Petronas Gas Berhad

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

Downgrade to NEUTRAL

(previously BUY)

Utilities continue to drag earnings performance

Revised Target Price: RM17.65

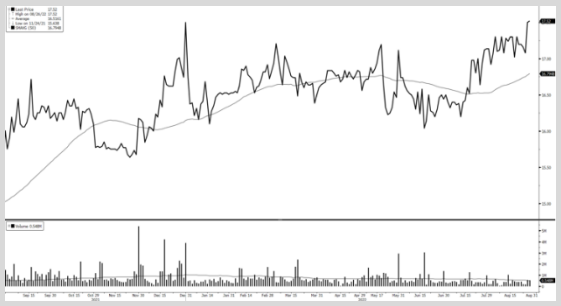
(previously RM17.90)

KEY INVESTMENT HIGHLIGHTS

- **Petronas Gas's earnings lower by -10%yoy to RM397m over high fuel gas price; came in below expectations**
- **Revenue up by +9%yoy on higher sales volume**
- **6 major projects underway, worth RM1.4b**
- **Second interim dividend of 16sen per share declared**
- **Revised FY22-23 earnings forecast down by -5% and -4%**
- **Downgrade to NEUTRAL with revised TP of RM17.65**

RETURN STATISTICS	
Price @ 26th August 2022 (RM)	17.52
Expected share price return (%)	+0.7
Expected dividend yield (%)	+6.8
Expected total return (%)	**+7.5**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	2.3	1.8
3 months	6.6	8.2
12 months	8.4	14.9

KEY STATISTICS	
FBM KLCI	1,500.29
Syariah compliant	Yes
FSGBM Index	Yes
ESG Grading Band	☆☆☆☆
Issues shares (m)	1978.73
Estimated free float (%)	14.97
Market Capitalisation (RM'm)	34,667.38
52-wk price range	RM15.9 - RM17.8
Beta vs FBM KLCI (x)	0.63
Monthly velocity (%)	0
Monthly volatility (%)	8.16
3-mth average daily volume (m)	0.55
3-mth average daily value (RM'm)	9.19
Top Shareholders (%)	0
Petroliam Nasional Bhd	51
Employees Provident Fund Board	13.84
Kumpulan Wang Persaraan Diperbadan	10.48

Earnings slipped -10%yoy. Petronas Gas Berhad's (PGB) reported its earnings down by -9.7%yoy and -3.5%qoq to RM396.6m. For the cumulative first half, earnings went down by -15.5%yoy to RM807.6m – which came in below our earnings estimate roughly at 81% and consensus' at 86%. Lower profit recorded was due to: (i) tighter Utilities margin, (ii) higher fuel gas price, (iii) unfavourable foreign exchange movement, and (iv) higher effective tax rate with the imposition of Prosperity Tax for 2022.

Revenue rose up by +9%yoy. Revenue for increased by +8.7%yoy and +3.2%qoq to RM1.51b. For the cumulative 1HFY22, revenue gained +8.8%yoy to RM2.96b. Higher revenue was contributed by Utilities on the back of higher product prices and higher electricity sales volume.

Gas Processing. Segment earnings improved by +9.5%yoy and +0.2%qoq to RM232.9m, while revenue increased by +2.3%yoy and +1%qoq to RM437.7m. For the cumulative first half, earnings went up +2%yoy to RM465.3m, while revenue increased by +1.7%yoy to RM871.3m. Lower operating costs and higher internal gas consumption incentive contributed to the higher revenue and earnings. Gas Processing plants are working at nearly 100% reliability for 2QFY22.

Gas Transportation. Segment earnings dropped by -2.2%yoy and -4.6%qoq to RM174.7m, while revenue dropped by -0.3%yoy but gained +0.7%qoq to RM290.6m. For 1HFY22, both earnings and revenue dropped, by -4.9%yoy to RM357.9m and by -0.1%yoy to RM579m respectively. Revenue decreased due to higher operating costs consequent to higher fuel gas prices. Nevertheless. The group's pipeline network registered close to 100% reliability in 2QFY22.

MIDF Research
research@midf.com.my

Utilities. Segment recorded sharp decline in earnings by -53.8%yoy but rose up by +50.2%qoq to RM32.4m. Revenue increased +35.5%yoy and +7.7%qoq to RM422.3m. For the cumulative first half, profit lost -62.8%yoy to RM54m. However, revenue increased by +38.8%yoy to RM814.4m. The higher revenue was attributable to higher product prices and higher electricity sales volume. Product prices were higher in tandem with fuel gas price, while electricity sales volume increased following commencement of electricity supply to the grid, under the New Electricity Despatch Arrangement (NEDA). Profit, however, lost due to tighter margin caused by higher fuel gas costs. See Table 1 for a breakdown of delivery volumes:

Table 1: PGB's Utilities Delivery Volumes

Utilities Delivery	Quarterly					Cumulative YTD		
	2QFY21	1QFY22	2QFY22	QoQ%	YoY%	1HFY21	1HFY22	YoY%
Electricity (GWh)	378	446	463	3.8	22.5	760	909	19.6
Steam (kMt)	1159	1170	1234	5.5	6.5	2320	2405	3.7
Industrial Gases (Mil Nm^3)	174	143	152	6.3	-12.6	345	297	-13.9

Source: Company, MIDFR

Regasification. Segment reported surge in earnings by +32.3%yoy and +4.7%qoq to RM183.2m. Meanwhile, revenue gained marginally by +0.3%yoy and +3%qoq to RM354m. For the cumulative 1HFY22, earnings boosted by +6.9%yoy to RM358.2m, while revenue slipped -0.4%yoy to RM697.8m. Revenue surged due to lower operating costs, most notably of lower internal gas consumption cost, offset by lower LNG reloading fee. The Group's LNG regasification terminals in Sg. Udang, Melaka (RGTSU) and Pengerang, Johor (RGTP) sustained their strong reliability performance at close to 100% in 2QFY22.

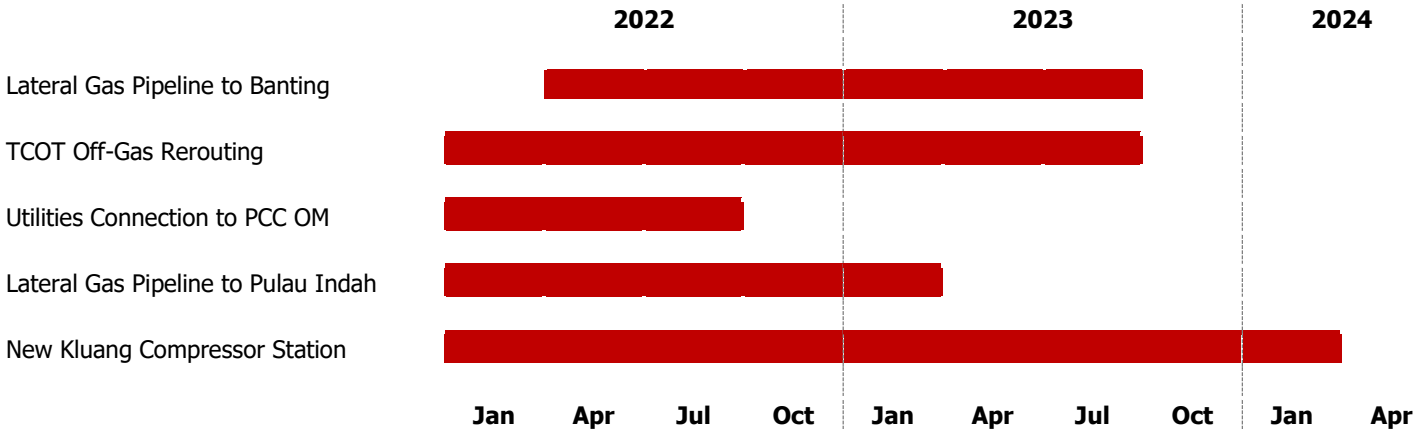
Table 2: PGB's Summary of Operational Updates in 2QFY22

Segment	Overall Equipment Effectiveness (OEE)	Reliability	Updates
Gas Processing	100%	100%	• RM32m performance incentives • TCOT Off-Gas Rerouting Project: progressing as scheduled
Gas Transportation	-	99.85%	• Average Salesgas delivered: 2,188 mmscfd • 10km pipeline extension to Banting, Selangor: EPCC awarded in June CY22 • New gas compressor station in Kluang, Johor: progressing as scheduled • 42km pipeline extension to Pulau Indah, Selangor: progressing as scheduled • Southern PGU debottlenecking: completed May CY22
Utilities	-	100%	• Higher electricity and steam volumes y-o-y: higher offtake from customers • Electricity and Utilities contract renewals: improved pricing structure to allow pass-through costs • Utilities connection to PCC OM: progressing as scheduled
Regasification	100%	-	• 23 cargoes received in 1HFY22: 4 at RGTSU and 19 at RGTP • Ancillary services offering: 678 truck loading delivered in 1HFY22 • Potential 3rd LNG storage tank in Pengerang: on track for Final Investment Decision by end CY22

Source: Company, MIDFR

RM1.4b-worth projects invested. PGB is continuously investing in growth of 6 major projects worth about RM1.4b sanctioned since CY21. The group is also observing the potential of a 3rd LNG storage tank in Pengerang, whilst also looking into power generation opportunities in Sabah and establishment of an integrated utilities solutions in industrial parks.

Chart 1: PGB's Project Timeline



Source: Company, MIDFR

Moving forward. As the nation enters the endemic phase of Covid-19, we believe the demand for gas and utilities is set to increase, subsequently increasing PGB's asset utilisation. On the strength of long-term contracts that guarantee consistent income streams, notably for the Gas Processing, Gas Transportation, and Regasification business divisions, PGB is expected that its performance until the end-year will remain robust. During the reported quarter, the group renewed a number of long-term contracts, which helped the Utilities segment's profitability amidst rising fuel gas prices. In addition, the group is in the process of finalising its Regulatory Period 2 (RP2) tariffs. However, the expected increase in the Malaysia Reference Price (MRP), the weakening trend of the MYR versus the USD, and the implementation of the Prosperity Tax may continue to affect PGB's near-term performance.

FY22 second interim dividend at 16sen. The group has announced its second interim dividend of 16sen per share, amounting to RM316.6m; payable on 23 Sept CY22.

Revised FY23-FY24 earnings forecast. In consideration of PGB's 2QFY22 results coming in below our expectations, we revise our earnings estimates forecasted for FY23 and FY24 slightly downward by -12% and -7% respectively. Rolling into FY23, we **revise our target price to RM17.65** (previously RM17.90); based on pegging a PER of 18.4x to the revised EPS23 of 96.2sen. The PER is based on the company's 5-year average.

Downgrade to NEUTRAL with revised TP at RM17.65 per share. All in, we downgrade our recommendation to **NEUTRAL** (from BUY) for PGB. The gas market, whilst elevated in tandem with the global crude oil prices, remain to be uncertain. The global inflation continues to disturb the foreign currency movement, raw material prices as well as the fuel gas cost. Taxation on refineries and pipelines under the Prosperity Tax is expected to have a longer effect on the group's performance. Nevertheless, with many long-term contracts secured and many operational opportunities in hand, we opine that PGB is set to remain resilient until the end of the year, if not improve on its financial health in the near-to-midterm amid the challenges. We reiterate our positive view on PGB, based on its sustainable and positive revenue growth, as well as its consistently almost 100% plant utilisation across its business segments.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless otherwise stated)	2020A	2021A	2022E	2023F	2024F
Revenue (RM'm)	5,592.1	5,648.6	5,511.6	5,643.0	5,874.2
EBIT (RM'm)	2,670.2	2,719.7	2,397.3	2,553.2	2,761.1
Pretax Profit (RM'm)	2,610.2	2,641.7	2,337.4	2,498.3	2,716.2
Net Profit (RM'm)	2,161.2	2,111.4	1,785.2	1,902.7	2,061.6
EPS (sen)	101.6	100.5	90.2	96.2	104.2
EPS growth (%)	3.8%	-1.0%	-10.2%	6.6%	8.4%
PER(x)	17.6	17.8	19.6	18.4	16.9
Dividend per share (sen)	82.5	127.0	112.8	120.2	130.2
Dividend Yield (%)	4.6%	7.1%	6.4%	6.8%	7.4%

Source: Company, MIDFR

Table 3: Petronas Gas's quarterly earnings review

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly results					Cumulative results		
	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	1HFY21	1HFY22	YoY (%)
Revenue	**1,383.9**	**1,457.9**	**1,504.6**	3.2	8.7	**2,723.9**	**2,962.5**	8.8
Cost of revenue	(784.1)	(845.7)	(881.4)	4.2	12.4	(1,411.8)	(1,727.1)	22.3
Gross Profit	**599.8**	**612.2**	**623.2**	1.8	3.9	**1,312.1**	**1,235.4**	(5.9)
Admin expenses	(33.9)	(28.5)	(26.3)	(7.5)	(22.3)	(61.0)	(54.8)	(10.2)
Other expenses	(0.0)	(8.7)	(55.5)	(537.0)	(3597.3)	(39.2)	(64.2)	63.8
Other income	26.5	24.5	30.6	25.1	15.4	47.8	55.1	15.3
Operating Profit	**592.4**	**599.5**	**572.0**	(4.6)	(3.5)	**1,259.7**	**1,171.5**	(7.0)
Financing Costs	(41.6)	(43.1)	(43.5)	0.9	4.7	(83.4)	(86.7)	4.0
JCE	26.0	32.0	29.9	(6.5)	14.9	71.0	61.8	(12.9)
Profit Before Tax	**576.9**	**588.3**	**558.3**	**(5.1)**	**(3.2)**	**1,247.4**	**1,146.6**	(8.1)
Tax expense	(113.0)	(150.7)	(142.8)	(5.2)	26.4	(243.5)	(293.6)	20.6
Profit After Tax	**463.9**	**437.6**	**415.5**	(5.0)	(10.4)	**1,003.9**	**853.1**	(15.0)
Minority interest	24.8	26.6	18.9	(29.0)	(23.9)	48.4	45.5	(6.1)
PATAMI	**439.1**	**411.0**	**396.6**	**(3.5)**	**(9.7)**	**955.5**	**807.6**	(15.5)
Basic EPS (sen)	22.19	20.75	20.04	(3.4)	(9.7)	48.29	40.79	(15.5)
DPS (sen)	16.00	16.00	16.00	-	-	16.00	32.00	100.0
				+/(-) ppts				*+/(-) ppts*
Gross Profit margin (%)	43.3	42.0	41.4	(0.6)	(1.9)	48.2	41.7	(6.5)
Operating Profit margin (%)	42.8	41.1	38.0	(3.1)	(4.8)	46.2	39.5	(6.7)
PBT margin (%)	41.7	40.4	37.1	(3.2)	(4.6)	45.8	38.7	(7.1)
PATAMI margin (%)	31.7	28.2	26.4	(1.8)	(5.4)	35.1	27.3	(7.8)
Tax rate (%)	19.6	25.6	25.6	(0.0)	6.0	19.5	25.6	6.1

Source: Company, MIDFR

(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)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

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 MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment 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. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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