

24 May 2024

Petron Malaysia Refining

Poor Crack Spreads Weigh

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PETRONM's 1QFY24 results met our forecast. Its 1QFY24 core net profit contracted 36% YoY due to poor crack spreads. Moving forward, we expect its refining margins to remain capped due to excess refining capacity and long-term structural decline in demand due to the adoption of EVs. We maintain our forecasts, TP of RM4.74 and MARKET PERFORM call.

Its 1QFY24 net profit of RM69.7m met our expectation at 26% of our full-year forecast. Consensus estimate is unavailable.

YoY, its 1QFY24 revenue grew 22% driven by: (i) higher sales volume of 9.8m barrels (+18%) as domestic demand grew, and (ii) higher average oil prices (+2%). However, its net profit dropped 36% mainly due to: (i) the softening crack spreads, and (ii) the loss on derivatives of RM64.9m (vs. gain a year ago) arising from the recognition of marked-to-market commodity hedge loss as oil prices surge.

QoQ, its 1QFY24 net profit surged 68%, thanks to better refining margins and higher sales volume (+3%), partially offset by lower product market prices.

Forecasts. Maintained.

Valuations. We also maintain our TP of RM4.74 based on unchanged 5x FY24F PER, in line with average valuation of its closest peer **HENGYUAN (Not Rated)**. Our ascribed valuation benchmark is also broadly in line with its listed global peers such as TOA Oil, Phillips 66, HF Sinclair, Valero, Marathon Petroleum. Note that our TP imputes a 5% discount to reflect a 2-star ESG rating as appraised by us (see Page 4).

Outlook. We expect regional crack spreads to remain unfavourable over the immediate term given the increased availability of refining capacity in the market with refineries coming back online after the recent maintenance cycle, coupled with weak demand for refined products amidst a soft global economy. Over the longer term, the transition to renewable energy, particularly the adoption of EVs will result in a structural decline in the demand for refined products. In our local front, the government will begin cutting fuel subsidies to bolster its fiscal position, starting with diesel, thereby expediting the adoption of EVs. Maintain **MARKET PERFORM**.

Risks to our call include: (i) prolonged overcapacity in the refining sector; (ii) weak demand for refined products on a soft global economy; and (iii) unplanned plant shutdown.

MARKET PERFORM ↔

Price:	RM5.09	
Target Price:	RM4.74	↔
Expected Capital Gain:	-RM0.35	-6.9%
Expected Divd. Yield:	+RM0.18	+3.5%
Expected Total Gain:	-RM0.17	-3.4%

KLCI Index 1,629.18

Stock Information

Bloomberg Ticker	PETRONM MK Equity
Bursa Code	3042
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	270.0
Market Cap (RM m)	1,374.3
Par value per share (RM)	N.A.
52-week range (H)	5.16
52-week range (L)	4.42
Free Float	22%
Beta	1.2
3-mth avg daily vol	110,633

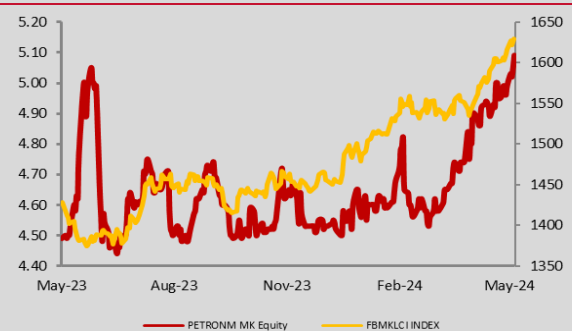
Major Shareholders

Petron Oil & Gas International Sdn Bhd	73.4%
Tan Hock Cheng	1.5%
Polunin Eme Mkt S C Fund	1.3%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Revenue	17,216	16,200	15,942
Operating Profit	349	574	538
PBT	368	354	318
Net Profit (NP)	272	269	242
Core NP (CNP)	272	269	242
Consensus CNP	-	-	-
Earnings Revision (%)	-	-	-
Core EPS (sen)	100.8	99.8	89.6
Core EPS Growth (%)	-9.5	-1.0	-10.2
DPS (sen)	23.0	20.0	18.0
BV/Share (RM)	9.0	9.8	10.5
Core PER (x)	5.1	5.1	5.7
Price/BV (x)	0.6	0.5	0.5
Net Gearing (x)	0.3	0.0	(0.0)
Dividend Yield (%)	4.5	3.9	3.5

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	4.3%	9.5%	13.4%
Relative (%)	0.0%	4.3%	-2.1%



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Results Highlights								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
	FY24	FY23		FY23		FY24	FY23	
FYE Dec (RM m)								
Revenue	4,646.9	4,492.9	3%	3,817.4	22%	4,646.9	3,817.4	22%
Cost of sales	-4,468.0	-4,460.9	0%	-3,640.8	23%	-4,468.0	-3,640.8	23%
Gross profit	178.9	32.0	458%	176.7	1%	178.9	176.7	1%
Other operating income	15.5	17.9	-14%	14.0	10%	15.5	14.0	10%
Other operating expenses	-55.1	-77.8	-29%	-65.0	-15%	-55.1	-65.0	-15%
Administrative expenses	-7.1	-2.2	226%	-1.0	617%	-7.1	-1.0	617%
Operating Profit	132.2	-30.0	N.A.	124.7	6%	132.2	124.7	6%
Finance income	1.7	1.7	3%	1.7	3%	1.7	1.7	3%
Finance costs	-11.1	0.0	N.A.	-9.2	20%	-11.1	-9.2	20%
Other income / expenses	-26.5	75.1	-135%	29.7	-189%	-26.5	29.7	-189%
Profit before tax	96.3	46.8	106%	146.8	-34%	96.3	146.8	-34%
Tax expense	-26.5	-5.4	396%	-38.1	-30%	-26.5	-38.1	-30%
Net profit	69.7	41.4	68%	108.7	-36%	69.7	108.7	-36%
Sales volume (in million)	9.8	9.5	3%	8.3	18%	9.8	8.3	18%
Gross margin	4%	1%		5%		4%	5%	
Operating margin	3%	-1%		3%		3%	3%	
PBT margin	2%	1%		4%		2%	4%	
Net margin	2%	1%		3%		2%	3%	
Effective tax rate	28%	11%		26%		28%	26%	

Source: Company, 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																	
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%
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 BHD	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	OP	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					42.8%	4.0%	15.4	14.8	1.5	10.9%		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%

**** The Expected Total Return might contain rounding discrepancy**

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

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