Petronas Dagangan Berhad

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

***Maintain* BUY**

Surging profit supported by elevated crude prices

***Revised* Target Price: RM23.97**

(previously RM23.88)

KEY INVESTMENT HIGHLIGHTS

- **Petronas Dagangan's earnings surged >100% to RM238m; came in above expectation by +9%**
- **Revenue increased +85%yoy to RM9.5b**
- **High profit on high demand and sales volume, one-off disposal of LPG business**
- **Revised FY23-24 earnings forecast up by +10% and +9%**
- **Maintain BUY with revised TP of RM23.97 per share**

Earnings surged >100%. Petronas Dagangan Bhd's (PDB) net profit surged >100% to RM237.7m, from RM82.1m in 2QFY21 and RM118.5m in 1QFY22. For the cumulative first half of the year, profit gained +30.3%yoy to RM356.2m, which came in slightly above our one-year earnings expectation by +9%. Higher earnings were mainly contributed by higher volume sold, higher demand, and a one-off gain from disposal of LPG business in Sarawak. This is however offset by higher operating expenditure mainly due to dealer's commission.

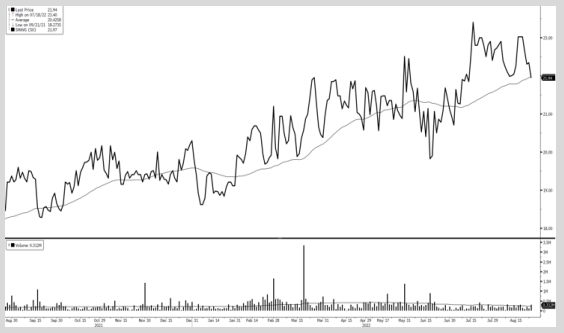
Revenue rose up by +85%yoy. PDB reported an increased revenue by +84.7%yoy and +24.7%qoq to RM9.5b. For the cumulative 1HFY22, revenue gained +67.1%yoy to RM17.12b. Revenue increase was attributable to higher average selling prices by +30%yoy and +36%qoq and higher sales volume by +28%yoy and +34%qoq.

Retail. This segment recorded a rise in revenue by +56%yoy and +17.7%qoq to RM4.48b. Profit rose up nearly 4-fold on-year from RM62.4m to RM310.5m, and increased +46.5%qoq to RM212.6m. Cumulatively for 1HFY22, revenue for the segment increased by +39.8%yoy to RM8.28b, while earnings surged +114.7%yoy to RM522.4m. Higher revenue was due to higher sales volume of +33%yoy and 50%qoq, and higher average selling prices by +5%yoy and +4%qoq in line with higher demand. Earnings rose from higher sales volume of Mogas and Diesel, as well as gains on the disposal of the LPG business in Sarawak.

Commercial. This segment registered a boost revenue by +118.9%yoy and +32.2%qoq to RM4.98b, while earnings slipped to a deficit of -RM3.6m from RM19.1m in 2QFY21. However, earnings improved +91.7%qoq. For the cumulative first half, revenue increased +102.2%yoy to RM8.74b, while profit dropped -134.8%yoy to a deficit of -RM46.8m. Higher revenue was due to higher average selling prices by +68%yoy and +85%qoq, and higher sales volume by +20%yoy and +18%qoq. Earnings however slid down on higher product costs for Jet A1 and Diesel, following sharp increase in prices.

RETURN STATISTICS	
Price @ 24th August 2022 (RM)	21.94
Expected share price return (%)	+9.3
Expected dividend yield (%)	+2.6
Expected total return (%)	**+11.9**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-3.8	-3.6
3 months	3.9	7.8
12 months	15.4	23.4

KEY STATISTICS	
FBM KLCI	1,467.26
Syariah compliant	Yes
FSGBM Index	Yes
ESG Grading Band	☆☆☆☆
Issues shares (m)	993.45
Estimated free float (%)	12.51
Market Capitalisation (RM'm)	21,796.38
52-wk price range	RM18.5 - RM23.5
Beta vs FBM KLCI (x)	0.92
Monthly velocity (%)	0.00
Monthly volatility (%)	9.59
3-mth average daily volume (m)	0.25
3-mth average daily value (RM'm)	5.40
Top Shareholders (%)	
Petroliam Nasional Bhd	63.92
Employees Provident Fund Board	11.80
Amanah Saham Nasional Bhd	8.65

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Convenience. This segment reported an increase in revenue by +23%yoy but a decrease by -3.2%qoq to RM49.8m, while earnings was up by +1.2%yoy but dropped -36.6%qoq to RM5.8m. For 1HFY22, revenue rose up by +24.9%yoy to RM101.3m, while profit surged over 6-fold to RM15m from a loss of -RM2.7m in 1HFY21. Increased revenue and improved earnings were due to higher sales from MESRA stores following higher demand after border restrictions were lifted.

Risks and Challenges. The risks to PDB's performance remain to be the volatility in crude oil prices; which is expected to persist amid the ongoing Russia-Ukraine war and growing global inflation. Local consumer expenditure is also anticipated to be under pressure as well due to the recent OPR hike. Additionally, the Group's profitability and liquidity position will be challenged by the ongoing effects of the outstanding subsidy receivable. The group remains cautious of the volatile energy market and will continue to observe the impact of the subsidy situation, albeit confident in maintaining its growth recovery in the near term.

Moving forward. By utilising digital platforms, PDB will continue to: (i) offer optimal services from its stations, (ii) strengthen its LPG distribution channels, (iii) expand its PETRONAS AutoExpert's current network, and (iv) accelerate growth via e-commerce platforms for the Lubricant business. In a bid to expedite the adoption and commercialization of clean energy in accordance with the government's "Carbon-Neutral Nation by 2050" goal, as well as to fulfil the aim of full tax exemptions on electric vehicle (EV), PDB will continue to work and seek partnership with recognised EV industry partners. With the establishment of additional MESRA Café stores across the country, the non-fuel market is expected to grow even stronger as PDB continues to leverage on its current network and infrastructure to continue improve its performance for the next quarter.

Revised FY23-24 earnings estimates. Considering PDB's 2QFY22 results, we revise our FY23 and FY24 earnings forecast upward by +10% and +9% respectively. As such, we **revise our target price to RM23.97** (previously RM23.88)**.** The revised TP is based on pegging a PER of 30.6x to a revised EPS23 of 78.3sen. The PER is based on PDB's 5-year average.

Maintain BUY with revised TP. All in, we are maintaining our **BUY** call on PDB, with the revised **TP of RM23.97**.

Following the easing of border restrictions and reopening of international travels post-pandemic, we opine that sales for PDB's products will see an upward trend in the near future. With the group's recent financial performance being supported by a favourable Brent crude price, we opine that, in consideration of the price forecasted to remain elevated for the rest of the year, PDB will continue to see a boost in its Retail segment. Commercial segment however may remain unbalanced from high product costs. We believe with the launching of 7 additional MESRA Café outlets, coupled with the economic recovery, the group will continue to focus in the non-fuel market with more options to support the Convenience segment's expansion. Ultimately, we reiterate our positive view on PDB on the basis of its: (i) expansion of its non-fuel sales, (ii) improvement on its digital platforms and fuel access, and (iii) strategic initiatives for sustainability in the clean energy market, most notably in the EV market.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless otherwise stated)	2020A	2021E	2022F	2023F	2024F
Revenue	18,710.9	22,505.3	18,678.1	19,460.0	21,013.3
Operating profit	402.5	740.8	967.7	1,026.5	1,123.3
Pretax Income	386.4	531.2	989.5	1,053.5	1,123.3
Tax	(114.0)	(209.5)	(247.4)	(263.4)	(280.8)
Reported PATANCI	**272.4**	**529.8**	**734.7**	**782.2**	**834.1**
Normalised PATANCI	**272.4**	**529.8**	**734.7**	**782.2**	**834.1**
Normalised EPS (sen)	130.4	53.3	73.7	78.3	83.5
PER (x)	18.4	44.9	32.5	30.6	28.7
Dividend (sen)	38.0	70.0	58.9	63.5	68.4
Dividend yield (%)	1.6	2.9	2.5	2.6	2.9

Source: Company, MIDFR

Table 1: Petronas Dagangan's quarterly earnings review

Financial year ending 31st December (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	1HFY21	1HFY22	YoY (%)
Revenue	5,144.0	7,618.3	9,501.1	24.7	84.7	10,247.3	17,119.4	67.1
Operating profit	**92.4**	**180.7**	**317.0**	75.4	243.2	**380.2**	**497.8**	30.9
Finance cost	(2.4)	(2.8)	(4.4)	58.0	80.3	(5.1)	(7.2)	40.9
Assc. & JV	0.0	0.8	2.9	265.2	8300.0	0.3	3.6	986.0
Profit Before Tax	**90.0**	**178.7**	**315.5**	76.5	250.7	**375.4**	**494.2**	31.6
Tax expense	(7.6)	(58.4)	(76.1)	30.4	901.1	(101.9)	(134.4)	31.9
PAT from continuing operations	**82.4**	**120.4**	**239.4**	98.9	190.7	**273.5**	**359.8**	31.5
Non-controlling interest	0.2	1.9	1.7	-6.5	674.6	0.3	3.6	1205.8
PATANCI	**82.1**	**118.5**	**237.7**	100.6	189.4	**273.3**	**356.2**	30.3
Basic EPS (sen)	0.08	0.12	0.24	100.8	188.0	0.28	0.36	30.2
DPS (sen)	0.10	0.05	0.11	120.0	10.0	0.24	0.16	-33.3
				+/(-) ppts				*+/(-) ppts*
Operating profit margin (%)	1.8	2.4	3.3	1.0	1.5	3.7	2.9	-0.8
PBT margin (%)	1.7	2.3	3.3	1.0	1.6	3.7	2.9	-0.8
PATANCI margin (%)	1.6	1.6	2.5	0.9	0.9	2.7	2.1	-0.6
Tax rate (%)	8.4	32.7	24.1	(8.5)	15.7	27.1	27.2	0.1
Segmental								
Revenue								
Retail	2,869.6	3,803.2	4,476.3	17.7	56.0	5,921.9	8,279.5	39.8
Commercial	2,272.4	3,763.7	4,975.0	32.2	118.9	4,321.8	8,738.6	102.2
Others	40.5	51.5	49.8	(3.2)	23.0	81.1	101.3	24.9
Operating profit								
Retail	62.4	211.9	310.5	46.5	397.2	243.3	522.4	114.7
Commercial	19.1	(43.2)	(3.6)	(91.7)	(118.9)	134.4	(46.8)	-134.8
Others	5.7	9.2	5.8	(36.6)	1.2	(2.7)	15.0	-653.8
OP Margin (%)								
Retail	2.2	5.6	6.9	1.4	4.8	4.1	6.3	2.2
Commercial	0.8	-1.1	-0.1	1.1	-0.9	3.1	(0.5)	-3.6
Others	14.2	0.0	11.6	11.6	-2.5	(3.3)	14.8	18.1

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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell