

# Petron Malaysia Refining

## Buoyed by Favourable Hedging Positions

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PETRONM's 1QFY23 results beat our expectation mainly due to higher sales volume while favourable hedging positions partially offset contraction in crack spreads. Although crack spreads regionally have rebounded from the lows since Nov 2022, they are unlikely to revisit their recent highs. We raise our FY23-24F earnings forecasts by 26% and 7%, respectively, TP by 7% to RM4.65 (from RM4.35) but maintain the MARKET PERFORM call.

**Results above expectation.** 1QFY23 net profit of RM109m beat our forecast, already making up 49% of our full-year forecast. The variance against our forecast came largely from a higher sales volume, while the contraction in crack spreads was partially offset by favourable hedging positions.

**Results' highlights.** YoY, 1QFY23 revenue inched up 1% mainly driven by an improved sales volume which offset the decline in product prices. However, operating profit plunged 34% as crack spreads contracted. However, thanks to gains from derivatives (vs. losses a year ago), net profit rose by 2%.

QoQ, it returned to the black in 1QFY23 from losses during the preceding quarter due to widened crack spreads.

**Outlook.** While crack spreads regionally have rebounded from the lows since Nov 2022 buoyed by the return of economic activities and travelling, we believe they are unlikely to revisit their recent highs, taking the cue from crack spread futures trading consistently below its peaks seen in May-Jun 2022.

**Forecasts.** We raise our FY23-24F net profit forecasts by 26% and 7%, respectively, to reflect higher assumptions for spreads and sales volumes.

Consequently, we lift our TP by 7% to RM4.65 (from RM4.35) based on unchanged 5x FY24F PER (rolled forward from FY23F), in line with average valuation of its closest peer HENGYUAN. Our ascribed valuation is also broadly in line with some of its other listed global refinery peers (e.g. TOA Oil, Phillips 66, HF Sinclair, Valero, Marathon Petroleum). Note that our TP has taken into account our in-house ESG rating of two stars (see Page 4), which we put a 5% discount to our initial valuation.

Overall, we like PETRONM for being one of the two refinery names in Bursa Malaysia that act as a proxy to regional crack spreads. However, with regional crack spreads significantly weakened from its peak earlier last year, we remain cautious of its near-term earnings prospects. Maintain **MARKET PERFORM**.

**Risks to our call include:** (i) possible recession dampening demand of petroleum products, (ii) sudden plunge in crude oil prices, and (iii) operational hazards (e.g. fire) that might disrupt capacity utilisation rate.

## MARKET PERFORM ↔

**Price:** RM4.50  
**Target Price:** RM4.65 ↑

**Expected Capital Gain:** +RM0.15 +3.3%  
**Expected Divd. Yield:** RM0.00 +0.0%  
**Expected Total Gain:** +RM0.15 +3.3%

**KLCI Index** 1,402.48

### Stock Information

Bloomberg Ticker	PETRONM MK Equity
Bursa Code	3042
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	270.0
Market Cap (RM m)	1,215.0
Par value per share (RM)	N.A.
52-week range (H)	7.73
52-week range (L)	4.18
Free Float	23%
Beta	1.2
3-mth avg daily vol	80,126

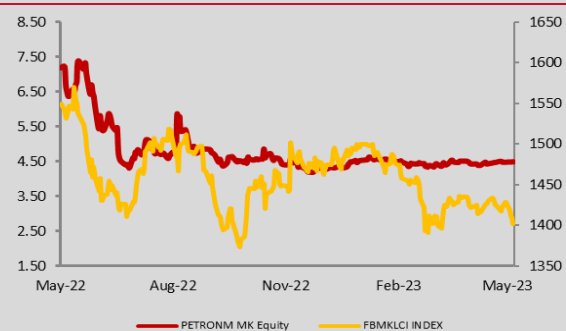
### Major Shareholders

Petron Oil & Gas International Sdn Bhd	73.4%
Tan Hock Cheng	1.5%
Polunin Eme Mkt S C Fund	1.3%

### Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Revenue	18,350	15,622	15,020
Operating Profit	318	586	568
PBT	301	366	348
<b>Net Profit (NP)</b>	<b>301</b>	<b>278</b>	<b>264</b>
<b>Core NP (CNP)</b>	<b>301</b>	<b>278</b>	<b>264</b>
Consensus CNP		-	-
Earnings Revision (%)		+25.6	+6.5
Core EPS (sen)	111.3	103.0	98.0
Core EPS growth (%)	26.0	-7.4	-4.9
DPS (sen)	25.0	21.0	20.0
BV/Share (RM)	8.2	9.0	9.8
Core PER (x)	4.0	4.4	4.6
Price/BV (x)	0.5	0.5	0.5
Net Gearing (x)	0.4	0.2	0.2
Dividend Yield (%)	5.6	4.7	4.4

### Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	1.4%	1.6%	-32.8%
Relative (%)	2.4%	0.9%	-24.9%

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Results Highlights								
	1Q FY23	4Q FY22	QoQ	1Q FY22	YoY	3M FY23	3M FY22	YoY
<b>FYE Dec (RM m)</b>								
Revenue	3,817.4	4,268.7	-10.6%	3,800.3	0.4%	3,817.4	3,800.3	0.4%
Cost of sales	(3,640.8)	(4,253.9)	-14.4%	(3,561.5)	2.2%	(3,640.8)	(3,561.5)	2.2%
<b>Gross profit</b>	<b>176.7</b>	<b>14.8</b>	<b>1096.4%</b>	<b>238.9</b>	<b>-26.0%</b>	<b>176.7</b>	<b>238.9</b>	<b>-26.0%</b>
Other operating income	14.0	17.4	-19.1%	13.8	1.6%	14.0	13.8	1.6%
Other operating expenses	(65.0)	(74.6)	-12.9%	(39.9)	63.0%	(65.0)	(39.9)	63.0%
Administrative expenses	(1.0)	(4.1)	-75.9%	(23.6)	-95.8%	(1.0)	(23.6)	-95.8%
<b>Operating Profit</b>	<b>124.7</b>	<b>(46.6)</b>	<b>-367.9%</b>	<b>189.3</b>	<b>-34.1%</b>	<b>124.7</b>	<b>189.3</b>	<b>-34.1%</b>
Finance income	1.7	1.7	-3.0%	1.0	62.8%	1.7	1.0	62.8%
Finance costs	(9.2)	(11.1)	-16.6%	(8.5)	8.7%	(9.2)	(8.5)	8.7%
Other income / expenses	29.7	1.5	1889.9%	(38.0)	-178.0%	29.7	(38.0)	-178.0%
<b>Profit before tax</b>	<b>146.8</b>	<b>(54.4)</b>	<b>-369.9%</b>	<b>143.8</b>	<b>2.1%</b>	<b>146.8</b>	<b>143.8</b>	<b>2.1%</b>
Tax expense	(38.1)	33.0	-215.3%	(37.4)	2.0%	(38.1)	(37.4)	2.0%
<b>Net profit</b>	<b>108.7</b>	<b>(21.4)</b>	<b>-608.9%</b>	<b>106.3</b>	<b>2.2%</b>	<b>108.7</b>	<b>106.3</b>	<b>2.2%</b>
Gross margin	4.6%	0.3%		6.3%		4.6%	6.3%	
Operating margin	3.3%	-1.1%		5.0%		3.3%	5.0%	
PBT margin	3.8%	-1.3%		3.8%		3.8%	3.8%	
Net margin	2.8%	-0.5%		2.8%		2.8%	2.8%	
Effective tax rate	26.0%	60.7%		26.0%		26.0%	26.0%	
Source: Company, Kenanga Research								

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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	0.655	0.750	14.50%	3,876.4	N	12/2023	13.1	13.6	1.0%	3.5%	5.0	4.8	0.6	13.9%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	1.26	1.90	50.79%	1,458.8	Y	12/2023	11.2	12.6	12.0%	11.8%	11.2	10.0	0.9	8.6%	3.0	2.4%
DIALOG GROUP BHD	OP	2.10	3.10	47.62%	11,849.4	Y	06/2023	9.5	9.9	5.1%	4.8%	22.2	21.2	2.2	10.2%	2.8	1.3%
MISC BHD	MP	7.23	7.60	5.12%	32,272.9	Y	12/2023	57.5	55.0	8.1%	-4.3%	12.6	13.1	0.8	6.8%	33.0	4.6%
PETRONAS CHEMICALS GROUP BHD	MP	6.97	7.80	11.91%	55,760.0	Y	12/2023	65.3	52.2	-18.9%	-20.0%	10.7	13.4	1.3	12.9%	33.0	4.7%
PETRONAS DAGANGAN BHD	MP	22.00	24.90	13.18%	21,856.0	Y	12/2023	106.0	92.6	41.3%	-12.6%	20.8	23.8	3.8	18.3%	106.0	4.8%
PETRON MALAYSIA REFINING	MP	4.50	4.65	3.33%	1,215.0	Y	12/2023	103.0	97.8	-7.6%	-5.0%	4.4	4.6	0.5	11.9%	21.0	4.7%
UZMA BHD	OP	0.635	0.900	41.73%	223.5	Y	06/2023	7.7	9.9	85.0%	28.5%	8.3	6.4	0.4	5.1%	0.0	0.0%
VELESTO ENERGY BHD	UP	0.225	0.190	-15.56%	1,848.5	Y	12/2023	0.7	1.3	-36.1%	73.3%	30.3	17.5	0.8	2.6%	0.0	0.0%
WAH SEONG CORP BHD	OP	0.875	0.970	10.86%	677.5	Y	12/2023	10.7	12.8	6.1%	19.1%	8.1	6.8	1.0	13.4%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.58	3.65	41.47%	7,499.1	N	01/2024	20.8	25.2	-18.4%	21.2%	12.4	10.2	1.6	13.7%	2.0	0.8%
Sector Aggregate					138,537.1					-5.5%	-9.2%	12.2	13.5	1.3	10.7%		2.1%

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%

**\*\* The Expected Total Return might contain rounding discrepancy**

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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