



Company report

PETRONAS GAS

(PTG MK EQUITY, PGAS.KL)

20 May 2022

Mild impact from higher internal gas costs

BUY

(Maintained)

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03-2036 2280

Rationale for report: Company update

Price	RM17.36
Fair Value	RM20.05
52-week High/Low	RM17.89/RM15.15

Key Changes

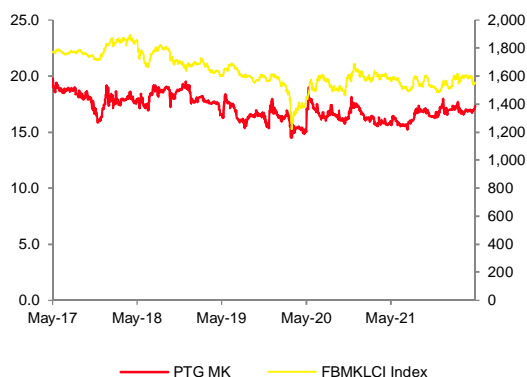
Fair value	⬇️
EPS	⬇️

YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	5,648.6	5,673.3	5,547.3	5,598.0
Core net profit (RM mil)	2,027.3	1,768.8	1,821.2	1,836.8
FD Core EPS (sen)	102.5	89.4	92.0	92.8
FD Core EPS growth (%)	2.1	(12.8)	3.0	0.9
Consensus Net Profit (RM mil)	-	1,942.2	1,971.4	1,984.1
DPS (sen)	82.0	89.4	92.0	92.8
PE (x)	16.9	19.4	18.9	18.7
EV/EBITDA (x)	9.5	9.7	9.9	9.8
Div yield (%)	4.7	5.1	5.3	5.3
ROE (%)	15.5	13.5	13.9	14.0
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	1,978.7
Market Cap (RM mil)	34,350.8
Book Value (RM/share)	6.62
P/BV (x)	2.6
ROE (%)	15.5
Net Gearing (%)	-
Major Shareholders	Petronas(60.7%) EPF(13.9%)
Free Float	13.0
Avg Daily Value (RM mil)	12.0

Price performance	3mth	6mth	12mth
Absolute (%)	2.7	6.5	9.7
Relative (%)	6.3	4.8	11.9

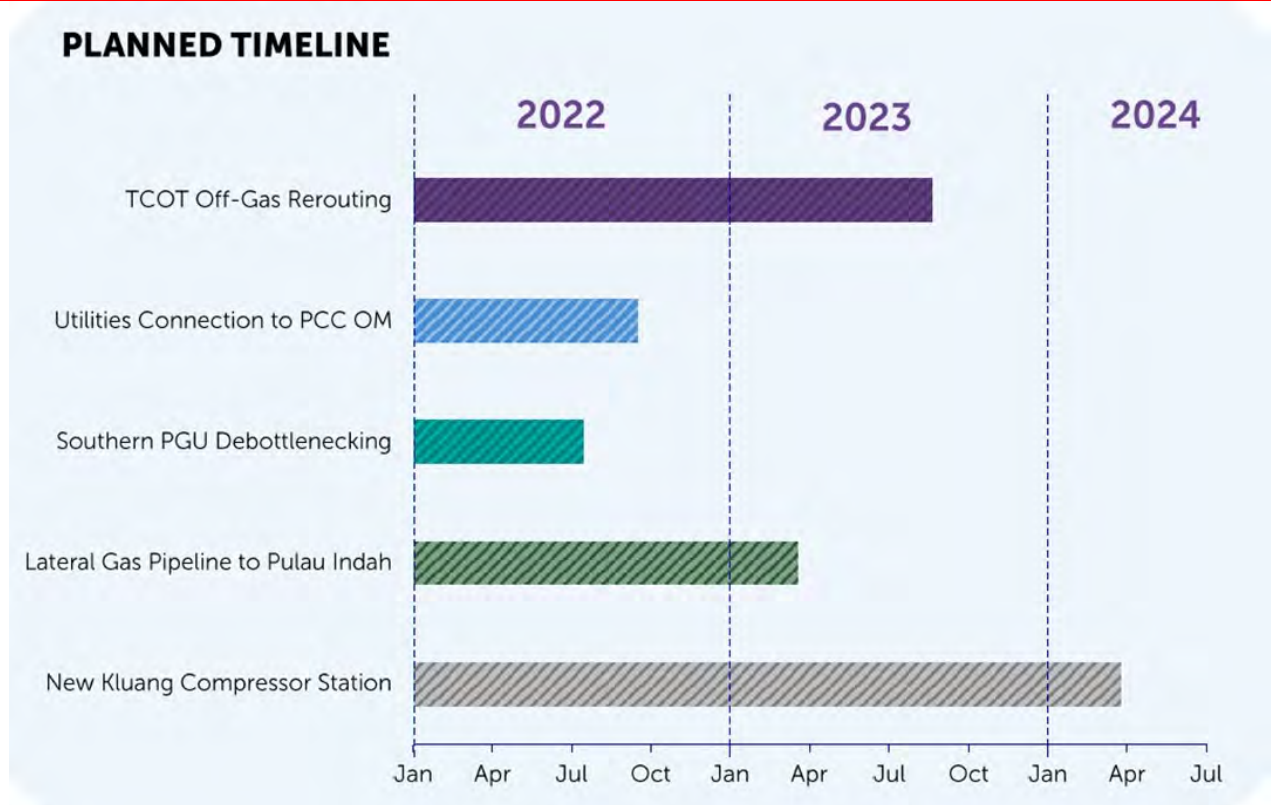


Investment Highlights

- We maintain our BUY call on Petronas Gas (PGas) with a lowered sum-of-parts-based (SOP) fair value of RM20.05/share (from an earlier RM20.20/share), which reflects a premium of 3% for our ESG rating of 4 stars. This also implies an FY23F PE of 22x, 1 standard deviation above its 5-year average.
- Following an analyst briefing today, we have reduced PGas' FY22F earnings by 3% and FY23F–FY24F by 1% to account for higher internal gas costs for the group's gas transportation, regasification and utilities segments.
- While PGas will be able to revise its transportation and regasification tariffs in FY23F–FY25F to account for higher gas prices under the regulatory period 2 of the incentive-based regulatory mechanism, management indicated that the recovery of the group's elevated fuel costs in 1QFY22 is already being achieved from other cost savings. Recall that the higher operating costs caused PGas' 1QFY22 core net profit to decline 6% QoQ to RM418mil.
- This means that the current tariff, which slid 0.1 sen YoY to RM1.228/GJ on 1 Jan this year for higher regasification volumes from a client, has already imputed the higher internal gas costs. As such, we expect the 13%-point EBITDA margin compression to 58.5% in 1QFY22 to largely remain intact over the next quarter given elevated Brent crude oil prices above US\$110/barrel, which will continue supporting high gas costs.
- On a brighter note, the group's utilities division, which registered a 61% QoQ EBIT collapse to RM22mil due to higher gas costs and lower demand from clients' planned maintenance shutdowns, could stage an earnings recovery in 2QFY22. Management has signed 6 new contracts which account for the higher operating costs in January and May, of which 4 will be effective 1 April 2022.
- The group's RM1.4bil capex programme is progressing as planned for FY21–FY24F with 3 projects expected to be completed this year:
 - Installation of new compression system work to reroute and process off-gas into products at Gas Processing Kertih plant.
 - utilities connection to Petronas Chemicals' PCC Oxyalkylates Malaysia
 - Southern Peninsular Gas Utilisation's gas compression and debottlenecking job in Kluang, Johor.

- The group is still evaluating a third liquefied natural gas (LNG) storage tank with Dialog Group, which could cover an additional 160K m3 costing RM1bil. PGas currently has a 65% equity stake in 2 LNG tanks with a capacity of 400K m3.
- Furthermore, PGas is also exploring an additional Sabah power plant together with parent Petronas’ plans to construct an LNG plant with an annual capacity of 2mil tonnes in Sipitang. PGas currently has a 60% equity stake in the 300MW gas-fired plant in Kimanis, which progressively commenced operations in late 2017.
- Meanwhile, PGas intends to proceed with a debt-to-equity ratio comparable with other infrastructure companies’ 55% over the next 3 years from its net gearing position of only 3% currently. We still think that this may yet mean special dividends which could potentially raise our FY22F–FY24F DPS by 53% to RM1.94/share, implying an eye-watering yield of 12%. Nevertheless, we caution that these estimates could be moderated by new investment or acquisition propositions.
- The stock currently trades at an attractive FY23F PE of 19x, below pre-FY20 peak of over 20x. This is supported by compelling dividend yields of 5% which could potentially be even higher if management maintains its capital optimisation plans.

EXHIBIT 1: PETRONAS GAS’ RM1.4BIL CAPEX PROGRAMME TIMELINE



Source: Petronas Gas’ IR slide

EXHIBIT 2: PB BAND CHART

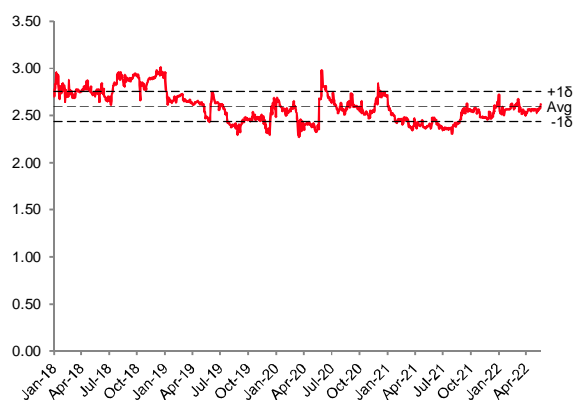


EXHIBIT 3: PE BAND CHART



EXHIBIT 4: ESG RATING

Overall	★	★	★	★	★
Zero-carbon initiatives	★	★	★	★	
Health & Safety Compliance	★	★	★	★	★
Shareholder accountability	★	★	★	★	
Social responsibility	★	★	★	★	
Pollution control	★	★	★	★	
Supply chain auditing	★	★	★	★	
Corruption-free pledge	★	★	★	★	
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmInvestment Bank

EXHIBIT 5: SUM-OF-PARTS BREAKDOWN

	Equity stake	Methodology	RMmil	%
Present value of PGas' operating cash flows	100	DCF at equity discount rate of 8%, terminal growth at 2% after FY26F	37,977.6	98.6
Gas Malaysia	15	Market price	506.5	1.3
300MW Kimanis power plant	60	Project IRR at 9%, equity discount rate of 9%, 80.20 Debt:equity	168.0	0.4
Net debt as at 31 Dec 2020			(140.5)	(0.4)
Total sum-of-parts (SOP)			38,511.6	100.0
No of shares			1,978.7	
SOP value (RM/share)			19.46	
ESG premium (%)			3.0	
ESG-adjusted SOP value (RM/share)			20.05	
Implied FY23F PE			22	

Source: AmInvestment Bank

EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	5,592.1	5,648.6	5,673.3	5,547.3	5,598.0
EBITDA	3,542.3	3,596.7	3,493.1	3,389.0	3,418.1
Depreciation/Amortisation	(1,016.9)	(983.1)	(1,054.4)	(1,089.4)	(1,124.4)
Operating income (EBIT)	2,525.4	2,613.6	2,438.7	2,299.6	2,293.7
Other income & associates	159.8	157.1	158.3	169.1	180.8
Net interest	(98.9)	(90.7)	(90.3)	(70.2)	(55.4)
Exceptional items	23.8	(38.4)	-	-	-
Pretax profit	2,610.2	2,641.7	2,506.7	2,398.5	2,419.1
Taxation	(527.9)	(530.3)	(641.3)	(479.7)	(483.8)
Minorities/pref dividends	(72.7)	(122.5)	(96.6)	(97.6)	(98.6)
Net profit	2,009.6	1,988.9	1,768.8	1,821.2	1,836.8
Core net profit	1,985.7	2,027.3	1,768.8	1,821.2	1,836.8
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	13,216.2	13,272.4	13,218.0	13,128.6	13,004.2
Intangible assets	-	-	-	-	-
Other long-term assets	1,200.1	1,195.7	1,331.4	1,476.0	1,630.2
Total non-current assets	14,416.3	14,468.1	14,549.4	14,604.6	14,634.5
Cash & equivalent	3,138.9	3,782.5	3,504.2	3,206.9	3,013.5
Stock	44.9	46.0	56.0	54.8	55.3
Trade debtors	744.5	889.6	885.5	865.8	873.7
Other current assets	-	-	-	-	-
Total current assets	3,928.3	4,718.0	4,445.7	4,127.5	3,942.5
Trade creditors	839.1	1,069.0	1,251.3	1,223.5	1,234.7
Short-term borrowings	145.2	168.2	185.0	203.5	223.9
Other current liabilities	14.8	58.5	-	-	-
Total current liabilities	999.1	1,295.7	1,436.3	1,427.0	1,458.6
Long-term borrowings	3,134.3	3,278.9	2,787.1	2,369.0	2,013.7
Other long-term liabilities	1,242.7	1,272.0	1,335.6	1,402.4	1,472.5
Total long-term liabilities	4,377.0	4,550.9	4,122.7	3,771.4	3,486.2
Shareholders' funds	12,634.8	13,098.6	13,098.6	13,098.6	13,098.6
Minority interests	333.8	240.9	337.6	435.1	533.7
BV/share (RM)	6.39	6.62	6.62	6.62	6.62
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	2,610.2	2,641.7	2,506.7	2,398.5	2,419.1
Depreciation/Amortisation	1,016.9	983.1	1,054.4	1,089.4	1,124.4
Net change in working capital	214.7	127.4	117.8	(6.9)	2.8
Others	(493.2)	(264.0)	(625.1)	(490.3)	(516.6)
Cash flow from operations	3,348.5	3,488.1	3,053.8	2,990.6	3,029.7
Capital expenditure	(1,000.0)	(1,300.0)	(1,000.0)	(1,000.0)	(1,000.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	-	-	-	-	-
Cash flow from investing	(1,000.0)	(1,300.0)	(1,000.0)	(1,000.0)	(1,000.0)
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(2,513.0)	(1,622.6)	(1,768.8)	(1,821.2)	(1,836.8)
Others	-	-	-	-	-
Cash flow from financing	(2,513.0)	(1,622.6)	(1,768.8)	(1,821.2)	(1,836.8)
Net cash flow	(164.4)	565.6	285.0	169.4	192.9
Net cash/(debt) b/f	289.1	122.8	(140.5)	335.3	532.1
Net cash/(debt) c/f	(140.5)	335.3	532.1	634.4	775.9
Key Ratios (YE31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	2.5	1.0	0.4	(2.2)	0.9
EBITDA growth (%)	2.1	1.5	(2.9)	(3.0)	0.9
Pretax margin (%)	46.7	46.8	44.2	43.2	43.2
Net profit margin (%)	35.9	35.2	31.2	32.8	32.8
Interest cover (x)	25.5	28.8	27.0	32.8	41.4
Effective tax rate (%)	20.2	20.1	25.6	20.0	20.0
Dividend payout (%)	125.1	81.6	100.0	100.0	100.0
Debtors turnover (days)	55	53	57	58	57
Stock turnover (days)	4	3	3	4	4
Creditors turnover (days)	56	62	75	81	80

Source: Company, AmInvestment Bank Bhd estimates

§ From this year onwards year end is Dec

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