

Petronas Gas Berhad

(6033 | PTG MK) Utilities | Gas, Water & Multi-Utilities

Steady earnings trajectory

KEY INVESTMENT HIGHLIGHTS

- **PGB's 1QFY20 normalised earnings grew +13.4%yoy to RM520.1m attributable to higher revenue from gas processing**
- **Earnings was also boosted by better revenue contribution from gas transportation and regasification following higher RP1 tariff**
- **First interim dividend of 16.0sen declared for 1QFY20**
- **FY20-21F earnings revised down by -3.8% and -4.2%**
- **Maintain NEUTRAL with a revised TP of RM16.00 per share**

PGB's 1QFY20 normalised earnings of RM520.1m came in within estimates. Petronas Gas Berhad's (PGB) 1QFY20 normalised net profit, excluding a one-off foreign exchange translation loss of RM152.0m, came in at RM520.1m. It was within both our and consensus' full-year earnings estimates at 26.4% and 28.0% respectively. Comparing against 1QFY19, revenue grew marginally by +2.1%yoy to RM1,3796.1m which was in-line with the upward revision in tariff from the implementation of Incentive Based Regulation (IBR). Meanwhile, normalised earnings increased by +13.4%yoy as a result of better revenue contribution from gas transportation and regasification during the quarter. On a quarterly sequential basis, revenue also grew marginally by +1.7% whilst earnings increased by +7.2% respectively.

Strong asset reliability at close to 100%. During the quarter, PGB registered higher earnings year-over-year during the quarter, largely attributable due to: (i) excellent plant and operational performance and reliability (close to 99% uptime for Gas Processing segment, near 100% uptime for Gas Transportation segment and near 100% uptime for Regasification segment); (ii) contribution of Performance Based Scheme from Gas Processing segment and; (iii) higher revenue from gas transportation and regasification following better tariff under RP1.

Gas Processing. Segment revenue grew marginally by +1.5%yoy to RM430.5m during the quarter primarily driven by the higher internal gas consumption (IGC) performance incentive. Meanwhile, the segment results increased by +13.9%yoy due to lower depreciation and other operational expenses.

Gas Transportation. Segment revenue was flat with +1.1%yoy growth whilst profit declined by -5.6%yoy. This was primarily due to lower net RP1 tariff after excluding IGC despite registering lower operational expenses. Gas transmission reliability was at near 100%.

Utilities. Segment revenue and profit were both lower by -6.7%yoy and -27.6%yoy respectively largely due to lower offtake of electricity during the quarter. Furthermore, lower depreciation expense and utilities cost of sales were offset by the lower sales volume for electricity.

Maintain NEUTRAL

Revised Target Price: RM16.00

(Previously RM17.52)

RETURN STATISTICS

Price @ 20 th May 2020 (RM)	15.18
Expected share price return (%)	+5.4
Expected dividend yield (%)	+4.3
Expected total return (%)	+9.7

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-0.8	-4.7
3 months	-1.2	-1.0
12 months	-7.3	3.3

KEY STATISTICS

FBM KLCI	1435.12
Syariah compliant	Yes
Issue shares (m)	1978.732
Estimated free float (%)	20.11801
Market Capitalisation (RM'm)	30116.3
52-wk price range	RM13.3 - RM18.3
Beta vs FBM KLCI (x)	0.83
Monthly velocity (%)	0.00
Monthly volatility (%)	8.16
3-mth average daily volume (m)	1.00
3-mth average daily value (RM'm)	15.43
Top Shareholders (%)	
Petroleum Nasional Berhad	50.97
Employees Provident Fund	12.53
Kumpulan Wang Persaraan	10.50

Analyst(s)


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Regasification. Segment revenue grew by +14.1%yoy to RM345.0m during the quarter arising from the higher tariff implemented under the Regulatory Period 1 at RM3.455/GJ for RGTSU and RM3.458/GJ for RGTP respectively which started in January 2020. These new tariffs were higher as opposed to the tariff approved by the Energy Commission (EC) during the pilot period last year where the tariffs were RM3.518/mmBtu for RGTSU and USD0.637/mmBtu respectively. Plant reliability in Sungai Udang and Pengerang were close to 100% during the quarter.

First interim dividend of 16.0sen declared. In line with the profit recorded during the quarter, PGB declared a first interim dividend of 16.0sen for the quarter under. This translates to an annualised yield of 4.3% yield to yesterday's closing price and represents a 84% payout ratio out of its 1QFY20 19.0sen basic EPS.

Impact on earnings. Despite its 1QFY20 earnings meeting our expectation, we are revising down our FY20-21F earnings estimates by -3.8% and -4.2% respectively as we understand that electricity offtake in 2QFY20 could continue to be impacted by the implementation of movement control order (MCO) by the Malaysian government which started back in March 2020. This is as the full-MCO was extended into April 2020 and following that, a controlled movement control order (CMCO) was implemented from May 2020 onwards which continues to limit movements and mobility.

Target price lowered to RM16.00 per share. Following our earnings revision and rolling forward our valuation base year to FY21, we are revising down our target price on PetGas to **RM16.00** (from RM17.52 previously) as we input lower contribution from the utilities segment in the coming quarters. Our target price is premised on a lower forward PER21 of 16.5x pegged to EPS21 of 97.0sen. The target PER is based on PetGas' rolling four-quarter average PER over five years

Maintain NEUTRAL. Post earnings revision, we are maintaining our **NEUTRAL** recommendation on PetGas. Our NEUTRAL recommendation is due to the limited earnings upside in the coming quarters given the Covid19 health crisis which could lead to lower offtake of both gas and electricity. That said, going forward we are of the opinion that the company will continue to perform premised on: (i) strong and stable income stream; (ii) ancillary business coming on board in 2HFY20 which will support core earnings and; (iii) improved revenue recognition from gas transportation and regasification following the better tariff for RP1. 

INVESTMENT STATISTICS

Financial year ending 31st Dec (in RM'm unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Revenue (RM'm)	5,498.1	5,458.3	5,715.8	5,828.5	5,754.5
EBIT (RM'm)	2,570.6	2,555.8	2,281.1	2,300.4	2,540.8
Pretax Profit (RM'm)	2,334.6	2,462.9	2,298.8	2,319.0	2,560.5
Net Profit (RM'm)	1,890.9	1,984.1	1,895.6	1,919.1	1,930.3
EPS (sen)	90.6	97.8	95.8	97.0	97.6
EPS growth (%)	0.0%	7.9%	-2.0%	1.2%	0.6%
PER(x)	16.8	15.5	15.8	15.7	15.6
Dividend per share (sen)	72.0	72.0	64.0	66.0	68.0
Dividend Yield (%)	4.7%	4.7%	4.2%	4.3%	4.5%

Source: Company, MIDFR

PETRONAS GAS BERHAD: 1QFY20 RESULTS SUMMARY

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly results				
	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)
Revenue	1,367.6	1,372.4	1,396.1	1.7	2.1
Cost of revenue	(768.6)	(798.2)	(786.6)	(1.5)	2.3
Gross Profit	599.0	574.2	609.6	6.2	1.8
Admin expenses	(25.5)	(26.1)	(29.7)	13.9	16.5
Other expenses	(0.3)	(0.4)	(163.0)	>100	>100
Other income	117.9	80.8	41.3	(48.9)	(65.0)
Operating Profit	691.1	628.5	458.1	(27.1)	(33.7)
Financing Costs	(60.3)	(55.4)	(54.4)	(1.9)	(9.7)
JCE	39.2	15.2	45.2	196.6	15.3
Profit Before Tax	670.0	588.3	449.0	(23.7)	(33.0)
Tax expense	(139.3)	(95.3)	(100.9)	5.9	(27.5)
Profit After Tax	530.8	492.9	348.0	(29.4)	(34.4)
Minority interest	15.3	7.7	(20.1)	>100	>100
PATAMI	515.5	485.3	368.1	(24.1)	(28.6)
Exceptional Items (EI)	57.0	11.4	(152.0)	>100	>100
PATAMI ex-EI	458.5	473.9	520.1	9.8	13.4
Basic EPS (sen)	0.26	0.25	0.19	(24.1)	(28.6)
DPS (sen)	0.16	0.32	0.16	(50.0)	-
				<i>+ / (-) ppts</i>	
Gross Profit margin (%)	43.8	41.8	43.7	1.8	(0.1)
Operating Profit margin (%)	50.5	45.8	32.8	(13.0)	(17.7)
PBT margin (%)	49.0	42.9	32.2	(10.7)	(16.8)
PATAMI margin (%)	37.7	35.4	26.4	(9.0)	(11.3)
Tax rate (%)	20.8	16.2	22.5	6.3	1.7
Segmental:					
Revenue					
- Gas Processing	424.1	429.7	430.5	0.2	1.5
- Gas Transportation	289.7	276.8	292.9	5.8	1.1
- Utilities	351.5	353.1	327.8	(7.2)	(6.7)
- Regasification	302.3	313.8	345.0	9.9	14.1
Operating Profit					
- Gas Processing	195.7	206.3	222.9	8.0	13.9
- Gas Transportation	200.0	183.2	188.8	3.1	(5.6)
- Utilities	45.5	44.3	32.9	(25.6)	(27.6)
- Regasification	157.8	140.4	164.9	17.5	4.5

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	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.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	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

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