

# Petronas Dagangan Berhad

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

## Earnings marred by low sales volume & MOPS price

### KEY INVESTMENT HIGHLIGHTS

- **PetDag's reported a quarterly loss of -RM29.4m in 1QFY20, -110.2% lower year-over-year**
- **Earnings impacted by lower sales volume of -4.0%yoy and low MOPS price during the quarter**
- **First interim dividend of 5.0sen declared**
- **2QFY20 earnings to be impacted by MCO & low MOPS price**
- **FY20-21F earnings trimmed by -40.1% and -10.7% respectively**
- **Downgrade to NEUTRAL with TP of RM21.39 per share**

**PetDag's 1QFY20 loss of -RM29.4m came in below expectations.** Petronas Dagangan Berhad's (PetDag) 1QFY20 loss after tax came in at -RM29.4m which was below our and consensus' full-year earnings estimates. Comparing against 1QFY19, revenue was down by -7.5%yoy whilst its bottomline dipped by -110.2%yoy. The loss was mainly attributable to: (i) lower overall sales volume by -4.0%yoy and; (ii) lower overall average selling price by -3.0% during the quarter due to the sharp decline in MOPS price. Meanwhile, on a quarterly sequential basis revenue declined by -15.9%qoq whilst earnings dipped by -123.3%qoq respectively which was attributable to lower average selling prices and lower sales volume by -8.0%qoq during the quarter.

**Retail Segment.** Segment revenue was recorded lower by -6.5%yoy or RM234.5m as a result of: (i) lower sales volume of -5.0%yoy and' lower average selling prices by -2.0%yoy during the quarter. The lower sales volume and average selling prices during the quarter was mainly attributable to: (i) the implementation of movement control order (MCO) by the Malaysian government from 18<sup>th</sup> March 2020 to 2<sup>nd</sup> May 2020 and; (ii) the sharp decline in MOPS prices due to the oil price war which has caused the crude oil price and WTI price to decline to an unprecedented level in the past 10 years. The segment reported a loss during the quarter due to: (i) lower gross profit for Mogas and Diesel as well as: (ii) higher OPEX incurred on software maintenance.

**Commercial Segment.** Segment revenue declined by -8.6%yoy or RM297.0m during the quarter. This was mainly due to the decline in average selling prices by -5.0%yoy during the quarter coupled with the decline in sales volume by -4.0%yoy. The decline in volume was mainly due to the implementation of MCO towards the end of the quarter which saw travel bans imposed for both domestic and international air travels as well as closure of industrial businesses to curb the spread of the novel coronavirus (Covid19) pandemic. Similarly, the segment also reported a loss due to the write-down of inventory to net realisable value (NRV) following the sharp decline in MOPS price during the quarter due to the fall in crude oil price.

## Downgrade to NEUTRAL

(Previously BUY)

**Revised Target Price: RM21.39**

(Previously RM24.58)

### RETURN STATISTICS

Price @ 18 <sup>th</sup> May 2020 (RM)	20.06
Expected share price return (%)	+6.6
Expected dividend yield (%)	+2.2
<b>Expected total return (%)</b>	<b>+8.8</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-4.57	-4.76
3 months	-5.20	-0.89
12 months	-17.59	-6.18

### KEY STATISTICS


FBM KLCI	1410.16
Syariah compliant	Yes
Issue shares (m)	993.45
Estimated free float (%)	17.27
Market Capitalisation (RM'm)	19928.69
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)	0.46
3-mth average daily value (RM'm)	9.49
Top Shareholders (%)	
Petroleum Nasional Berhad	63.94
Employees Provident Fund	10.85
Amanah Saham Bumiputera	3.95

### Analyst(s)

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**First interim dividend of 5.0sen declared.** Following the earnings announcement and in-line with its reported loss, PetDag declared a first interim dividend of 5.0sen for the quarter under review. This translates to a yield of 2.5% to yesterday's closing price and represents >100% payout ratio out of its 1QFY20 EPS. The dividend declared was -66.7% lower year-over-year when compared against its 1QFY19 dividend of 15.0sen.

**Impact on earnings.** We are reducing our FY20-21F earnings estimates by -40.1% and -10.7% respectively to RM542.7m and RM852.4m (from RM906.3m and RM955.4m previously) as we expect average selling prices to remain less favourable to PetDag in FY20 given the global geo-political and the Covid19 pandemic developments that continues to affect MOPS price. Additionally, we have also taken into account the potential continued contraction in sales volume in 2QFY20 (-5.0% in 2QFY20) given that the MCO was fully in-force in April 2020 and following that, the conditional movement control order (CMCO) in May and June 2020. This, we opine will affect both the sales volume for retail and commercial segments given that people are discouraged from going out and traveling.

**Downgrade to NEUTRAL.** Post earnings revision and rolling forward our valuation base year to FY21, we are downgrading our recommendation on PetDag to **NEUTRAL** (from Buy previously) with a lower TP of **RM21.39** (from RM24.58 previously). Our valuation is premised on a lower 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 lower target PER assigned is fair given that we expect operating environment will remain challenging for the remainder of the year for PetDag. That said, despite the earnings revision, 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% for 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)	23.5	24.0	36.8	23.4	22.2
Dividend (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

**PETRONAS DAGANGAN BERHAD: 1QFY20 RESULTS SUMMARY**

Financial year ending 31st December (in RM'm unless stated otherwise)	Quarterly results				
	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)
Revenue	7,085.9	7,794.2	6,553.9	-15.9	-7.5
<b>Operating profit</b>	<b>387.5</b>	<b>197.3</b>	<b>(14.3)</b>	-107.2	-103.7
Finance cost	(5.5)	(6.4)	(4.6)	-28.1	-16.2
Assc. & JV	0.9	(0.4)	0.4	-221.4	-55.1
<b>Profit Before Tax</b>	<b>383.0</b>	<b>190.6</b>	<b>(18.4)</b>	-109.7	-104.8
Tax expense	(89.4)	(61.4)	(9.3)	-84.9	-89.6
<b>PAT from continuing operations</b>	<b>293.6</b>	<b>129.2</b>	<b>(27.7)</b>	-121.4	-109.4
Non-controlling interest	2.4	2.6	1.7	-33.1	-27.8
<b>PATANCI</b>	<b>291.2</b>	<b>126.6</b>	<b>(29.4)</b>	-123.2	-110.1
Basic EPS (sen)	0.29	0.13	(0.03)	-123.5	-110.2
DPS (sen)	0.15	0.40	0.05	-87.5	-66.7
				<i>+ / (-) pts</i>	
Operating profit margin (%)	5.5	2.5	(0.2)	(2.7)	(5.7)
PBT margin (%)	5.4	2.4	(0.3)	(2.7)	(5.7)
PATANCI margin (%)	4.1	1.7	(0.4)	(2.1)	(4.6)
Tax rate (%)	23.3	32.2	(50.3)	(82.5)	(73.7)
<b>Segmental</b>					
<b>Revenue</b>					
Retail	3,632.8	3,934.9	3,398.3	(13.6)	(6.5)
Commercial	3,446.5	3,852.6	3,149.5	(18.2)	(8.6)
Others	6.7	6.7	6.1	(10.2)	(9.4)
<b>Operating profit</b>					
Retail	228.4	68.3	(84.1)	(223.1)	(136.8)
Commercial	147.0	124.9	74.2	(40.6)	(49.5)
Others	12.1	4.1	(4.4)	(207.4)	(136.3)
<b>OP Margin (%)</b>					
Retail	6.3	1.7	-2.5	-4.2	-8.8
Commercial	4.3	3.2	2.4	-0.9	-1.9
Others	180.3	60.5	-72.3	-132.8	-252.6

Source: Company, MIDFR

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### 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.