

18 March 2024

Petronas Gas

Investing in RM650m Compressor Station

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PETGAS is investing in a RM650m compressor station in Jeram, Selangor, with commissioning in 2026. This is in addition to three other new projects which should drive PETGAS's earnings growth under Regulatory Period 3 (RP3) in 2026-2028. We maintain our forecasts but raise our TP by slightly to RM17.87 (from RM17.80). Maintain MARKET PERFORM. The stock offers c.4% dividend yield.

PETGAS is investing in a RM650m compressor station comprising of two units of gas compressor in Jeram, Selangor, with targeted completion in 2026. As part of PETGAS' gas transportation and regasification business, this gas compressor station is to improve Peninsular Gas Utilities (PGU) III capacity in the Northern region, anticipating to meet future gas demand increase from 2026 onwards.

The project is part of the PGU III expansion regulated by the Incentive-based Regulation (IBR) framework. The IBR will determine the cost recovery of the project via Transmission Pipeline Tariff.

We are positive on the latest development as it expands PETGAS's regulated asset base (RAB) for RP3 which over the 3-year period from 2026 to 2028 and enhance its absolute earnings. Prior to this, PETGAS has already committed to capex in FY24 in excess of RM1.1b comprising among others:

- (i) Sipitang power plant: EPCC progressing within schedule with targeted commercial operation date (COD) in 2026;
- (ii) LNG storage expansion in Pengerang with COD targeted in mid-2025; and,
- (iii) Cold energy air separation unit (ASU) with COD targeted in 2026.

Forecasts. Maintained as contribution from the project will only come in beyond our forecast period.

Valuations. However, we raise our SoP-driven TP slightly to RM17.87 (from RM17.80, see Page 2), having reflected enhancement from the recent capex plans as mentioned. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

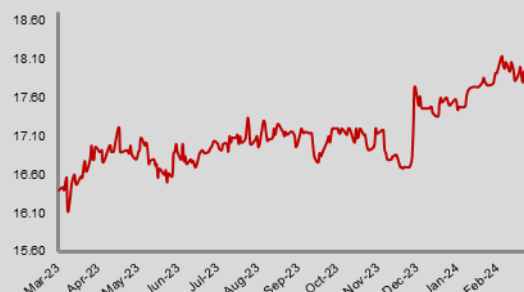
Investment case. We continue to like PETGAS for its earnings stability of which >90% is safeguarded by the IBR framework and its capex plans under the RP2 that will improve its absolute earnings, anchoring a decent dividend yield of 4%. However, its valuations are already rich at the current levels. 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 : **RM17.80**
Target Price : **RM17.87** ↑

Share Price Performance



KLCI 1,552.83
YTD KLCI chg 6.7%
YTD stock price chg 2.3%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker PTG MK Equity
Market Cap (RM m) 35,221.4
Shares Outstanding 1,978.7
52-week range (H) 18.20
52-week range (L) 16.12
3-mth avg. daily vol. 1,397,225
Free Float 16%
Beta 0.8

Major Shareholders

Petroleum Nasional Bhd 51.0%
Employees Provident Fund 12.8%
Kumpulan Wang Persaraan 10.0%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	6445	5815	5856
EBIT	2274	2546	2565
PBT	2386	2548	2609
Net Profit (NP)	1820	1946	1993
Core Net Profit	1850	1946	1993
Consensus (NP)	-	1917	1960
Earnings Revision (%)	-	-	-
Core EPS (sen)	93.5	98.4	100.7
CNP Growth (%)	7.2	5.2	2.4
NDPS (sen)	72.0	72.0	72.0
BV/Share (RM)	6.85	7.05	7.34
NTA/Share (RM)	6.85	7.05	7.34
Core PER (x)	18.6	18.1	17.7
PBV (x)	2.54	2.52	2.43
Price/NTA (x)	2.47	2.43	2.34
Gearing (%)	N Cash	N Cash	N Cash
Dividend Yield (%)	4.1	4.0	4.0

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PETGAS's Valuation			
	RM m	RM/Share	Basis
Gas Business	28,340.9	14.32	DCF @ 8.1% WACC, g = 2%
Melaka RGT	938.9	0.47	DCF @ 8.1% WACC
Pengerang RGT	1,807.9	0.91	DCF @ 6.1% WACC
Kimanis IPP	416.1	0.21	DCF @ 5.7% WACC
Sipitang IPP	76.0	0.04	DCF @ 6.0% WACC
Gas Malaysia	553.6	0.28	14.8% equity stake @ TP: RM3.33 and a 10% holding company discount
Net Cash/(Debt)	3,219.0	1.63	Adjusted FY25F at group level
	35,352.3	RM17.87	

Source: Kenanga Research

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F	FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	5649	6160	6445	5815	5856	Growth (%)					
EBITDA	3643	3356	3415	3657	3700	Revenue	1.0	9.1	4.6	-9.8	0.7
Depreciation	-983	-1036	-1141	-1111	-1135	EBITDA	-1.2	-7.9	1.8	7.1	1.2
EBIT	2660	2320	2274	2546	2565	Operating Income	-0.4	-12.8	-2.0	12.0	0.7
Interest Expense	-175	-178	-127	-132	-92	Pre-tax Income	1.2	-14.1	5.1	6.8	2.4
Associate	157	128	239	133	135	Net Income	-1.0	-17.3	10.6	7.0	2.4
Exceptional/FV	0	0	0	0	0	Core Net Income	1.2	-14.7	7.2	5.2	2.4
PBT	2642	2269	2386	2548	2609	Profitability (%)					
Taxation	-530	-511	-485	-510	-522	EBITDA Margin	64.5	54.5	53.0	62.9	63.2
Minority Interest	-122	-113	-81	-92	-94	Operating Margin	47.1	37.7	35.3	43.8	43.8
Net Profit	1989	1645	1820	1946	1993	PBT Margin	46.8	36.8	37.0	43.8	44.5
Core Net Profit	2025	1727	1850	1946	1993	Net Margin	35.2	26.7	28.2	33.5	34.0
						Core Net Margin	35.9	28.0	28.7	33.5	34.0
						Effective Tax Rate	20.1	22.5	20.3	20.0	20.0
						ROA	10.0	8.2	10.7	11.3	11.4
						ROE	15.5	12.5	14.3	14.2	14.0
						DuPont Analysis					
						Net margin (%)	35.9	28.0	28.7	33.5	34.0
						Assets Turnover (x)	0.3	0.3	0.3	0.3	0.3
						Leverage Factor (x)	1.5	1.5	1.4	1.3	1.3
						ROE (%)	15.5	13.1	13.7	13.9	13.7
						Leverage					
						Debt/Asset (x)	0.18	0.19	0.16	0.09	0.08
						Debt/Equity (x)	0.26	0.29	0.23	0.12	0.10
						Net Debt/(Cash)	335	191	-125	1352	2359
						Net Debt/Equity (x)	-0.03	-0.01	0.01	-0.09	-0.16
						Valuations					
						Core EPS (sen)	102.3	87.3	93.5	98.4	100.7
						NDPS (sen)	82.0	72.0	72.0	72.0	72.0
						BV/share (RM)	6.62	6.64	6.85	7.05	7.34
						NTA/share (RM)	6.62	6.64	6.85	7.05	7.34
						Core PER (x)	16.8	19.6	18.6	18.1	17.7
						Net Div. Yield (%)	4.8	4.2	4.1	4.0	4.0
						PBV (x)	2.60	2.58	2.54	2.52	2.43
						P/NTA (x)	2.60	2.58	2.47	2.43	2.34
						EV/EBITDA (x)	9.2	10.0	9.4	9.3	8.9

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.
Stocks Under Coverage																	
GAS MALAYSIA BHD	MP	3.42	3.33	-2.6%	4,391.3	Y	12/2024	25.7	24.4	-13.8%	-5.2%	13.3	14.0	3.0	23.4%	20.6	6.0%
MALAKOFF CORP BHD	MP	0.620	0.680	9.7%	3,029.9	Y	12/2024	4.7	5.8	-71.9%	24.1%	13.2	10.6	0.7	5.2%	3.8	6.1%
PETRONAS GAS BHD	MP	17.80	17.87	0.4%	35,221.4	Y	12/2024	98.4	100.7	5.2%	2.4%	18.1	17.7	2.5	14.2%	72.0	4.0%
SAMAIDEN GROUP BHD	OP	1.28	1.51	18.0%	529.3	Y	06/2024	3.7	5.3	33.6%	43.7%	34.8	24.2	5.1	15.7%	0.0	0.0%
SOLARVEST HOLDINGS BHD	OP	1.53	1.88	22.9%	1,024.7	Y	03/2024	4.1	6.9	52.8%	67.4%	36.9	22.1	4.7	13.8%	0.0	0.0%
TENAGA NASIONAL BHD	MP	11.60	11.40	-1.7%	67,133.0	Y	12/2024	73.0	78.6	36.1%	7.6%	15.9	14.8	1.1	6.9%	36.1	3.1%
YTL POWER INTERNATIONAL BHD	OP	3.68	4.10	11.4%	29,819.6	N	06/2024	35.3	28.1	45.9%	-20.5%	10.4	13.1	1.7	16.5%	6.0	1.6%
Sector Aggregate					141,149.2					48.6%	-1.6%	14.7	14.9	2.7	13.7%		3.0%

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 Renewables	★	★	★		
	Reliable Energy & Fair Tariff	★	★	★		
	Effluent/Waste Management	★	★	★		
	Ethical Practices	★	★	★		
	Supply Chain Management	★	★	★		
	Customer Satisfaction	★	★	★		
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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