

23 May 2024

Petronas Dagangan

Value Emerges

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PETDAG's 1QFY24 results met expectations. Its 1QFY24 core net profit declined 23% YoY on lower product spreads and higher operating expenses. We expect healthy volume growth going forward. We maintain our forecasts and TP of RM23.70 but upgrade our call to **OUTPERFORM** from **MARKET PERFORM** as value has emerged after the recent weakness in its share price.

Its 1QFY24 core profit of RM228.1m (after excluding EI of RM1.6m impairment loss on trade receivables, RM1.5m unrealised forex gain and RM1m write-back of impairments) met expectations at 22% and 23% of our full-year forecast and the full-year consensus estimate, respectively. It declared an interim DPS of 18 sen, on track to meet our full-year forecast of 79.8sen.

YoY, its 1QFY24 revenue increased by 9% driven by strong sales volume in the retail division (+13%) and improvement at the convenience store division (buoyed by increased patronage for Kedai Mesra and Café Mesra). However, its core profit decreased by 23% due to lower product spreads in the commercial division and higher operating expenses across the group.

QoQ, its topline declined by 7% mainly on a seasonally weak period for the commercial division while its retail revenue was flat. However, its core profit increased by 15% on more favourable product spreads in the retail division and lower finance cost, partially offset by weaker product spreads in the commercial division.

Outlook. We expect healthy volume growth at both its retail and commercial divisions in FY24-25, supported by sustained domestic demand. We are not overly concerned about the impending diesel and petrol subsidy rationalisation, judging from the temporary drop in volumes following the floatation of fuel prices in 2018.

Forecasts. Maintained.

Valuations. We maintain our DCF-based TP (WACC: 10%; TG: 1%) at RM23.70. There is no change to our valuation based on ESG given a 3-star ESG rating as appraised by us (see Page 4).

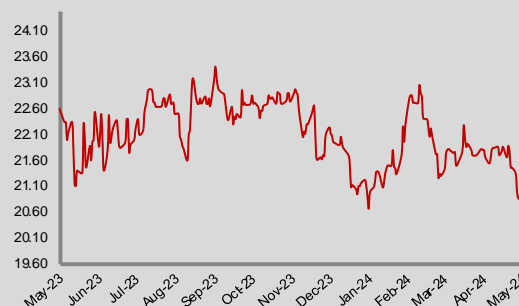
Investment case. We like PETDAG due to: (i) its highly cash-generative business that translates to high capacity to pay dividends, (ii) its strong balance sheet with a sizeable war chest, and (iii) growing convenience division revenue on stronger patronage for Café Mesra. Upgrade to **OUTPERFORM** from **MARKET PERFORM** as value has emerged after recent weakness in its share prices.

Risks to our call include: (i) a structural decline in demand for fuel (such as a switch to public transport and the adoption of electrical vehicles) post the fuel subsidy rationalisation, (ii) the global economy slipping into a recession, derailing the recovery in the global air travel industry, and (iii) inability to rein in rising operating cost.

OUTPERFORM ↑

Price: **RM20.70**
Target Price: **RM23.70** ↔

Share Price Performance



KLCI	1,486.37
YTD KLCI chg	2.2%
YTD stock price chg	-3.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PETD MK Equity
Market Cap (RM m)	20,842.7
Shares outstanding	993.5
52-week range (H)	23.60
52-week range (L)	20.04
3-mth avg. daily vol.	357,319
Free Float	13%
Beta	0.8

Major Shareholders

Petroleum Nasional Bhd	63.9%
Employees Provident Fund	12.2%
Amanah Saham Nasional	7.8%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Revenue	37549	33907	34360
EBIT	1351	1259	1361
PBT	1332	1335	1467
Net Profit (NP)	943	991	1091
Core NP (CNP)	980	991	1091
Consensus (CNP)	-	1011	1044
Earnings Revision (%)	-	-	-
Core EPS (sen)	98.6	99.7	109.8
EPS Growth (%)	30.3	1.1	10.1
DPS (sen)	78.9	79.8	87.8
BV/Share (RM)	5.81	6.01	6.23
PER (x)	20.9	20.7	18.8
PBV (x)	3.5	3.4	3.3
Net-Gearing (x)	N.Cash	N.Cash	N.Cash
Div. Yield (%)	3.8	3.9	4.3

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Result Highlights					
FYE Dec (RM m)	1Q FY24	4Q FY23	Q-o-Q Chg	1Q FY23	Y-o-Y Chg
Revenue	9,393.1	10,075.4	-6.8%	8,645.5	8.6%
Operating profit	343.2	304.7	12.6%	407.0	-15.7%
Finance cost	(2.3)	(6.7)	-65.2%	(2.7)	-12.8%
Associates and joint ventures	(14.1)	(12.1)	15.8%	4.5	-411.7%
Profit before taxation	326.8	285.9	14.3%	408.9	-20.1%
Taxation	(93.9)	(102.2)	-8.2%	(102.5)	-8.4%
Non-controlling interests	(6.9)	(2.9)	139.4%	(4.5)	51.4%
Net profit	226.0	180.8	25.0%	301.8	-25.1%
EI	2.0	17.2	-88.2%	(4.7)	-143.3%
Core Net profit	228.1	198.1	15.2%	297.1	-23.2%
Core EPS (sen)	23.0	19.9	15.2%	29.9	-99.5%
DPS (sen)	18.0	27.0	-33.3%	15.0	-102.2%
Operating margin	3.7%	3.0%		4.7%	
PBT margin	3.5%	2.8%		4.7%	
Net margin	2.4%	1.8%		3.5%	
Core net margin	2.4%	2.0%		3.4%	
Effective tax rate	28.7%	35.8%		25.1%	

Source: Company, Kenanga Research

Segmental Breakdown					
FYE Dec (RM m)	1Q FY24	4Q FY23	Q-o-Q Chg	1Q FY23	Q-o-Q Chg
Revenue					
Retail	5,046.6	5,094.5	-0.9%	4,409.7	14.4%
Commercial	4,277.0	4,917.0	-13.0%	4,172.1	2.5%
Convenience	69.5	63.9	8.8%	63.6	9.3%
EBIT					
Retail	215.3	177.2	21.5%	227.9	-5.5%
Commercial	120.7	145.6	-17.2%	160.3	-25%
Convenience	7.2	(15.5)	-146.3%	18.9	-61.9%
EBIT margins					
Retail	4.3%	3.5%		5.2%	
Commercial	2.8%	3.0%		3.8%	
Convenience	10.3%	-24.3%		29.6%	

Source: Company, Kenanga Research

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.				
Stocks Under Coverage																	
BUMI ARMADA BHD	MP	0.575	0.580	0.9%	3,408.5	N	12/2024	13.8	12.6	144.4%	-8.8%	4.2	4.6	0.5	13.4%	0.0	0.0%
DIALOG GROUP BHD	OP	2.45	3.18	29.8%	13,824.3	Y	06/2024	10.2	10.6	13.9%	4.1%	24.1	23.1	2.3	10.0%	4.3	1.8%
ICON OFFSHORE BHD	OP	0.740	0.800	8.1%	460.5	Y	12/2024	5.3	8.1	285.3%	52.9%	13.9	9.1	1.1	8.0%	0.0	0.0%
KEYFIELD INTERNATIONAL	OP	2.11	1.90	-10.0%	1,688.0	N	12/2024	15.4	17.9	17.1%	15.6%	13.7	11.8	2.6	26.1%	3.0	1.4%
MISC BHD	MP	8.31	7.69	-7.5%	37,093.7	Y	12/2024	51.9	53.9	7.0%	3.9%	16.0	15.4	0.9	5.8%	30.0	3.6%
PETRONAS CHEMICALS GROUP	MP	7.03	6.88	-2.1%	56,240.0	Y	12/2024	44.9	45.9	111.1%	2.3%	15.7	15.3	1.3	8.7%	22.4	3.2%
PETRONAS DAGANGAN BHD	MP	20.70	23.70	14.5%	20,564.5	Y	12/2024	99.7	109.8	1.1%	10.1%	20.8	18.9	3.4	16.9%	79.8	3.9%
PETRON MALAYSIA REFINING	MP	5.02	4.74	-5.6%	1,355.4	Y	12/2024	99.6	89.6	-1.1%	-10.0%	5.0	5.6	0.5	10.6%	20.0	4.0%
DIALOG GROUP BHD	OP	2.45	3.18	29.8%	13,824.3	Y	06/2024	10.2	10.6	13.9%	4.1%	24.1	23.1	2.3	10.0%	4.3	1.8%
VELESTO ENERGY BHD	OP	0.290	0.340	17.2%	2,382.5	Y	12/2024	1.8	2.3	46.6%	28.8%	16.3	12.7	0.9	5.7%	0.0	0.0%
WASCO BHD	OP	1.55	1.48	-4.5%	1,200.2	Y	12/2024	12.1	14.8	20.0%	22.6%	12.8	10.5	1.5	12.5%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.38	3.41	43.3%	7,204.4	N	01/2025	17.4	19.4	45.2%	11.0%	13.6	12.3	1.4	10.2%	5.0	2.1%
SECTOR AGGREGATE					149,074.5					43.1%	3.9%	15.4	14.8	1.5	11.3%		1.6%

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%

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

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