

20 November 2020

Petronas Gas

9MFY20 Slightly Above

By Teh Kian Yeong | tehky@kenanga.com.my

9MFY20 results with earnings growing steadily by 10% to RM1.56b, beat our forecast slightly on lower opex. PGAS has shown earnings resiliency during this pandemic period owing to the IBR framework. Going forth, we see little earnings risk for the next three years on RP1 base tariffs. Nonetheless, all positives are already priced in for now, in our view. Thus, we continue to rate the stock a MP with unchanged SoP-TP of RM16.85.

9MFY20 results came in slightly above. At 79%/80% of house/street's FY20 estimates. 9MFY20 core profit of RM1.56b came in slightly higher than expectations. The main deviation from our estimate is due to better-than-expected earnings from Gas Transportation (GT) and Regasification (RGT). It declared a 3rd interim NDPS of 18.0 sen (ex-date: 04 Dec; payment date: 22 Dec), totalling YTD 9MFY20 NDPS to 100.0 sen (including a special dividend of 50.0 sen paid in 2QFY20) vs. 50.0 sen paid in 9MFY19.

A small dip in sequential earnings. 3QFY20 core profit fell 3% QoQ to RM512.2m, despite revenue inching up 1%, largely attributable to a 52% or RM30.4m decline in associate income as its 60%-owned JV Kimanis IPP had a scheduled shutdown. Meanwhile, GT reported a 9% rise in operating profit to RM225.6m on lower internal gas consumption (IGC) cost which was offset by higher repair and maintenance costs while RGT posted a 29% jump in operating profit to RM216.0m on the back of lower opex. This led to group operating profit growing by 17% to RM832.9m.

A steady growth from last year. YoY, 3QFY20 core profit leapt 15% from RM446.4m, while revenue rose 5% from RM1.34b. This was due to improved results from all business segments. Gas Processing (GP) posted 26% rise in EBIT on lower opex while GT earnings rose 12% on lower IGC and other opex. Meanwhile, Utilities saw its EBIT jumping 3x on higher revenue coupled with lower depreciation charges while higher base tariffs effective Jan this year pushed RGT earnings higher by 40%. YTD, 9MFY20 core profit rose 10% to RM1.56b on the back of 3% rise in revenue coupled with a 9% decline in depreciation charges while associate incomes was higher by 8%.

IBR to safeguard earnings. Even during this pandemic period, PETGAS has shown its earnings resiliency in the past three quarters thanks to the IBR framework to safeguard its earnings. With earnings clarity after the RP1 announcement, focus will revert to its operational efficiency especially for Utilities as earnings for GT, GP and RGT are fairly predictable. As such, earnings certainty is high albeit with limited earnings growth prospects. Post 3QFY20 results, we raised FY20 earnings estimate by 3% to reflect higher earnings from GT and RGT in 3QFY20 but keep FY21 forecasts unchanged. No changes in FY20 NDPS forecast as well.

Maintain MP for earnings resilient and decent yield. We continue to like its business model which provides high earnings certainty, but its share price has already priced in the positives; thus, we maintain our MARKET PERFORM call on the stock with unchanged SoP-target price of RM16.85 share. Our call is also supported by a decent regular annual dividend yield of c.5%. Upside risk to our call is a higher-than-expected business volume for non-regulated business

MARKET PERFORM ↔

Price : **RM16.32**
Target Price : **RM16.85** ↔

Share Price Performance



KLCI	1,583.68
YTD KLCI chg	-0.3%
YTD stock price chg	1.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PTG MK
Market Cap (RM m)	32,292.9
Shares Outstanding	1,978.7
52-week range (H)	18.45
52-week range (L)	12.97
3-mth avg daily vol:	767,573
Free Float	15%
Beta	0.7

Major Shareholders

Petroleum Nasional Bhd	51.0%
Employees Provident Fund	13.1%
Kumpulan Wang Persaraan	10.6%

Summary Earnings Table

FY Dec (RM m)	2019E	2020E	2021E
Turnover	5458	5583	5623
EBIT	2556	2611	2560
PBT	2463	2586	2543
Net Profit (NP)	1935	2027	1943
Core Net Profit	1884	2027	1943
Consensus (NP)		1940	1941
Earnings Revision (%)		+2.8	0.0
Core EPS (sen)	95.2	102.4	98.2
CNP growth (%)	4.2	7.6	-4.2
NDPS (sen)	82.0	122.0	83.5
BV/Share (RM)	6.69	6.50	6.65
NTA/Share (RM)	6.69	6.50	6.65
Core PER (x)	17.5	15.9	16.6
PBV (x)	2.48	2.51	2.46
Price/NTA (x)	2.48	2.46	2.37
Gearing (%)	-0.01	-0.02	-0.07
Dividend Yield (%)	5.0	7.5	5.1

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Income Statement								
FY Dec (RM m)	3Q FY20	2Q FY20	Q-o-Q Chg	3Q FY19	Y-o-Y Chg	9M FY20	9M FY19	Y-o-Y Chg
Turnover	1,407.4	1,399.8	1%	1,338.1	5%	4,203.4	4,085.9	3%
EBITDA	1,076.1	969.5	11%	867.7	24%	2,769.6	2,771.7	0%
Depreciation	-243.2	-259.8	-6%	-292.9	-17%	-768.8	-844.3	-9%
EBIT	832.9	709.8	17%	574.8	45%	2,000.8	1,927.4	4%
Interest expense	-52.7	-56.2	-6%	-57.5	-8%	-163.3	-174.2	-6%
Associates	27.9	58.3	-52%	35.9	-22%	131.5	121.5	8%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	808.1	711.9	14%	553.3	46%	1,969.0	1,874.6	5%
Taxation	-168.6	-138.2	22%	-107.8	56%	-407.7	-383.5	6%
Profit after tax	639.5	573.7	11%	445.5	44%	1,561.3	1,491.1	5%
Minority interest	-48.5	-26.6	82%	-13.9	248%	-55.0	-41.2	34%
Net profit	591.0	547.1	8%	431.6	37%	1,506.2	1,449.9	4%
Core net profit	512.2	526.7	-3%	446.4	15%	1,558.8	1,412.2	10%
EPS (sen)	25.9	26.6	-3%	22.6	15%	78.8	71.4	10%
DPS (sen)	18.0	66.0	-73%	18.0	0%	100.0	50.0	100%
NTA/share (RM)	6.31	6.68	-5%	6.71	-6%	6.31	6.71	-6%
EBITDA margin	76%	69%		65%		66%	68%	
EBIT margin	59%	51%		43%		48%	47%	
Pretax margin	57%	51%		41%		47%	46%	
Effective tax rate	21%	19%		19%		21%	20%	

Source: Company

Segmental Breakdown								
FY Dec (RM m)	3Q FY20	2Q FY20	Q-o-Q Chg	3Q FY19	Y-o-Y Chg	9M FY20	9M FY19	Y-o-Y Chg
Turnover								
Gas Processing	427.0	429.6	-1%	422.4	1%	1,287.0	1,273.6	1%
Gas Transportation	293.8	292.2	1%	293.2	0%	878.9	875.7	0%
Utilities	336.0	328.1	2%	308.7	9%	991.9	1,012.5	-2%
RGT	350.7	349.9	0%	313.9	12%	1,045.6	924.1	13%
Others	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Group Turnover	1,407.4	1,399.8	1%	1,338.1	5%	4,203.4	4,085.9	3%
Segment Results								
Gas Processing	247.8	249.4	-1%	196.7	26%	720.0	610.1	18%
Gas Transportation	225.6	207.3	9%	201.2	12%	621.7	616.3	1%
Utilities	46.4	50.3	-8%	11.1	319%	129.6	115.8	12%
RGT	216.0	167.9	29%	154.4	40%	548.8	470.6	17%
Others	97.2	35.0	178%	11.4	752%	-19.3	114.5	-117%
Group EBIT	832.9	709.8	17%	574.8	45%	2,000.8	1,927.4	4%
EBIT Margin								
Gas Processing	58%	58%		47%		56%	48%	
Gas Transportation	77%	71%		69%		71%	70%	
Utilities	14%	15%		4%		13%	11%	
RGT	62%	48%		49%		52%	51%	
Others	N/A	N/A		N/A		N/A	N/A	
Group EBIT Margin	59%	51%		43%		48%	47%	

Source: Company

Valuation				
(RM m)	Equity value	RM/Share	%	Valuation Basic
Gas Business	27,498.6	13.90	82.5%	DCF @ 6.6% WACC, g = 2%
Melaka RGT	1,900.4	0.96	5.7%	DCF @ 8.1% WACC
Kimanis IPP	862.9	0.44	2.6%	DCF @ 4.0% WACC
Pengerang RGT	2,393.3	1.21	7.2%	DCF @ 6.0% WACC
Gas Malaysia	526.4	0.27	1.6%	TP: RM2.85 @ 14.8% equity stake
Net Cash/(Debt)	145.5	0.07	0.4%	Adjusted FY20E at Group's level
	33,327.1	16.84	100.0%	
No of shares	1,978.7			
SoP per share	RM16.85			Round up to the nearest RM0.05

Source: Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM m)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
GAS MALAYSIA BHD	2.72	3,492.5	Y	12/2020	-1.7%	13.0%	11.8%	7.6%	20.4	18.2	16.9	3.3	3.3	18.2%	4.9%	2.85	MP
MALAKOFF CORP BHD	0.920	4,496.0	Y	12/2020	7.4%	0.3%	75.7%	1.9%	21.9	12.5	12.2	0.8	0.8	6.7%	6.4%	1.15	OP
PESTECH INTERNATIONAL BHD	0.780	593.7	Y	06/2021	19.2%	5.3%	33.5%	8.3%	10.7	8.0	7.4	1.1	1.0	13.2%	0.0%	1.15	OP
PETRONAS GAS BHD	16.32	32,292.9	Y	12/2020	2.3%	0.7%	7.6%	-4.2%	17.1	15.9	16.6	2.4	2.5	15.5%	7.5%	16.85	MP
TENAGA NASIONAL BHD	11.24	64,120.3	Y	12/2020	4.0%	1.8%	-14.5%	19.3%	11.5	14.4	12.0	1.0	1.1	7.5%	3.5%	13.95	OP
YTL POWER INTERNATIONAL BHD	0.705	5,741.7	N	06/2021	5.9%	-5.4%	55.8%	-12.2%	24.3	15.6	17.7	0.4	0.4	2.7%	7.1%	0.640	MP
Simple Average					6.2%	2.6%	28.3%	3.5%	17.6	14.1	13.8	1.5	1.5	10.6%	4.9%		

Source: Bloomberg, 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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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 E-mail: research@kenanga.com.my

