHD	OP	1.18	1.09	-7.63%	9,560.5	N	06/2023	9.8	10.6	207.9%	8.9%	12.1	11.1	0.7	5.5%	5.0	4.2%
<b>Sector Aggregate</b>					<b>106,141.9</b>												<b>4.5%</b>

Source: Kenanga Research

23 May 2023

**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	★	
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
<b>SPECIFIC</b>	Transition to Renewables	★	★	★		
	Reliable Energy & Fair Tariff	★	★	★		
	Effluent/Waste Management	★	★	★		
	Ethical Practices	★	★	★		
	Supply Chain Management	★	★	★		
	Customer Satisfaction	★	★	★		
<b>OVERALL</b>		★	★	★		

☆ 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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