

# Petronas Dagangan Berhad

(5861 | PETD MK) Consumer Products & Services | Retailers

**Maintain NEUTRAL**

## Challenging operating environment ahead

**Unchanged Target Price: RM21.39**

### KEY INVESTMENT HIGHLIGHTS

- **PetDag's 2QFY20 sales volume to be affected by the implementation of MCO**
- **ASPs to remain pressured by unfavourable MOPS price**
- **Efficient cost and inventory management to support loss in sales volume during MCO**
- **Encouraging growth in sales of MESRA stores and usage of SETEL application, a positive sign**
- **FY20-21F earnings maintained**
- **Maintain NEUTRAL with unchanged TP of RM21.39 per share**

**Another round of sales volume contraction anticipated in 2QFY20.** We attended a conference call organised by Petronas Dagangan Berhad's (PetDag) yesterday and came away with a better understanding on the current situation faced by the company. As the movement control order (MCO) implemented by the Malaysian government extends into 2QFY20, we opine that sales volume for both PetDag's retail and commercial segment will contract further given that people are restricted from venturing outside their houses and flights remain grounded. Recall that, in 1QFY20 overall sales volume was down by -4.0%yoy due to the implementation of MCO in March. While the sales volume recorded were higher year-over-year in the month of January and February, these were not enough to overcome the loss in volume from the two weeks of MCO. Hence, we estimate that overall volume will contract by about -5.0% in 2QFY20 with some recovery expected in the month of May and June as the government gradually ease the MCO and businesses resuming operations in stages.

**Average selling prices to remain pressured by unfavourable MOPS price.** Additionally, we believe that PetDag's topline will also be impacted by the unfavourable MOPS prices following the low oil price environment in 2QFY20. The Brent crude oil price has fallen further in the 2QFY20 recording an average of USD27.92pb as of yesterday. Recall that, in 1QFY20 the crude oil price averaged at USD50.8pb. As a result, ASP for RON95 in 1QFY20 was recorded at RM1.98per litre vs RM2.08 per litre in 1QFY19. Similarly, average RON95 pump price from 1<sup>st</sup> April 2020 until yesterday was at RM1.28per litre vs RM2.08 per litre same period last year. While we opine that the crude oil price will recover in the next coming months with the gradual easing of lockdowns across the world and recovery in demand especially from China as refineries resume operations; we remain wary on the possible second wave of the Covid19 cases that could potential lead to another round of lockdown imposed and stunt the recovery in oil price. Furthermore, global crude inventory level remains significantly high vs demand which we think will limit the crude price appreciation for the time being.

### RETURN STATISTICS

Price @ 19 <sup>th</sup> May 2020 (RM)	20.24
Expected share price return (%)	+5.7
Expected dividend yield (%)	+3.4
<b>Expected total return (%)</b>	<b>+9.1</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.3	-3.1
3 months	-4.3	-0.5
12 months	-16.9	-6.3

### KEY STATISTICS

FBM KLCI	1423.97
Syariah compliant	Yes
Issue shares (m)	993.45
Estimated free float (%)	17.27
Market Capitalisation (RM'm)	20107.51
52-wk price range	RM17.5 - RM26.4
Beta vs FBM KLCI (x)	0.79
Monthly velocity (%)	0.00
Monthly volatility (%)	9.59
3-mth average daily volume (m)	0.47
3-mth average daily value (RM'm)	9.59
Top Shareholders (%)	
Petroleum Nasional Berhad	63.94
Employees Provident Fund	10.85
Amanah Saham Bumiputera	3.95

### Analyst(s)

Noor **ATHILA** Mohd Razali  
 Noor.athila@midf.com.my  
 03-2772 1679

**Efficient cost and inventory management to support earnings.** That said, we are positive on the fact that the management has taken a proactive approach in managing costs and inventories to support earnings going forward. We understand that capital expenditure (CAPEX) could be potentially revised down by 15-20% in FY20 following the current unfavourable operating environment. Furthermore, PetDag is expected to be selective in its CAPEX roll out and would expedite some of its CAPEX initiatives should the need arise. In terms of inventories, we understand that pre-MCO, the inventory within PetDag’s system was within 9-10days but it has now improved to 7-8days which will limit the downside on PetDag from the volatile movement in oil price.

**Encouraging sales growth in MESRA stores and SETEL usage, a positive sign.** While the implementation of MCO has resulted in the decline in sales volume of oil-related business due to the drop in footfall at the stations however; PetDag’s MESRA stores registered a significant growth during the period. We understand that pre-MCO (January to February), the sales at MESRA stores were down by about 50% however; during the MCO period (February- March) sales has increased by close to 100% - at 98.7%. Similarly, the number of new SETEL user registration as well as; active users has surged to >1.1m users in 1QFY20 vs 0.52m users in FY19. This was due to customers opting for a reduced human contact at petrol stations during the MCO. We view this positively as this could translate to a ‘new normal’ that sees users of petrol stations using MESRA stores more to maintain social distance vs going to a normal shopping mart.

**Impact on earnings.** After taking into consideration all the factors that could impact PetDag’s earnings going forward, we are maintaining our FY20-21F earnings at this juncture. This is following our recent earnings revision in the previous published report dated 19<sup>th</sup> May 2020.

**Maintain NEUTRAL.** We are maintaining our **NEUTRAL** recommendation on PetDag with an unchanged TP of **RM21.39**. Our valuation is premised on forward PER21 of 25x pegged to EPS21 of 85.5sen. The target PER is based on PetDag’ rolling four-quarter average PER over five years. We opine that the recommendation assigned is fair given that we expect operating environment will remain challenging for the remainder of the year for PetDag with gradual recovery in demand to take place until the year end. That said, we continue to view PetDag positively given its ongoing effort in mitigating the impact from lower selling prices and sales volume via: (i) increasing pump productivity; (ii) aggressive marketing and product promotions and; (iii) creating brand stickiness via SETEL mobile application. Additionally, its fundamentals remain intact and dividend yield is decent at 3.4% FY21F.



## INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless stated otherwise)	2018A	2019A	2020E	2021F	2022F
Revenue	30,068.8	30,293.6	27,214.7	28,632.1	30,490.6
Operating profit	1,178.1	1,146.8	715.2	1,121.8	1,179.7
Pretax Income	1,177.0	1,128.9	726.6	1,138.4	1,201.5
Tax	(315.6)	(291.2)	(167.1)	(250.4)	(252.3)
<b>Reported PATANCI</b>	<b>861.5</b>	<b>828.8</b>	<b>542.7</b>	<b>852.4</b>	<b>901.7</b>
<b>Normalised PATANCI</b>	<b>849.8</b>	<b>828.8</b>	<b>542.7</b>	<b>852.4</b>	<b>901.7</b>
Normalised EPS (sen)	85.5	83.5	54.5	85.5	90.4
PER (x)	23.7	24.2	37.1	23.7	22.4
Dividend Per Share (sen)	70.0	85.0	43.6	68.4	72.3
Dividend yield (%)	3.5	4.2	2.2	3.4	3.6

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 - X)).  
 (Bank Pelaburan)  
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878-X)). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.