

30 May 2024

# Petronas Gas

## Like Clockwork

By Teh Kian Yeong | [tehky@kenanga.com.my](mailto:tehky@kenanga.com.my)

**PETGAS's 1QFY24 results met expectations. Its 1QFY24 core net profit rose 11% YoY driven largely by lower gas cost. We keep our forecasts, TP of RM17.87 and MARKET PERFORM call. The stock offers a dividend yield of c.4%.**

PETGAS's 1QFY24 core profit of RM469.5m met expectations at 24% of both our full-year forecast and the full-year consensus estimate. It declared a first interim NDPS of 16 sen, on track to meet our full-year forecast of 72 sen.

**YoY.** its 1QFY24 revenue dipped 3% largely due to a 15% contraction in utilities revenue while other business segments posted higher revenue such as gas processing (+5%), gas transportation (+4%) and regasification terminal (RGT, +1%). However, its core profit grew 11% as lower gas cost buoyed profits of gas transportation (+32%) and utilities (+32%).

**Gas processing:** The segment's EBIT was flat despite higher revenue due to higher operating expenses, mainly depreciation following the completion of several capital projects.

**Gas transportation:** The segment's EBIT jumped 32% due to lower cost of internal gas consumption (IGC).

**Utilities:** The segment's revenue fell 15% due to lower product prices in tandem with the decline in fuel gas price and a lower electricity tariff on a downwards revision of ICPT surcharge. However, its EBIT jumped 32% on lower fuel gas cost.

**RGT:** The segment's EBIT fell slightly by 2% on a flattish top line due to higher maintenance and depreciation charges.

**QoQ.** Its 1QFY24 revenue rose 2% on the back of higher revenue contributions from gas processing (+6%) and gas transportation (+3%). Its core profit grew by a sharper 7% due to lower maintenance expenses and taxation.

**Forecasts.** Maintained.

**Valuations.** We maintain our SoP-driven TP of RM17.87 (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).

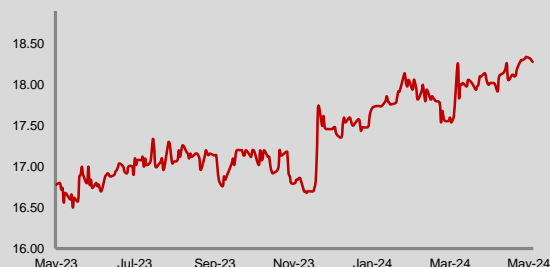
**Investment case.** We continue to like PETGAS for its earnings stability of which >90% is safeguarded by the IBR framework, and the RP2 has reinforced its earnings stability anchoring a decent dividend yield of 4%. However, its valuation is already rich at current levels. Maintain **MARKET PERFORM**.

**Risks to our recommendation include:** (i) regulatory risks, and (ii) a global recession hurting demand for power, steam and industrial gases.

# MARKET PERFORM ↔

Price : **RM18.28**  
Target Price : **RM17.87** ↔

## Share Price Performance



KLCI 1,605.35  
YTD KLCI chg 10.4%  
YTD stock price chg 5.1%

## Stock Information

Shariah Compliant Yes  
Bloomberg Ticker PTG MK Equity  
Market Cap (RM m) 36,171.2  
Shares Outstanding 1,978.7  
52-week range (H) 18.48  
52-week range (L) 16.42  
3-mth avg daily vol: 1,126,763  
Free Float 16%  
Beta 0.8

## Major Shareholders

Petroleum Nasional Bhd 51.0%  
Employees Provident Fund 13.0%  
Kumpulan Wang Persaraan 10.0%

## Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	6445	5815	5856
EBIT	2304	2546	2565
PBT	2386	2548	2609
<b>Net Profit (NP)</b>	<b>1820</b>	<b>1946</b>	<b>1993</b>
<b>Core Net Profit</b>	<b>1850</b>	<b>1946</b>	<b>1993</b>
Consensus (NP)	-	1920	1967
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	18.6	18.1
PBV (x)	2.54	2.59	2.49
Price/NTA (x)	2.47	2.49	2.39
Gearing (%)	N Cash	N Cash	N Cash
Dividend Yield (%)	4.1	3.9	3.9

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Income Statement								
FY Dec (RM m)	1Q FY24	4Q FY23	Q-o-Q Chg	1Q FY23	Y-o-Y Chg	1Q FY24	1Q FY23	Y-o-Y Chg
Turnover	1,618.8	1,582.8	2%	1,674.9	-3%	1,618.8	1,674.9	-3%
EBITDA	896.0	828.9	8%	821.1	9%	896.0	821.1	9%
Depreciation	-289.7	-304.8	-5%	-268.5	8%	-289.7	-268.5	8%
EBIT	606.3	524.1	16%	552.6	10%	606.3	552.6	10%
Interest expense	-23.0	-23.4	-2%	-42.8	-46%	-23.0	-42.8	-46%
Associates	26.9	105.3	-74%	44.4	-39%	26.9	44.4	-39%
Exceptional items	-12.8	2.5	-620%	2.8	-558%	-12.8	2.8	-558%
Pretax profit	597.3	608.5	-2%	556.9	7%	597.3	556.9	7%
Taxation	-125.1	-142.9	-12%	-108.6	15%	-125.1	-108.6	15%
Profit after tax	472.3	465.6	1%	448.3	5%	472.3	448.3	5%
Minority interest	-15.6	-24.0	-35%	-24.1	-35%	-15.6	-24.1	-35%
Net profit	456.6	441.6	3%	424.2	8%	456.6	424.2	8%
Core net profit	469.5	439.1	7%	421.4	11%	469.5	421.4	11%
EPS (sen)	23.7	22.2	7%	21.3	11%	23.7	21.3	11%
DPS (sen)	16.0	22.0	-27%	16.0	0%	16.0	16.0	0%
NTA/share (RM)	6.87	6.85	0%	6.64	3%	6.87	6.64	3%
EBITDA margin	55%	52%		49%		55%	49%	
EBIT margin	37%	33%		33%		37%	33%	
Pretax margin	37%	38%		33%		37%	33%	
Effective tax rate	21%	23%		20%		21%	20%	

Source: Company

Segmental Breakdown								
FY Dec (RM m)	1Q FY24	4Q FY23	Q-o-Q Chg	1Q FY23	Y-o-Y Chg	1Q FY24	1Q FY23	Y-o-Y Chg
<b>Turnover</b>								
Gas Processing	467.8	443.0	6%	443.9	5%	467.8	443.9	5%
Gas Transportation	299.5	290.2	3%	288.4	4%	299.5	288.4	4%
Utilities	515.3	507.9	1%	608.4	-15%	515.3	608.4	-15%
RGT	336.2	341.8	-2%	334.3	1%	336.2	334.3	1%
Others	0.0	0.0	N/A	0.0	N/A	0.0	0.0	N/A
<b>Group Turnover</b>	<b>1,618.8</b>	<b>1,582.8</b>	<b>2%</b>	<b>1,674.9</b>	<b>-3%</b>	<b>1,618.8</b>	<b>1,674.9</b>	<b>-3%</b>
<b>Segment Results</b>								
Gas Processing	207.2	174.2	19%	207.6	0%	207.2	207.6	0%
Gas Transportation	162.6	126.2	29%	123.0	32%	162.6	123.0	32%
Utilities	75.2	55.9	34%	57.0	32%	75.2	57.0	32%
RGT	156.2	150.4	4%	159.5	-2%	156.2	159.5	-2%
Others	-7.8	19.8	-139%	8.3	-194%	-7.8	8.3	-194%
<b>Group EBIT</b>	<b>593.4</b>	<b>526.6</b>	<b>13%</b>	<b>555.4</b>	<b>7%</b>	<b>593.4</b>	<b>555.4</b>	<b>7%</b>
<b>EBIT Margin</b>								
Gas Processing	44%	39%		47%		44%	47%	
Gas Transportation	54%	44%		43%		54%	43%	
Utilities	15%	11%		9%		15%	9%	
RGT	46%	44%		48%		46%	48%	
Others	N/A	N/A		N/A		N/A	N/A	
<b>Group EBIT Margin</b>	<b>37%</b>	<b>33%</b>		<b>33%</b>		<b>37%</b>	<b>33%</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	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)	3,299.0	1.63	Adjusted FY25F at group level
	<b>35,352.3</b>	<b>RM17.87</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	3.60	3.59	-0.3%	4,622.4	Y	12/2024	28.4	27.5	-4.9%	-3.0%	12.7	13.1	3.2	25.8%	22.7	6.3%
MALAKOFF CORP BHD	MP	0.760	0.680	-10.5%	3,714.1	Y	12/2024	4.7	5.8	-71.9%	24.1%	16.2	13.0	0.8	5.2%	3.8	4.9%
PETRONAS GAS BHD	MP	18.28	17.87	-2.2%	36,171.2	Y	12/2024	98.4	100.7	5.2%	2.4%	18.6	18.1	2.6	14.2%	72.0	3.9%
SAMAIDEN GROUP BHD	MP	1.32	1.51	14.4%	551.9	Y	06/2024	3.5	5.3	26.4%	51.9%	37.9	25.0	5.3	14.9%	0.0	0.0%
SOLARVEST HOLDINGS BHD	OP	1.63	1.91	17.2%	1,128.6	Y	03/2024	3.9	6.8	52.8%	74.4%	41.5	23.8	5.3	13.8%	0.0	0.0%
TENAGA NASIONAL BHD	MP	13.20	11.50	-12.9%	76,392.8	Y	12/2024	73.7	79.5	37.4%	7.9%	17.9	16.6	1.2	7.0%	36.5	2.8%
YTL POWER INTERNATIONAL BHD	MP	5.25	5.22	-0.6%	42,746.4	N	06/2024	39.1	37.7	61.6%	-3.5%	13.4	13.9	2.3	18.1%	6.0	1.1%
<b>Sector Aggregate</b>					<b>165,327.3</b>					<b>54.5%</b>	<b>3.4%</b>	<b>16.5</b>	<b>16.0</b>	<b>3.0</b>	<b>14.1%</b>		<b>2.7%</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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**KENANGA INVESTMENT BANK BERHAD (15678-H)**  
 Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
 Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

