

21 November 2023

# Petronas Gas

## Solid 9MFY23 Earnings

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**PETGAS's 9MFY23 results met expectations. Its 9MFY23 core profit rose 5% YoY on lower input cost as fuel gas price softened while its utilities segment benefited from the hike in Imbalance Cost Pass-Through (ICPT) surcharge. We maintain our forecasts, TP of RM17.45 and MARKET PERFORM call. The stock offers a dividend yield of >4%.**

PETGAS's 9MFY23 core profit of RM1.41b met expectations at 74% and 75% of our full-year forecast and the full-year consensus estimate, respectively. It declared a third interim NDPS of 18.0 sen (ex-date: 04 Dec; payment date: 15 Dec), totalling 9MFY23 NDPS to 50.0 sen which is the same payout in 9MFY22.

**YoY**, its 9MFY23 revenue rose 5%, driven mainly by the utilities segment (+29%) while top line performances from gas processing (+2%), gas transportation (-2%) and regasification (RGT, -4%) were flattish to slightly negative. However, its EBIT was flat (-1%) as the doubling in utilities profit was offset by earnings decline at other divisions. Its core net profit grew 5% thanks to a lower effective tax rate.

**Gas processing:** The segment's EBIT fell by 10% on a 2% hike in top line due to higher depreciation.

**Gas transportation:** The segment's EBIT contracted 18% on a 1% decline in top line due to on higher internal gas consumption.

**Utilities:** The segment's top line grew 29% on higher product prices for steam and industrial gases, in line with higher fuel gas price, coupled with higher electricity tariff (20.0 sen ICPT surcharge in 1HFY23 and 17.0 sen ICPT surcharge in 2HFY23) Meanwhile, its EBIT jumped 119% boosted by low input cost, i.e., gas, and the more favourable terms of renewed contracts with customers which allow a more balanced cost pass-through and reduce the business exposure to gas price volatility.

**RGT:** The segment's EBIT fell 11% on a 4% drop in top line due to lower RP2 tariff for Pengerang RGT coupled with higher opex on depreciation.

**QoQ**, its 3QFY23 revenue fell 5% to RM1.55b largely due to lower revenue contribution from utilities segment (-15%) on the back of lower product prices as well as lower industrial gases sales volume which was due to the planned plant turnaround in Kertih facility. The lower product prices were due to lower fuel gas price and the lower ICPT surcharge for 2HFY23 (17.0 sen vs. 20.0 sen) mentioned above. As a result of weaker revenue, core profit fell by 5% to RM481.2m, partially offset by lower interest expense (-36%) following early settlement of USD lease liabilities for floating storage units at Melaka RGT.

**Forecasts.** Maintained.

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 anchoring a decent dividend yield of >4%. However, its valuation is already rich at current levels. We maintain our SoP-driven TP of RM17.45 (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). 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 :** RM17.18  
**Target Price :** RM17.45 ↔

## Share Price Performance



KLCI 1,456.92  
YTD KLCI chg -2.6%  
YTD stock price chg 0.4%

## Stock Information

Shariah Compliant Yes  
Bloomberg Ticker PTG MK Equity  
Market Cap (RM m) 33,994.6  
Shares Outstanding 1,978.7  
52-week range (H) 17.78  
52-week range (L) 16.12  
3-mth avg daily vol: 1,032,208  
Free Float 16%  
Beta 0.8

## Major Shareholders

Petroleum Nasional Bhd 51.0%  
Employees Provident Fund 13.3%  
Kumpulan Wang Persaraan 10.1%

## 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)	-	1889	1933
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	17.9	17.7
PBV (x)	2.58	2.53	2.48
Price/NTA (x)	2.58	2.48	2.42
Gearing (%)	N Cash	N Cash	N Cash
Dividend Yield (%)	4.2	4.7	4.8

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Income Statement								
FY Dec (RM m)	3Q FY23	2Q FY23	Q-o-Q Chg	3Q FY22	Y-o-Y Chg	9M FY23	9M FY22	Y-o-Y Chg
Turnover	1,550.3	1,637.4	-5%	1,564.8	-1%	4,862.6	4,527.3	7%
EBITDA	867.6	892.2	-3%	853.9	2%	2,583.7	2,524.3	2%
Depreciation	-291.9	-276.1	6%	-261.6	12%	-836.6	-760.6	10%
EBIT	575.7	616.1	-7%	592.3	-3%	1,747.1	1,763.8	-1%
Interest expense	-23.6	-36.9	-36%	-44.3	-47%	-103.3	-131.0	-21%
Associates	42.4	47.0	-10%	47.3	-10%	133.8	109.2	23%
Exceptional items	0.0	0.0	N/A	0.0	N/A	0.0	0.0	N/A
Pretax profit	594.5	626.1	-5%	595.3	0%	1,777.5	1,741.9	2%
Taxation	-103.3	-130.1	-21%	-152.0	-32%	-342.1	-445.5	-23%
Profit after tax	491.2	496.0	-1%	443.3	11%	1,435.4	1,296.4	11%
Minority interest	-22.7	-10.6	114%	-17.5	30%	-57.4	-63.5	-10%
Net profit	468.5	485.4	-3%	425.8	10%	1,378.0	1,232.9	12%
Core net profit	481.2	508.7	-5%	482.2	0%	1,411.3	1,347.9	5%
EPS (sen)	24.3	25.7	-5%	24.4	0%	71.3	68.1	5%
DPS (sen)	18.0	16.0	13%	18.0	0%	50.0	50.0	0%
NTA/share (RM)	6.81	6.73	1%	6.63	3%	6.81	6.63	3%
EBITDA margin	56%	54%		55%		53%	56%	
EBIT margin	37%	38%		38%		36%	39%	
Pretax margin	38%	38%		38%		37%	38%	
Effective tax rate	17%	21%		26%		19%	26%	

Source: Company

Segmental Breakdown								
FY Dec (RM m)	3Q FY23	2Q FY23	Q-o-Q Chg	3Q FY22	Y-o-Y Chg	9M FY23	9M FY22	Y-o-Y Chg
<b>Turnover</b>								
Gas Processing	444.0	447.3	-1%	437.3	2%	1,335.2	1,308.6	2%
Gas Transportation	282.4	283.1	0%	293.8	-4%	854.0	872.8	-2%
Utilities	484.3	570.3	-15%	476.7	2%	1,662.9	1,291.1	29%
RGT	339.6	336.6	1%	357.0	-5%	1,010.5	1,054.8	-4%
Others	0.0	0.0	N/A	0.0	N/A	0.0	0.0	N/A
<b>Group Turnover</b>	<b>1,550.3</b>	<b>1,637.4</b>	<b>-5%</b>	<b>1,564.8</b>	<b>-1%</b>	<b>4,862.6</b>	<b>4,527.3</b>	<b>7%</b>
<b>Segment Results</b>								
Gas Processing	195.4	219.2	-11%	229.9	-15%	622.3	695.2	-10%
Gas Transportation	148.1	164.8	-10%	174.4	-15%	436.0	532.3	-18%
Utilities	76.6	101.2	-24%	53.5	43%	234.8	107.4	119%
RGT	161.3	166.4	-3%	186.2	-13%	487.2	544.4	-11%
Others	-5.9	-35.5	-84%	-51.7	-89%	-33.1	-115.6	-71%
<b>Group EBIT</b>	<b>575.7</b>	<b>616.1</b>	<b>-7%</b>	<b>592.3</b>	<b>-3%</b>	<b>1,747.1</b>	<b>1,763.8</b>	<b>-1%</b>
<b>EBIT Margin</b>								
Gas Processing	44%	49%		53%		47%	53%	
Gas Transportation	52%	58%		59%		51%	61%	
Utilities	16%	18%		11%		14%	8%	
RGT	48%	49%		52%		48%	52%	
Others	N/A	N/A		N/A		N/A	N/A	
<b>Group EBIT Margin</b>	<b>37%</b>	<b>38%</b>		<b>38%</b>		<b>36%</b>	<b>39%</b>	

Source: Company

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<b>PETGAS's Valuation</b>			
	<b>RM m</b>	<b>RM/Share</b>	<b>Basis</b>
Gas Business	27,538.3	13.92	DCF @ 8.1% WACC, g = 2%
Melaka RGT	1,141.5	0.58	DCF @ 8.1% WACC
Kimanis IPP	603.5	0.31	DCF @ 4.0% WACC
Pengerang RGT	1,900.8	0.96	DCF @ 6.1% WACC
Gas Malaysia	609.5	0.31	TP: RM3.30 @ 14.8% equity stake
Net Cash/(Debt)	2,738.9	1.38	Adjusted FY24F at group level
	<b>34,532.6</b>	<b>RM17.45</b>	

Source: 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.
<b>Stocks Under Coverage</b>																	
GAS MALAYSIA BHD	MP	3.23	3.30	2.2%	4,147.3	Y	12/2023	27.1	25.2	-11.5%	-6.8%	11.9	12.8	3.0	26.2%	19.0	5.9%
MALAKOFF CORP BHD	MP	0.655	0.630	-3.8%	3,201.0	Y	12/2023	(6.9)	5.4	-182.4%	-21.9%	N.A.	12.1	0.6	-6.5%	3.0	4.6%
PETRONAS GAS BHD	MP	17.18	17.45	1.6%	33,994.6	Y	12/2023	95.8	97.2	9.8%	1.4%	17.9	17.7	2.5	14.3%	81.5	4.7%
SAMAIDEN GROUP BHD	OP	1.16	1.80	55.2%	475.7	Y	06/2024	4.5	5.7	48.7%	26.3%	25.5	20.2	4.1	17.4%	0.0	0.0%
TENAGA NASIONAL BHD	OP	9.97	11.30	13.3%	57,699.7	Y	12/2023	71.6	84.4	6.8%	17.8%	13.9	11.8	0.9	6.9%	35.8	3.6%
YTL POWER INTERNATIONAL BHD	OP	2.36	2.50	5.9%	19,121.1	N	06/2024	26.5	25.3	9.7%	-4.9%	8.9	9.3	1.1	12.7%	6.0	2.5%
<b>Sector Aggregate</b>					<b>118,639.4</b>					<b>-2.2%</b>	<b>15.2%</b>	<b>14.5</b>	<b>12.6</b>	<b>2.1</b>	<b>11.8%</b>		<b>3.6%</b>

Source: Kenanga Research

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**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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Published by:

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