

03 October 2022

# Petronas Dagangan

## A Field Trip to Sabah Terminals

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We returned from a site visit to PETDAG's terminals in Kota Kinabalu feeling neutral, with our view on the stock largely unchanged. Post disposal of its working inventories, PETDAG's earnings will no longer be exposed to inventory lag gains/losses, and will primarily be volume-driven. Meanwhile, pricing mechanisms have dragged its commercial segment for the past two quarters, but we expect this to stabilise in 2HFY22. Maintain MARKET PERFORM, with an unchanged TP of RM22.25.

**Site visit to Kota Kinabalu.** We went on a site visit to PETDAG's fuel and LPG terminal in Sepanggar Bay, as well as its aviation terminal at Kota Kinabalu Airport. These terminals are used to receive, store, and distribute fuels, and handle more than half of the volumes served in Sabah – which is <10% of the total group's volumes.

Below are some of our takeaways from the visit:

- No changes of operations post transfer of ownership of inventories to Petco.** Recap that earlier in the year, PETDAG had completed the sale of its working inventories and deadstock in the storage tanks to Petco (another wholly-owned Petronas subsidiary), named as "project DOVE" internally. We now can verify that there are no changes operationally post completion of this ownership transfer. The fuels are still stored in PETDAG's terminals, with PETDAG only assuming ownership of the inventories once the fuels have been loaded onto the trucks and sent out for delivery to the stations. Following the completion of project DOVE, PETDAG's retail earnings will no longer be impacted by inventory lag gains/losses, and will primarily be volume-driven.
- Pricing mechanisms dragged commercial segment into losses.** We learnt that typically commercial clients use a "look-back" mechanism in determining product prices, which may vary from the spot prices. This has resulted in two consecutive quarters of losses in the past for its commercial segment, despite improved sales volumes. Do note that jet fuel products are homogenous across the various brands, and hence, competition is stiff within this space. That said, we expect performance from this segment to stabilise going into 2HFY22 given the easing of oil prices off its peak.

**Overall, we returned from our site visit feeling neutral, with our view on the stock largely unchanged.** As such, we made no changes to our forecasts.

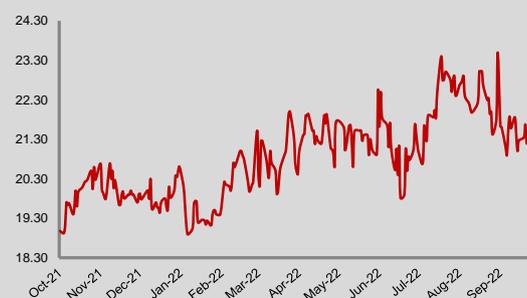
**Maintain MARKET PERFORM**, with unchanged TP of RM22.25, based on DCF (WACC: 10%, TG: 1%). There is no adjustment to TP based on ESG for given a 3-star rating as appraised by us (see Page 5). **Maintain MARKET PERFORM.**

**Risks to our call include:** (i) removal of fuel subsidies, hurting fuel consumption, (ii) global recession hurting fuel demand, and (iii) resurgence of movement restrictions.

## MARKET PERFORM ↔

Price: RM20.02  
Target Price: RM22.25 ↔

### Share Price Performance



KLCI	1,394.63
YTD KLCI chg	-11.0%
YTD stock price chg	-2.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PETD MK Equity
Market Cap (RM m)	19,888.9
Shares outstanding	993.5
52-week range (H)	23.50
52-week range (L)	18.70
3-mth avg daily vol:	239,261
Free Float	13%
Beta	0.9

### Major Shareholders

Petroleum Nasional Bhd	63.9%
Employees Provident Fund	11.8%
Amanah Saham Bumiputera	8.7%

### Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Revenue	22,505	29,257	30,720
EBIT	751	731	922
PBT	741	715	906
<b>Net Profit</b>	<b>530</b>	<b>538</b>	<b>681</b>
<b>Core Net Profit (CNP)</b>	<b>548</b>	<b>538</b>	<b>681</b>
Consensus (CNP)		598	720
Earnings Revision (%)		-	-
Core EPS (sen)	55.2	54.2	68.6
EPS growth (%)	92.7	-1.8	26.6
DPS (sen)	70.0	54.2	68.6
BV/Share (RM)	5.62	5.62	5.62
PER (x)	36.3	36.9	29.2
PBV (x)	3.6	3.6	3.6
Net-Gearing (x)	N.Cash	N.Cash	N.Cash
Div. Yield (%)	3.5	2.7	3.4

Terminal Tanks for Fuel Storage



Source: Kenanga Research

Reloading of Trucks for Redistribution to Stations



Source: Kenanga Research

Bowser Used for Refuelling of Aircrafts



Source: Kenanga Research

Dispenser Used for Refuelling of Aircrafts



Source: Kenanga Research

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	FY Dec	2016A	2017A	2018A	2019A	2020A
Revenue	30294	18711	22505	29257	30720	<b>Growth (%)</b>					
Operating Profit	1147	403	751	731	922	Revenue	0.7	-38.2	20.3	30.0	5.0
Finance costs	(22)	(16)	(12)	(16)	(16)	Operating Profit	-2.7	-64.9	86.6	-2.6	26.0
PBT	1129	386	741	715	906	PBT	-4.1	-65.8	91.7	-3.4	26.6
Taxation	(291)	(114)	(210)	(172)	(217)	Net profit	-2.4	-66.7	92.0	1.6	26.6
Net Profit	<b>830</b>	<b>276</b>	<b>530</b>	<b>538</b>	<b>681</b>	Core Net Profit	-1.8	-65.4	92.7	-1.8	26.6
<b>Core Net Profit</b>	<b>822</b>	<b>285</b>	<b>548</b>	<b>538</b>	<b>681</b>	<b>Profitability (%)</b>					
<b>Balance Sheet</b>						Operating margin	3.8	2.2	3.3	2.5	3.0
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	PBT Margin	3.7	2.1	3.3	2.4	2.9
Fixed Assets	4135	4067	4018	3905	3793	Core Net Margin	2.7	1.5	2.4	1.8	2.2
Associates	1	2	2	2	2	Effective Tax Rate	25.8	29.5	28.3	24.0	24.0
JV Entities	22	19	20	20	20	ROE (%)	8.2	6.7	5.7	5.0	6.2
Oth. Fixed Assets	0	0	1	1	1	ROA (%)	14.0	-0.1	-0.2	8.9	11.1
Inventories	797	410	159	207	217	<b>DuPont Analysis</b>					
Receivables	1467	1169	3490	4537	4764	Net Margin (%)	2.7	1.5	2.4	1.8	2.2
Oth. Current Ass.	98	0	0	0	0	Assets T/over (x)	3.0	4.4	2.3	2.7	2.8
Cash	3477	2692	1911	2022	2134	Leverage Factor(x)	1.7	0.8	1.7	1.9	2.0
<b>Total Assets</b>	<b>9996</b>	<b>4271</b>	<b>9601</b>	<b>10694</b>	<b>10931</b>	ROE (%)	13.8	5.0	9.8	9.6	12.2
Payables	924	2342	3645	4739	4976	<b>Leverage</b>					
ST Borrowings	166	81	24	24	24	Debt/Asset (x)	0.03	0.04	0.01	0.01	0.01
Other ST Liability	2598	29	90	90	90	Debt/Equity (x)	0.06	0.03	0.02	0.02	0.02
LT Borrowings	169	97	92	92	92	Net Cash/(debt)	3142	2514	1795	1806	1817
Other LT Liability	129	135	134	134	134	Net Debt/Equity (x)	-0.54	-0.56	-0.47	-0.46	-0.45
Minority Interest	35	32	33	33	33	<b>Valuations</b>					
<b>Net Assets</b>	<b>5976</b>	<b>5644</b>	<b>5582</b>	<b>5582</b>	<b>5582</b>	Core EPS (sen)	82.7	28.6	55.2	54.2	68.6
Share Capital	993	993	993	993	993	DPS (sen)	85.0	38.0	70.0	54.2	68.6
Reserves	4982	4650	4589	4589	4589	BVPS (RM)	6.0	5.7	5.6	5.6	5.6
<b>Equity</b>	<b>5976</b>	<b>5644</b>	<b>5582</b>	<b>5582</b>	<b>5582</b>	Core PER (x)	24.2	69.9	36.3	36.9	29.2
<b>Cashflow Statement</b>						Div. Yield (%)	4.2	1.9	3.5	2.7	3.4
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	P/BV (x)	3.3	3.5	3.6	3.6	3.6
Operating CF	<b>2524</b>	<b>363</b>	<b>197</b>	<b>972</b>	<b>1116</b>						
Investing CF	<b>(544)</b>	<b>(319)</b>	<b>(297)</b>	<b>(400)</b>	<b>(400)</b>						
Financing CF	<b>(740)</b>	<b>(778)</b>	<b>(683)</b>	<b>(561)</b>	<b>(705)</b>						

Source: Kenanga Research

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>																	
BUMI ARMADA BHD	OP	0.385	0.630	63.64%	2,278.4	N	12/2022	11.4	11.1	-0.8%	-2.3%	3.4	3.5	0.5	15.5%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	1.11	1.30	17.12%	1,285.1	Y	12/2022	7.5	8.8	98.2%	17.5%	14.8	12.6	0.9	6.4%	0.0	0.0%
DIALOG GROUP BHD	OP	1.99	3.10	55.78%	11,228.7	Y	06/2023	9.5	9.9	5.1%	4.8%	21.0	20.1	2.1	10.2%	2.8	1.4%
MISC BHD	MP	6.76	7.05	4.29%	30,174.9	Y	12/2022	27.6	28.0	-34.7%	1.4%	24.5	24.1	0.9	3.6%	33.0	4.9%
PETRONAS CHEMICALS GROUP BHD	OP	8.39	11.00	31.11%	67,120.0	Y	12/2022	87.2	68.8	-3.9%	-21.1%	9.6	12.2	1.7	19.0%	43.6	5.2%
PETRONAS DAGANGAN BHD	MP	20.02	22.25	11.14%	19,888.9	Y	12/2022	54.2	68.5	-1.8%	26.6%	37.0	29.2	3.6	9.6%	54.2	2.7%
UZMA BHD	OP	0.360	0.580	61.11%	126.7	Y	06/2023	5.3	7.1	28.6%	32.2%	6.7	5.1	0.2	3.5%	0.0	0.0%
VELESTO ENERGY BHD	OP	0.115	0.160	39.13%	944.8	Y	12/2022	(0.7)	1.1	-135.6%	41.3%	N.A.	10.9	0.4	-2.8%	0.0	0.0%
WAH SEONG CORP BHD	MP	0.605	0.640	5.79%	468.5	Y	12/2022	4.6	7.3	51.9%	56.4%	13.0	8.3	0.8	5.9%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.15	3.15	46.51%	6,237.4	N	01/2023	21.9	24.1	16.3%	10.3%	9.8	8.9	1.7	18.3%	6.0	2.8%
<b>Simple Average</b>								<b>22.8</b>	<b>23.5</b>	<b>2.3%</b>	<b>16.7%</b>	<b>15.5</b>	<b>13.5</b>	<b>1.3</b>	<b>8.9%</b>		<b>1.7%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★			
	Corporate Social Responsibility	★	★	★	★	
	Management/Workforce Diversity	★	★	★	★	
	Accessibility & Transparency	★	★			
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
<b>SPECIFIC</b>	Diversification from pure O&G	★	★			
	Emission Targets and Climate Goals	★	★	★		
	Occupational Health and Safety	★	★	★	★	
	Pollution control	★	★	★		
	Supply chain auditing	★	★	★		
	Energy efficiency	★	★	★		
<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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