

24 May 2024

Petronas Dagangan

Stable Outlook

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PETDAG guided for stable volume growth across its divisions in FY24, with aviation fuel volumes anticipated to return to pre-COVID levels. It is well-prepared for the transition to a targeted fuel subsidy system and does not anticipate the initiative to have any significant impact on its sales volumes. We maintain our forecasts, TP of RM23.70 and OUTPERFORM call.

We came away from PETDAG's analyst briefing feeling reassured of its near-term prospects. The key takeaways are as follows:

1. It is moderately optimistic on its outlook in FY24 with stable volume growth across its divisions, underpinned by modest GDP growth. Specifically, its aviation fuel business will be buoyed by the recovery of air traffic in Malaysia, which could reach 98% of pre-Covid levels in 2019.
2. PETDAG is not overly concerned about the impact of diesel subsidy rationalisation. It believes it will only prompt certain customers to source diesel from its commercial division, against its retail division previously (with a neutral impact on the total volume). **It is well-prepared for the transition to a targeted fuel subsidy system** with its fleet card system, which includes both physical fuel cards and a cardless system accessible through SETEL, a mobile app developed by PETDAG. Customers can sign up to these services via its SmartPay online portal.
3. PETDAG shared that in 1QFY24, there was an increase in gross profit for the retail division, while the commercial division experienced a 4% YoY drop in volume on weaker sales of miscellaneous products, although diesel and aviation fuel volumes remained stable. The company also highlighted that increased promotional activities contributed to higher overall operating expenses (opex) in 1QFY24. However, these expenses are expected to decrease in 2QFY24 and beyond in the absence of festive events.

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).

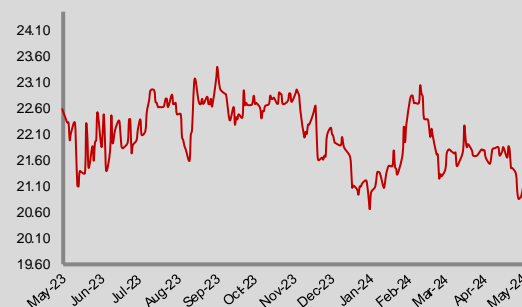
Investment case. We like PETDAG due to: (i) its strong cash-generative business that translates to high capacity to pay dividends, (ii) its strong balance sheet with a sizeable war chest, and (iii) growing convenience division revenue on stronger patronage for Café Mesra. Maintain **OUTPERFORM**.

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: **RM20.92**
Target Price: **RM23.70** ↔

Share Price Performance



KLCI	1,629.18
YTD KLCI chg	12.0%
YTD stock price chg	-6.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PETD MK Equity
Market Cap (RM m)	20,286.3
Shares outstanding	993.5
52-week range (H)	23.60
52-week range (L)	20.30
3-mth avg. daily vol.	444,556
Free Float	14%
Beta	0.7

Major Shareholders

Petroleum Nasional Bhd	63.9%
Employees Provident Fund	11.8%
Amanah Saham Bumiputera	8.7%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Revenue	37549	38336	38833
EBIT	1351	1258	1358
PBT	1332	1335	1466
Net Profit	943	991	1091
Core Net Profit (CNP)	980	991	1091
Consensus (CNP)	-	1019	1065
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)	21.0	20.8	18.9
PBV (x)	3.6	3.5	3.3
Net-Gearing (x)	-0.2	-0.4	-0.4
Div. Yield (%)	3.8	3.8	4.2

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	2.47	3.18	28.7%	13,937.2	Y	06/2024	10.2	10.6	13.9%	4.1%	24.3	23.3	2.3	10.0%	4.3	1.7%
ICON OFFSHORE BHD	MP	0.745	0.70	7.4%	463.6	Y	12/2024	2.4	6.8	285.3%	52.9%	31.6	10.9	1.1	8.0%	0.0	0.0%
KEYFIELD INTERNATIONAL	OP	2.39	1.90	-20.5%	1,912.0	N	12/2024	15.4	17.9	17.1%	15.6%	15.5	13.4	2.9	26.1%	3.0	1.3%
MISC BHD	MP	8.45	7.69	-9.0%	37,718.7	Y	12/2024	51.9	53.9	7.0%	3.9%	16.3	15.7	0.9	5.8%	30.0	3.6%
PETRONAS CHEMICALS GROUP	MP	6.92	6.88	-0.6%	55,360.0	Y	12/2024	44.9	45.9	111.1%	2.3%	15.4	15.1	1.3	8.7%	22.4	3.2%
PETRONAS DAGANGAN BHD	MP	20.42	23.70	16.1%	20,286.3	Y	12/2024	99.7	109.8	1.1%	10.1%	20.5	18.6	3.4	16.9%	79.8	3.9%
PETRON MALAYSIA REFINING	MP	5.09	4.74	-6.9%	1,374.3	Y	12/2024	99.6	89.6	-1.1%	-10.0%	5.1	5.7	0.5	10.6%	20.0	3.9%
VELESTO ENERGY BHD	OP	0.295	0.340	15.3%	2,423.6	Y	12/2024	1.8	2.3	46.6%	28.8%	16.6	12.9	0.9	5.7%	0.0	0.0%
WASCO BHD	OP	1.56	1.48	-5.1%	1,207.9	Y	12/2024	12.1	14.8	20.0%	22.6%	12.9	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					149,033.8					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	★	★			
	Corporate Social Responsibility	★	★	★	★	
	Management/Workforce Diversity	★	★	★	★	
	Accessibility & Transparency	★	★			
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Diversification from pure O&G	★	★			
	Emission Targets and Climate Goals	★	★	★		
	Occupational Health and Safety	★	★	★	★	
	Pollution control	★	★	★		
	Supply chain auditing	★	★	★		
	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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