

18 March 2024

Oil & Gas

Petronas 2023 Results: Core Net Profit Eases 15%

OVERWEIGHT



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Petronas' FY23 topline declined 16% due to lower product prices at both its upstream and downstream divisions, coupled with a decrease in LNG volume due to reduced plant production. Similarly, its core net profit fell by 15% due to weaker downstream refining spreads. The group's capex amounted to RM52.8b, showing a slight increase YoY, with domestic investment growth outpacing foreign ones. Given historical cash flows trends, Petronas approved a lower RM32b in dividends to shareholders in 2024, providing sufficient buffer to escalate its capex. We identify the upstream services as particularly a promising sub-segment within our coverage, expected to significantly benefit from increased Petronas capex. Our top picks remain as YINSON (OP; TP: RM3.47), DIALOG (OP; TP: RM3.10), and ICON (OP; TP: 0.80).

YoY, Petronas' FY23 revenue decreased by 16% on subdued Brent prices and a reduction in crude oil and condensates production within the upstream division, with natural gas production showing no significant yearly change. The gas division's revenue dropped 16% YoY, due to diminished realized LNG and processed gas prices, alongside a decrease in LNG sales volume resulting from reduced plant production. On the other hand, the downstream division recorded a 2% increase in top-line YoY, driven by higher sales volume despite lower average selling prices for products. Its core profit (excluding RM5.2b in impairments, RM1.3b in derivative losses, RM1.4b in impairments on well costs, RM1.3b in forex gains, and RM3.3b in write-offs of property, plant, and equipment) declined by 15% mainly due to less favourable refining spreads in the downstream division.

Capex flattish, but local investments surged. In 2023, the group's total expenditure was RM52.8b, a 5% increase YoY but still below the targeted RM60b per annum. The upstream division received the larger share of capex, at 51%, with significant investments in Angola, Indonesia, and Malaysia. Specifically, Malaysian capex rose sharply by 41% YoY to RM26.2b, driven by key projects such as the floating LNG project in Sabah and the Kasawari gas and carbon capture project in Sarawak, highlighting a greater emphasis on domestic investments. Furthermore, investments in Gentari, the group's renewable energy solutions arm, accounted for 12% of the total capex, mirroring the allocation for the downstream division.

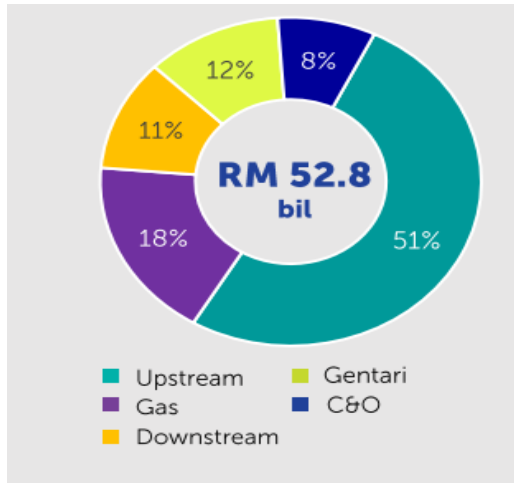
The group's net cash position is robust at RM97m. In 2023, Petronas awarded RM40b in dividends to shareholders, a reduction from the RM50b distributed in 2022. For 2024, Petronas has committed to RM32b dividend payout to the government, posing fewer constraints on its balance sheet management. With the group's cash flows from operations expected to remain above RM100b in 2024, after achieving RM135-114b during 2022-23, Petronas is well-equipped to meet its RM60b capex goal in 2024 without materially affecting its financial health.

2024 capex to still be upstream oriented. We expect Brent crude prices to average USD84/bbl in 2024, a level that should enable Petronas to increase its upstream spending significantly to counteract potential long-term declines in natural production. Furthermore, we anticipate that local capex will surpass RM26b in 2024, driven by accelerated project development across all Malaysian regions. This outlook aligns with our prediction of a sustained upcycle in upstream services activities. Drilling activities have already shown signs of acceleration since early 2024, and we foresee the offshore support vessel (OSV) subsegment reaping benefits in the near future. Additionally, brownfield well services have been increasing, and this trend is expected to continue into 2024, especially with a rise in plug and abandonment jobs for wells in Malaysia, supporting sustained momentum in the sector.

We maintain our OVERWEIGHT view of the sector. In essence, we continue to be positive on upstream service providers due to the expected uptick in upstream capex in 2024. Nevertheless, we are less excited about the downstream sector outlook amid uncertainties in global demand coupled with an anticipated increase in global capacities.

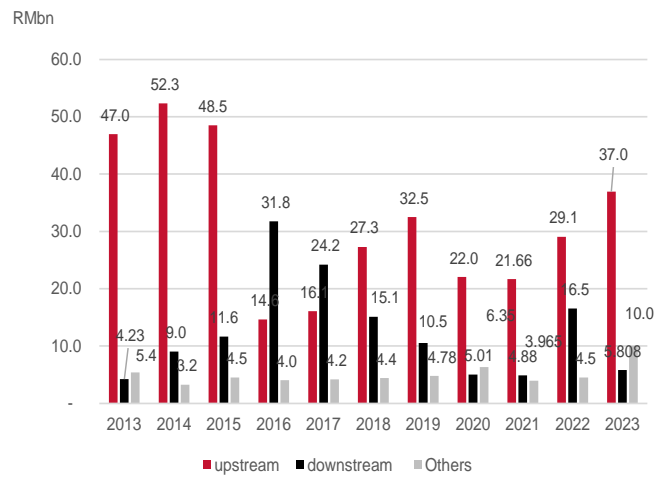
Our top picks remain as **YINSON** due to a strong FPSO order book pipeline and early exposure in green technology businesses and **DIALOG** as its legacy EPCC contracts (with unfavourable pricing) had essentially concluded and its tank terminal business is showing signs of recovery. For mid caps, we like **ICON** as a proxy to the anticipated upcycle in the OSV market locally.

Petronas 2023 Capex By Division



Source: Petronas, Kenanga Research

Petronas Capex Trend



Source: Petronas, Kenanga Research

Results Highlights

	4Q	3Q	Q-o-Q	4Q	Y-o-Y	FY23	FY22	Y-o-Y
	FY23	FY23		FY22				
FYE Dec (RM m)								
Revenue	81.4	73.1	11.4	94.7	-14.1	307.0	366.0	-16.1
Operating Profit	19.4	26.2	-26.1	34.2	-43.4	98.1	140.2	-30.0
Finance Costs	-1.2	-1.6	-26.3	-1.0	16.5	-5.5	-5.1	7.1
Associates & JCEs	0.4	0.2	100.0	-0.5	-168.4	0.9	1.0	-9.7
Pretax Profit	18.6	24.8	-25.1	32.6	-43.1	93.5	136.0	-31.3
Tax	-1.5	-1.8	-16.0	-8.3	-81.4	-14.6	-34.5	-57.7
MI	2.0	1.6	22.5	1.6	26.4	6.2	9.2	-32.6
Net Profit	15.0	21.3	-29.5	22.8	-34.0	72.7	92.3	-21.2
EI	7.8	0.6	1129.4	0.9	735.8	8.8	4.0	119.0
Core Net Profit	22.9	22.0	4.1	23.7	-3.6	81.5	96.3	-15.4
EBIT Margin	23.8%	35.8%		36.1%		32.0%	38.3%	
Pretax Margin	22.8%	33.9%		34.5%		30.5%	37.2%	
Net Margin	18.5%	29.2%		24.1%		23.7%	25.2%	
Core Net Margin	28.1%	30.1%		25.0%		26.6%	26.3%	
Tax Rate	-8.3%	-7.4%		-25.4%		-15.6%	-25.3%	

Source: Petronas, Kenanga Research

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Peer 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.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BUMI ARMADA BHD	MP	0.545	0.580	6.4%	3,227.9	N	12/2024	13.8	12.6	144.4%	-8.8%	3.9	4.3	0.5	13.4%	0.0	0.0%
DIALOG GROUP BHD	OP	2.23	3.10	39.0%	12,582.9	Y	06/2024	9.3	10.3	4.0%	11.0%	24.0	21.6	2.1	9.1%	4.2	1.9%
ICON OFFSHORE BHD	OP	0.600	0.800	33.3%	325.0	Y	12/2024	5.3	8.1	285.3%	52.9%	11.3	7.4	0.9	8.0%	0.0	0.0%
MISC BHD	MP	7.45	7.51	0.8%	33,254.9	Y	12/2024	51.9	53.9	7.0%	3.9%	14.4	13.8	0.8	5.8%	30.0	4.0%
PETRONAS CHEMICALS GROUP BHD	MP	6.90	6.88	-0.3%	55,200.0	Y	12/2024	44.9	45.9	111.1%	2.3%	15.4	15.0	1.3	8.7%	22.4	3.3%
PETRONAS DAGANGAN BHD	MP	21.30	23.70	11.3%	21,160.6	Y	12/2024	99.7	109.8	1.1%	10.1%	21.4	19.4	3.5	16.9%	79.8	3.7%
PETRON MALAYSIA REFINING	MP	4.56	4.74	3.9%	1,231.2	Y	12/2024	99.6	89.6	-1.1%	-10.0%	4.6	5.1	0.5	10.6%	20.0	4.4%
UZMA BHD	OP	1.22	1.45	18.9%	472.4	Y	06/2024	13.4	14.1	32.8%	5.6%	9.1	8.6	0.9	9.9%	0.0	0.0%
VELESTO ENERGY BHD	OP	0.280	0.310	10.7%	2,300.4	Y	12/2024	1.8	2.1	46.6%	17.3%	15.8	13.4	0.9	5.7%	0.0	0.0%
WASCO BHD	OP	1.27	1.48	16.5%	983.4	Y	12/2024	12.1	14.8	20.0%	22.6%	10.5	8.6	1.2	12.5%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.51	3.39	35.1%	7,296.7	N	01/2024	12.9	18.4	24.7%	42.6%	19.4	13.6	1.8	9.4%	3.9	1.5%
Sector Aggregate					138,035.4					42.3%	5.0%	15.0	14.3	1.3	10.0%		1.7%

Source: Bloomberg, Kenanga Research

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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