



Company report

PETRONAS GAS

(PTG MK EQUITY, PGAS.KL)

20 May 2022

Higher gas costs mostly recoverable under RP2

BUY

(Maintained)

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03-2036 2280

Rationale for report: Company results

Price	RM17.36
Fair Value	RM20.20
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	1,824.0	1,842.1	1,857.8
FD Core EPS (sen)	102.5	92.2	93.1	93.9
FD Core EPS growth (%)	2.1	(10.0)	1.0	0.9
Consensus Net Profit (RM mil)	-	1,942.2	1,971.4	1,984.1
DPS (sen)	82.0	92.2	93.1	93.9
PE (x)	16.9	18.8	18.6	18.5
EV/EBITDA (x)	9.5	9.5	9.9	9.7
Div yield (%)	4.7	5.3	5.4	5.5
ROE (%)	15.5	13.9	14.1	14.2
Net Gearing (%)	nm	nm	nm	nm

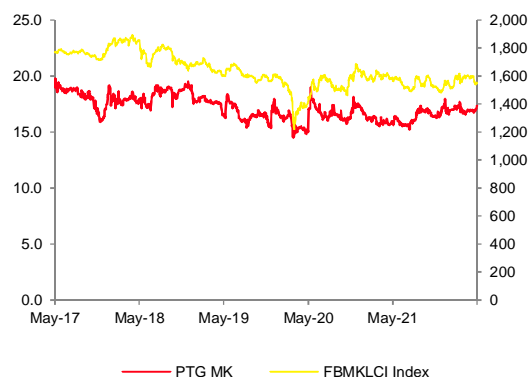
Stock and Financial Data

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%)
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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 an unchanged sum-of-parts-based (SOP) fair value of RM20.20, 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.
- Pending an analyst briefing later today, we maintain our forecasts for now although the group's 1QFY22 core net profit of RM418mil (excluding unrealised forex loss of RM8mil mainly from the Sungai Udang regasification terminal's [RGT] USD debt) appears to be below our and consensus' expectations, coming in 23% of our FY22F earnings and 22% of consensus.
- Over the past 5 years, 1Q accounted for a higher range of 24%–27% of FY17–FY21 core earnings. The underperformance mainly stemmed from increased fuel costs in which internal gas consumption is passed through under the incentive-based regulatory mechanism for gas transportation and regasification segments.
- This can be recovered under a revised 3-year tariff under regulatory period (RP) 2, which will commence next year. Additionally, the group is finalising several long-term utilities contracts later this year which may incorporate the higher fuel costs. The group's first interim dividend of 16 sen (flat YoY) was within expectations.
- YoY, PGas' 1QFY22 core net profit dropped 25% despite a 9% revenue increase to RM1.5bil from higher utilities prices and electricity volume. The YoY profit decline stemmed largely from:
 - higher internal consumption and increased prices of gas at all core divisions;
 - higher maintenance costs at the regasification division,
 - forex losses at the 60%-owned associate, Kimanis power plant, which caused associates to drop 29% YoY; and
 - 7%-point increase in effective tax rate to 25%.
- QoQ, the group's 1QFY22 revenue slid by 3% due to lower demand for industrial gases and steam following planned maintenance activities at the facilities of utilities customers together with lower working days at the gas transportation and regasification segments. Together with forex loss-driven associate drop of 33% and a 3% point increase in effective tax rate to 25%, 1QFY22 core net profit declined 6% QoQ.

- Recall that 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: RESULTS SUMMARY

YE 31 Dec (RMmil)	1QFY21	4QFY21	1QFY22	%QoQ	%YoY
Turnover	1,340.0	1,496.9	1,457.9	(2.6)	8.8
EBITDA	952.3	835.0	852.7	2.1	(10.5)
Depreciation	(246.9)	(220.4)	(245.5)	11.4	(0.6)
Interest expenses	(41.8)	(46.2)	(43.1)	(6.6)	3.3
Pre-exceptional Profit	663.6	568.4	564.1	(0.8)	(15.0)
Unrealised forex gain/(loss)	(38.1)	8.4	(7.8)	>100	(79.6)
Associates & JV	45.0	47.4	32.0	(32.6)	(29.0)
Pre-tax Profit	670.5	624.2	588.3	(5.8)	(12.3)
Taxation	(130.5)	(135.7)	(150.7)	11.0	15.5
Minorities	(23.6)	(35.9)	(27.0)	(24.7)	14.4
Net Profit	516.4	452.6	410.6	(9.3)	(20.5)
Core net profit	554.5	444.3	418.3	(5.8)	(24.5)
EPS (sen)	26.1	22.9	20.8	(9.3)	(20.5)
Gross DPS (sen)	16.0	32.0	16.0	(50.0)	0.0
BV/Share (RM)	6.38	6.62	6.51	(1.7)	2.0
EBITDA margin (%)	71.1	55.8	58.5		
Pretax margin (%)	50.0	41.7	40.4		
Effective tax rate (%)	18.4	22.0	25.3		

Source: Bursa Malaysia

EXHIBIT 2: RESULTS BREAKDOWN

YE 31 Dec (RMmil)	1QFY21	4QFY21	1QFY22	%QoQ	%YoY
- Gas processing	428.9	433.4	433.6	0.0	1.1
- Gas transportation	288.4	295.2	288.4	(2.3)	0.0
Throughput services	717.3	728.6	722.0	(0.9)	0.7
Utilities	275.2	412.3	392.1	(4.9)	42.5
Regasification	347.5	356.0	343.8	(3.4)	(1.1)
Revenue	1,340.0	1,496.9	1,457.9	(2.6)	8.8
- Gas processing	243.3	235.2	232.4	(1.2)	(4.5)
- Gas transportation	197.6	117.5	183.2	55.9	(7.3)
Throughput services	441.0	352.7	415.6	17.8	(5.7)
Utilities	74.8	55.2	21.6	(60.9)	(71.2)
Regasification	196.6	207.1	175.0	(15.5)	(11.0)
Unallocated income/exp	(45.0)	8.0	(12.7)	(>100)	(71.8)
EBIT	667.3	623.0	599.5	(3.8)	(10.2)
EBIT margin (%)					
- Gas processing	56.7	54.3	53.6		
- Gas transportation	68.5	39.8	63.5		
Throughput services	61.5	48.4	57.6		
Utilities	27.2	13.4	5.5		
Regasification	56.6	58.2	50.9		
% of group EBIT					
Throughput services	61.9	57.4	67.9		
Regasification	10.5	9.0	3.5		
Utilities	27.6	33.7	28.6		

Source: Bursa Malaysia

EXHIBIT 3: PB BAND CHART

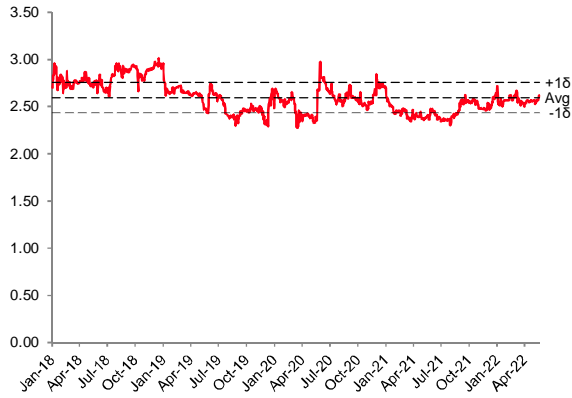


EXHIBIT 4: PE BAND CHART

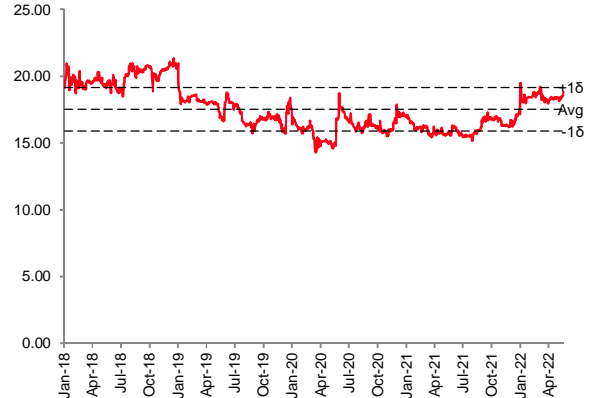


EXHIBIT 5: ESG RATING

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 6: 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	38,320.9	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)			38,854.9	100.0
No of shares			1,978.7	
SOP value (RM/share)			19.64	
ESG premium (%)			3.0	
ESG-adjusted SOP value (RM/share)			20.23	
Implied FY23F PE			22	

Source: AmInvestment Bank

EXHIBIT 7: 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	3,562.1	3,415.0	3,444.4
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	2,507.7	2,325.6	2,320.0
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	2,575.7	2,424.5	2,445.5
Taxation	(527.9)	(530.3)	(655.1)	(484.9)	(489.1)
Minorities/pref dividends	(72.7)	(122.5)	(96.6)	(97.6)	(98.6)
Net profit	2,009.6	1,988.9	1,824.0	1,842.1	1,857.8
Core net profit	1,985.7	2,027.3	1,824.0	1,842.1	1,857.8
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	2,575.7	2,424.5	2,445.5
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)	(638.9)	(495.6)	(521.9)
Cash flow from operations	3,348.5	3,488.1	3,109.0	3,011.5	3,050.7
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)	(1,824.0)	(1,842.1)	(1,857.8)
Others	-	-	-	-	-
Cash flow from financing	(2,513.0)	(1,622.6)	(1,824.0)	(1,842.1)	(1,857.8)
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	(1.0)	(4.1)	0.9
Pretax margin (%)	46.7	46.8	45.4	43.7	43.7
Net profit margin (%)	35.9	35.2	32.2	33.2	33.2
Interest cover (x)	25.5	28.8	27.8	33.1	41.9
Effective tax rate (%)	20.2	20.1	25.4	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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