

04 June 2024

Oil & Gas

Petronas 1QFY24 Results: Opex Weighs

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OVERWEIGHT



Petronas' 1QFY24 top line declined slightly YoY as weaker downstream revenue driven by lower product prices was partially offset by higher revenue from the upstream division due to increased production volume. Correspondingly, the group's core profit declined, also weighed down by higher operating costs. Its overall capex increased slightly YoY but there was a significant uptick in domestic capex, particularly in the upstream segment. Meanwhile, its operating costs increased slightly YoY with domestic costs rising at a faster rate of 10%, a telltale sign of the group's increasing domestic focus. Its dividend commitment remains at RM32b for FY24, which should put less strain on its balance sheet. Overall, we maintain our positive view on the local upstream services sector. Our top picks remain as DIALOG (OP; TP: RM3.18) and YINSON (OP; TP: RM3.41) and KEYFIELD (OP; TP: RM2.69).

YoY, Petronas' 1QFY24 revenue declined slightly by 1% due to weaker contributions from the downstream division, as downstream product prices were lower YoY. The gas division also reported weaker YoY revenue due to lower average realized prices of LNG and processed gas. However, the upstream division reported higher topline driven by increased production volume. Core net profit declined at a faster rate of 8% YoY in 1QFY24 due to higher operating costs, possibly from price hikes by service providers and higher tax expenses. QoQ, revenue remained largely flat as higher volumes from the upstream division (producing crude mainly) offset the lower sales volumes from the downstream division. Core profit declined by 17% QoQ due to higher tax expenses.

Capex up slightly but local investments surged. In 1QFY24, the group's capex increased slightly by 2% YoY. However, the share of domestic capex rose significantly, increasing by 20% YoY, primarily focused on the floating LNG facility in Sabah and the Kasawari CO2 sequestration facilities in Sarawak. We believe that part of the increase in domestic capex also flowed to other upstream projects across Malaysia. The upstream and gas divisions dominated its overall capex, accounting for 81% of the total (compared to 63% last year). This indicates that Petronas is refocusing its capex on the upstream segment within the domestic space, which bodes well for the near to medium-term outlook of upstream service providers.

The group's net cash position as of FY24 is robust at RM98b. For 2024, Petronas has committed to RM32b dividend pay-out to the government, a reduction compared to RM40b the previous year, posing fewer constraints on its balance sheet management. With the group's cash flows from operations expected to remain above RM100b in 2024, after achieving RM135-114b during 2022-23, Petronas is well-equipped to meet its RM60b capex goal in 2024 without materially affecting its financial health.

Domestic opex already ramping up, capex to follow suit. Petronas group costs increased by 3% YoY overall, while domestic costs rose at a higher rate of 10% YoY due to higher production expenses, repair, and routine maintenance costs, in line with increased domestic upstream activities. This indicates that the group is ramping up its upstream brownfield activities, benefiting hookup and commissioning, topside maintenance players, and production-related offshore support vessels (OSV), such as accommodation work boats (AWB) and barges. As long as crude oil prices remain above USD70/bbl, we believe that the group will increase its capex, particularly in the upstream segment, to enhance crude oil and natural gas production and prevent natural production decline.

We maintain our **OVERWEIGHT** view of the sector. We continue to be positive on upstream service providers due to the expected increase in upstream capex in 2024, which coincides with the tight availability of contractors and OSV vessels. However, we are less optimistic about the downstream sector outlook amid uncertainties in global demand and an anticipated increase in global capacities.

Our top picks remain **DIALOG**, as its legacy EPCC contracts (with unfavourable pricing) concluded in 1QCY24, and its tank terminal business is showing signs of significant recovery, and **YINSON**, due to its strong FPSO order book pipeline and early exposure to green technology businesses. For mid-cap, we pick **KEYFIELD** as a proxy to the anticipated upcycle in the local OSV market, given its high exposure in the AWB segment and young fleet age of eight years on average.

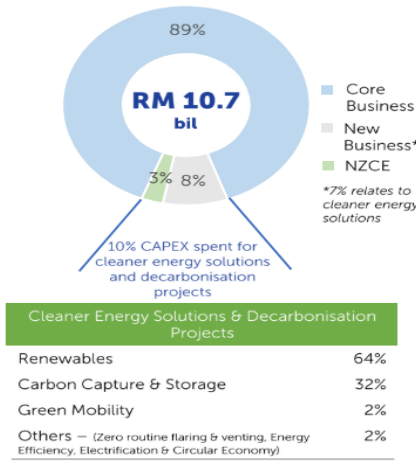
Petronas 2023 Capex By Division

YTD 2024
RM 10.7bil

2%

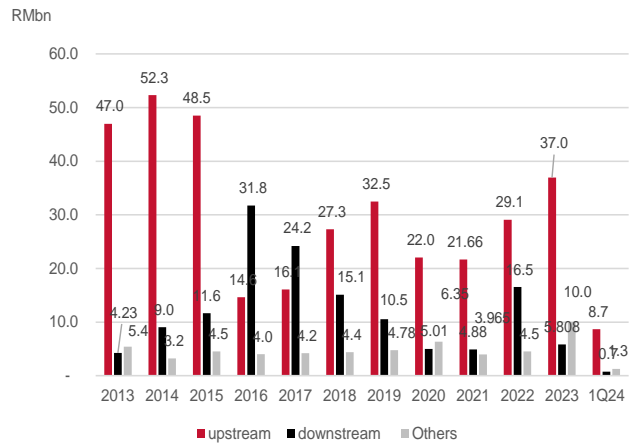
YTD 2023
RM 10.5bil

CAPEX by Strategy



Source: Petronas, Kenanga Research

Petronas Capex Trend



Source: Petronas, Kenanga Research

Results Highlights

	1Q	4Q	Q-o-Q	1Q	Y-o-Y
	FY24	FY23		FY23	
FYE Dec (RM m)					
Revenue	80.9	81.4	-0.6	81.5	-0.7
Operating Profit	29.7	27.2	9.1	30.6	-2.9
Finance Costs	-1.3	-1.2	7.7	-1.4	-11.0
Associates & JCEs	0.1	0.4	-62.6	0.2	-33.5
EI	-1.0	-7.8	-87.1	0.5	-319.5
Pretax Profit	27.5	18.6	48.3	29.8	-7.6
Tax	-7.3	-1.5	371.8	-6.6	9.3
MI	2.2	2.0	11.4	2.0	11.2
Net Profit	18.1	15.0	20.1	21.2	-14.7
Core Net Profit	19.1	22.9	-16.6	20.7	-7.9
EBIT Margin	36.7%	33.4%		37.5%	
Pretax Margin	34.0%	22.8%		36.6%	
Net Margin	22.3%	18.5%		26.0%	
Core Net Margin	23.6%	28.1%		25.4%	
Tax Rate	-26.4%	-8.3%		-22.3%	

Source: Petronas, 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	2.39	3.18	33.1%	13,485.8	Y	06/2024	10.2	10.6	13.9%	4.1%	23.5	22.6	2.3	10.0%	4.3	1.8%
KEYFIELD INTERNATIONAL	OP	2.41	2.69	-21.2%	1,928.0	Y	12/2024	15.4	17.9	17.1%	15.6%	15.6	13.5	2.9	26.1%	3.0	OP
MISC BHD	MP	8.34	8.09	-7.8%	37,227.6	Y	12/2024	51.9	53.9	7.0%	3.9%	16.1	15.5	0.9	5.8%	30.0	MP
PETRONAS CHEMICALS GROUP	MP	6.71	6.28	2.5%	53,680.0	Y	12/2024	44.9	45.9	111.1%	2.3%	15.0	14.6	1.3	8.7%	22.4	MP
PETRONAS DAGANGAN BHD	OP	19.80	23.70	19.7%	19,670.4	Y	12/2024	99.7	109.8	1.1%	10.1%	19.9	18.0	3.3	16.9%	79.8	OP
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	MP
VELESTO ENERGY BHD	OP	0.265	0.340	28.3%	2,177.1	Y	12/2024	1.8	2.3	46.6%	28.8%	14.9	11.6	0.8	5.7%	0.0	0.0%
WASCO BHD	MP	1.50	1.48	-1.3%	1,161.5	Y	12/2024	12.1	14.8	20.0%	22.6%	12.4	10.1	1.5	12.5%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.32	3.41	47.0%	7,023.7	N	01/2025	17.4	19.4	45.2%	11.0%	13.3	12.0	1.4	10.2%	5.0	2.2%
SECTOR AGGREGATE					145,063.3					42.8%	4.0%	15.0	14.4	1.5	10.9%		1.6%

Source: Kenanga Research

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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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