Petronas Dagangan Berhad

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

***Maintain* BUY**

3Q22 profit surged on demand for Diesel and Jet A1

***Revised* Target Price: RM24.52**

(previously RM23.97)

KEY INVESTMENT HIGHLIGHTS

- **Petronas Dagangan's earnings surged >100% to RM276m; came in above expectations**
- **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 +18% and +27%**
- **Maintain BUY with revised TP of RM24.52 per share**

Earnings gained >100%yoy. Petronas Dagangan Bhd's (PDB) net profit surged >100% to RM276m, from RM119.3m in 3QFY21 and up by 16.1%qoq. For the cumulative 9 months, profit gained +61%yoy to RM632.1m, which came in above our expectation at 86% of full-year earnings estimate and consensus' at 88%. Higher earnings were mainly contributed by higher demand, as well as the one-off disposal of LPG business in Sarawak. This is however offset by higher operating expenditure.

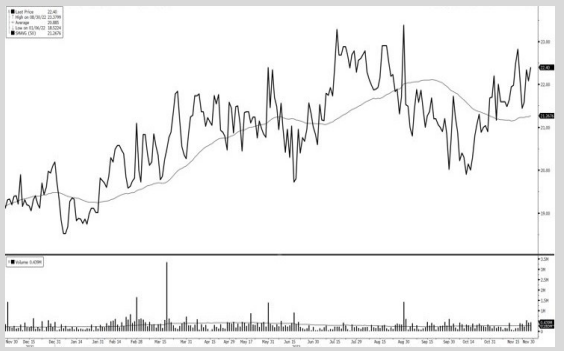
Revenue rose by +95%yoy. PDB reported higher revenue by +94.8%yoy and +6.6%qoq to RM10.13b. For the cumulative 9 months, revenue gained +76.4%yoy to RM27.25b. YTD, average selling prices was up by +32%yoy and sales volume increased by +33%yoy, which contributed to the spike in revenue.

Retail. Revenue for retail rose by +62%yoy and +1.4%qoq to RM4.54b. Profit gained +20.5%yoy but dropped -58.8%qoq to RM128.1m. Cumulatively for 9 months, both revenue and earnings increased by +46.9%yoy to RM12.82b, and +86%yoy to RM650.4m respectively. Higher revenue YTD was due to higher sales volume of +41%yoy and higher average selling prices by +5%yoy, in line with higher demand. Earnings rose from higher sales volume of Mogas and Diesel.

Commercial. This segment's revenue increased by +131.6%yoy and +11.1%qoq to RM5.53b, while earnings gained >100% to RM273.4m from RM90.1m in 3QFY21 and a deficit of -RM3.6m in 2QFY22. For the cumulative 9 months, revenue increased +112.7%yoy to RM14.27b, while profit added +1.3yoy to RM227.5m. Higher revenue YTD was due to higher average selling prices by +72%yoy and higher sales volume by +23%yoy. Earnings gained from sale of Diesel and Jet A1, following favourable pricing trends.

RETURN STATISTICS	
Price @ 29th November 2022 (RM)	22.40
Expected share price return (%)	+9.5
Expected dividend yield (%)	+3.1
Expected total return (%)	**+12.6**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	7.2	5.0
3 months	11.9	4.3
12 months	13.7	16.4

KEY STATISTICS	
FBM KLCI	1,476.96
Syariah compliant	Yes
FSGBM Index	Yes
ESG Grading Band	☆☆☆☆
Issues shares (m)	993.45
Estimated free float (%)	12.51
Market Capitalisation (RM'm)	22,253.37
52-wk price range	RM18.7 - RM23.5
Beta vs FBM KLCI (x)	0.81
Monthly velocity (%)	0.00
Monthly volatility (%)	9.59
3-mth average daily volume (m)	0.28
3-mth average daily value (RM'm)	6.06
Top Shareholders (%)	
Petroliam Nasional Bhd	63.92
Employees Provident Fund Board	11.81
Amanah Saham Nasional Bhd	8.65

MIDF Research
research@midf.com.my

Convenience. Revenue surged >100%yoy to RM65m from a deficit of -RM64.5m in 3QFY21, and gained +30.5%qoq. Similarly, earnings surged >100%yoy to RM8m from a deficit of -RM23.7m in 3QFY21, and gained +38%qoq. For the cumulative 9 months, revenue surged 10-fold YoY to RM166.3m, while earnings added >100%yoy to RM23m from a deficit -RM26.4m. Revenue and earnings gains were contributed by higher sales from Mesra stores, following improved demand during the Covid-19 endemic phase.

Moving forward. PDB's improved performance in 3QFY22 was attributable to the return of international travel and improvement in domestic tourism, as well as operational growth from manufacturing sectors. Brent crude oil price continued to support the group's performance, as it was recorded at a favourable average of USD98pb in 3QFY22, compared to USD73pb in 3QFY21. The group continued to add in new offerings of its non-fuel products as well as launching 4 new Café Mesra summing up the total to 16 since July 2022. Despite the strong growth, we believe external headwinds and uncertainties in the global economy will be challenging, most particularly on consumer spending. Additionally, in line with its sustainability agenda, the group continues with collaborations with EV partners to accelerate the adoption and commercialisation of clean energy.

Revised FY23-24 earnings estimates. Considering PDB's robust 3QFY22 results exceeding our expectation, we revise our FY23 and FY24 earnings forecast upward by +18% and +27% respectively. As such, we **revise our target price to RM24.52** (previously RM23.97)**.** The revised TP is based on pegging a PER of 26.5x to a revised EPS23 of 92.4sen. 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 RM24.52**. We continue to maintain a positive stance on PDB's financial performance for the remainder of the year. With the travel and tourism industry recovering to pre-pandemic levels, we believe the sales for PDB's petroleum products, as well as non-fuel products, will maintain its upward trend well into next year. We like PDB for its: (i) expansion and diversification of its non-fuel sales, (ii) improvement on its digital platforms and fuel access to remote areas, and (iii) strategic commercialisation into the clean energy 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	35,805.9	42,244.6	48,528.7
Operating profit	402.5	740.8	1,152.7	1,262.3	1,456.2
Pretax Income	386.4	531.2	1,136.3	1,242.1	1,431.2
Tax	(114.0)	(209.5)	(284.1)	(310.5)	(357.8)
Reported PATANCI	**272.4**	**529.8**	**843.7**	**922.2**	**1,062.7**
Normalised PATANCI	**272.4**	**529.8**	**843.7**	**922.2**	**1,062.7**
Normalised EPS (sen)	130.4	53.3	84.6	92.4	106.3
PER (x)	18.4	44.9	29.0	26.5	23.1
Dividend (sen)	38.0	70.0	67.7	74.8	87.2
Dividend yield (%)	1.6	2.9	2.8	3.1	3.6

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	5,200.7	9,501.1	10,130.7	6.6	94.8	15,448.0	27,250.1	76.4
Operating profit	**167.6**	**317.0**	**403.1**	27.2	140.6	**547.7**	**900.9**	64.5
Finance cost	(2.3)	(4.4)	(7.5)	71.2	228.3	(7.4)	(14.7)	99.0
Assc. & JV	0.3	2.9	3.5	24.1	1152.3	0.6	7.2	1062.1
Profit Before Tax	**165.5**	**315.5**	**399.1**	26.5	141.1	**541.0**	**893.3**	65.1
Tax expense	(45.9)	(76.1)	(119.7)	57.3	160.7	(147.8)	(254.2)	71.9
PAT from continuing operations	**119.6**	**239.4**	**279.4**	16.7	133.6	**393.1**	**639.2**	62.6
Non-controlling interest	0.3	1.7	3.5	99.8	1025.6	0.6	7.1	1110.6
PATANCI	**119.3**	**237.7**	**276.0**	16.1	131.3	**392.6**	**632.1**	61.0
Basic EPS (sen)	0.12	0.24	0.28	16.3	131.7	0.40	0.64	61.0
DPS (sen)	0.20	0.11	0.54	390.9	170.0	0.44	0.70	59.1
				+/(-) ppts				*+/(-) ppts*
Operating profit margin (%)	3.2	3.3	4.0	0.6	0.8	3.5	3.3	-0.2
PBT margin (%)	3.2	3.3	3.9	0.6	0.8	3.5	3.3	-0.2
PATANCI margin (%)	2.3	2.5	2.8	0.2	0.5	2.5	2.3	-0.2
Tax rate (%)	27.7	24.1	30.0	5.9	2.3	27.3	28.4	1.1
Segmental								
Revenue								
Retail	2,800.6	4,476.3	4,536.8	1.4	62.0	8,722.5	12,816.3	46.9
Commercial	2,387.1	4,975.0	5,528.9	11.1	131.6	6,708.9	14,267.5	112.7
Others	(64.5)	49.8	65.0	30.5	(200.7)	16.6	166.3	904.0
Operating profit								
Retail	106.3	310.5	128.1	(58.8)	20.5	349.7	650.4	86.0
Commercial	90.1	(3.6)	274.3	(7,718.2)	204.5	224.5	227.5	1.3
Others	(23.7)	5.8	8.0	38.0	(133.7)	(26.4)	23.0	-186.9
OP Margin (%)								
Retail	3.8	6.9	2.8	-4.1	-1.0	4.0	5.1	1.1
Commercial	3.8	-0.1	5.0	5.0	1.2	3.3	1.6	-1.8
Others	36.8	0.0	12.3	12.3	-24.4	(159.6)	13.8	173.4

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077(23878 – X)).
(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

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology