

Petronas Gas Berhad

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

Earnings boosted by gas processing and utilities

KEY INVESTMENT HIGHLIGHTS

- **PGB's 4QFY19 earnings grew +52.6%yoy to RM485.3m attributable to higher revenue from gas processing and utilities**
- **Earnings was also boosted by higher contribution by Kimanis Power during the quarter**
- **Fourth interim dividend of 22sen and special dividend of 10sen declared for FY19**
- **FY20-21F earnings maintained**
- **Maintain NEUTRAL with unchanged TP of RM17.62 per share**

PGB's 4QFY19 earnings of RM485.3m came in above expectations. Petronas Gas Berhad's (PGB) 4QFY19 normalised net profit came in at RM485.3m. This brings its FY19 cumulative earnings to RM1,948.0m which was above our but within consensus' full-year earnings estimates at 106.1% and 103.2% respectively. Comparing against 4QFY18, revenue was flat at RM1,372.4m (-1.1%yoy) which was in-line with the downward revision in tariff from the implementation of Incentive Based Regulation (IBR). Meanwhile, earnings surged by +52.6%yoy as a result of higher contribution from Kimanis Power Sdn Bhd during the quarter. On a quarterly sequential basis, revenue grew by +2.6% whilst earnings increased by +12.4% respectively. This was mainly attributable to higher sales volume from utilities segment and higher Performance Based Structure (PBS) from Gas Processing segment.

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 utilities segment revenue from the commissioning of the group's Air Separation Unit in Pengerang.

Gas Processing. Segment revenue grew by +10.1%yoy to RM429.7m during the quarter primarily driven by the higher reservation charge under the 2nd term Gas Processing Agreement which was effective on 1st January 2019, supported by PBS revenue. Meanwhile, the segment results surged by +31.0%yoy due to lower depreciation expense.

Gas Transportation. Both segment revenue and profit dipped by -17.9%yoy and -21.3%yoy which was in-line with the lower gas transportation tariff under IBR. Gas transmission reliability was at near 100%. Correspondingly, the segment's profit margin also dipped to 66.1% from 69% in 4QFY18.

Maintain NEUTRAL

Unchanged Target Price: RM17.62

RETURN STATISTICS

Price @ 19 th February 2019 (RM)	16.62
Expected share price return (%)	+6.00
Expected dividend yield (%)	+3.91
Expected total return (%)	+9.9

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-0.73	3.10
3 months	-1.44	2.49
12 months	-9.60	-0.45

KEY STATISTICS

FBM KLCI	1,537.08
Syariah compliant	Yes
Issue shares (m)	1,978.73
Estimated free float (%)	22.1
Market Capitalisation (RM'm)	32,411.63
52-wk price range	14.0 – 18.50
Beta vs FBM KLCI (x)	0.94
Monthly velocity (%)	11.0
Monthly volatility (%)	8.2
3-mth average daily volume (m)	1.07
3-mth average daily value (RM'm)	17.74
Top Shareholders (%)	
Petroleum Nasional Berhad	50.97
Employees Provident Fund	12.04
Kumpulan Wang Persaraan	10.53

Analyst(s)


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Utilities. Segment revenue and profit grew by +3.7%yoy and +36.7%yoy respectively largely due to higher effective price to customers following the upward revision of gas price. Furthermore, segment result was also higher due to lower maintenance costs attributed to the segment.

Regasification. Due to the implementation of IBR, segment revenue was flat year-over-year whilst profit was down by -17.5%yoy by higher depreciation upon recognition of jetty facilities at RGTP and communication technology expenses. Plant reliability in Sungai Udang and Pengerang was close to 100% during the quarter.

Fourth interim dividend of 22.0sen and special dividend of 10.0sen declared. In line with the higher profit during the quarter, PGB declared a fourth interim dividend of 22.0sen for the quarter under review which brings its year-to-date dividend declared to 72.0sen. Additionally, it PGB also declared a special dividend of 10.0sen. Excluding the special dividend, the full-year dividend declared translates to a yield of 4.4% yield to yesterday's closing price and represents a 73.4% payout ratio out of its FY19 98.0sen EPS.

Impact on earnings. We are making no changes to our FY20-21F earnings estimates at this juncture pending today's conference call session with the Management.

Maintain NEUTRAL with an unchanged TP of RM17.62. We are maintaining our **NEUTRAL** recommendation on PetGas with an unchanged TP of **RM17.62**. Our neutral recommendation is due to the gradual migration of PGB's asset base from the current depreciated replacement cost (DRC) to regulated asset base (RAB) which could impact its earnings. That said, going forward we are of the opinion that the company will continue to perform premised on: (i) strong and diversified income stream; (ii) expected moderate national GDP growth of 4.5% for FY20 and; (iii) strong potential capital upside, despite the recent revision implementation of the IBR pricing mechanism. Our valuation is premised on a lower forward PER20 of 17.7x pegged to EPS20 of 91.9sen. The target PER is based on PetGas' rolling four-quarter average PER over five years. 

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	2,380.6	2,413.3	2,399.6
Pretax Profit (RM'm)	2,334.6	2,462.9	2,398.3	2,432.0	2,419.3
Net Profit (RM'm)	1,890.9	1,984.1	1,970.2	2,003.9	1,824.4
EPS (sen)	90.6	97.8	99.6	101.3	92.2
EPS growth (%)	0.0%	7.9%	1.8%	1.7%	-9.0%
PER(x)	18.1	16.7	16.5	16.2	17.8
Dividend per share (sen)	72.0	72.0	64.0	69.0	70.0
Dividend Yield (%)	4.4%	4.4%	3.9%	4.2%	4.3%

Source: Company, MIDFR

PETRONAS GAS BERHAD: 4QFY19 RESULTS SUMMARY

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly results					Cumulative results		
	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)
Revenue	1,387.2	1,338.1	1,372.4	2.6	(1.1)	5,498.1	5,458.3	(0.7)
Cost of revenue	(794.2)	(774.6)	(798.2)	3.0	0.5	(2,962.1)	(3,071.2)	3.7
Gross Profit	593.0	563.4	574.2	1.9	(3.2)	2,535.9	2,387.0	(5.9)
Admin expenses	(25.4)	(22.7)	(26.1)	14.9	2.5	(90.1)	(94.8)	5.3
Other expenses	(19.2)	(15.1)	(0.4)	(97.2)	(97.8)	(36.5)	(31.6)	(13.4)
Other income	50.0	49.2	80.8	64.4	61.6	161.3	295.3	83.1
Operating Profit	598.4	574.8	628.5	9.3	5.0	2,570.6	2,555.8	(0.6)
Financing Costs	(45.1)	(57.5)	(55.4)	(3.5)	23.0	(169.4)	(229.7)	35.6
JCE	(106.0)	35.9	15.2	(57.6)	(114.4)	(49.3)	136.7	(377.1)
Profit Before Tax	447.3	553.3	588.3	6.3	31.5	2,351.9	2,462.9	4.7
Tax expense	(104.9)	(107.8)	(95.3)	(11.5)	(9.1)	(443.7)	(478.8)	7.9
Profit After Tax	342.4	445.5	492.9	10.6	44.0	1,908.2	1,984.1	
Minority interest	24.5	13.9	7.7	(45.0)	(68.7)	97.9	48.8	(50.1)
PATAMI	317.9	431.6	485.3	12.4	52.6	1,810.3	1,935.2	6.9
Basic EPS (sen)	0.16	0.22	0.25	12.4	52.6	0.91	0.98	6.9
DPS (sen)	0.22	0.18	0.32	77.8	45.5	0.72	0.82	13.9
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross Profit margin (%)	42.8	42.1	41.8	(0.3)	(0.9)	46.1	43.7	(2.4)
Operating Profit margin (%)	43.1	43.0	45.8	2.8	2.7	46.8	46.8	0.1
PBT margin (%)	32.2	41.4	42.9	1.5	10.6	42.8	45.1	2.3
PATAMI margin (%)	22.9	32.3	35.4	3.1	12.4	32.9	35.5	2.5
Tax rate (%)	23.5	19.5	16.2	(3.3)	(7.3)	18.9	19.4	0.6
Segmental:								
Revenue								
- Gas Processing	390.2	422.4	429.7	1.7	10.1	1,571.1	1,703.3	8.4
- Gas Transportation	337.1	293.2	276.8	(5.6)	(17.9)	1,360.4	1,152.5	(15.3)
- Utilities	340.6	308.6	353.1	14.4	3.7	1,321.1	1,365.6	3.4
- Regasification	319.3	313.9	313.8	(0.0)	(1.7)	1,245.4	1,237.9	(0.6)
Operating Profit								
- Gas Processing	157.5	196.6	206.3	4.9	31.0	639.4	816.4	27.7
- Gas Transportation	232.9	201.2	183.2	(8.9)	(21.3)	1,017.8	799.5	(21.4)
- Utilities	32.4	11.0	44.3	302.0	36.7	180.4	160.1	(11.2)
- Regasification	170.2	154.5	140.4	(9.1)	(17.5)	698.2	611.0	(12.5)

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.