Petronas Gas Berhad

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

***Maintain* NEUTRAL**

3Q22 earnings down on higher op cost and forex

***Revised* Target Price: RM17.27**

(previously RM17.65)

KEY INVESTMENT HIGHLIGHTS

- **Petronas Gas's earnings lower by -27%yoy to RM426m over high operating cost and unfavourable forex movement**
- **Earnings came in slightly below expectations**
- **Revenue up by +10%yoy on higher sales volume**
- **Third interim dividend of 18sen per share declared**
- **Revised FY22-23 earnings forecast down by -5% and -6%**
- **Maintain NEUTRAL with revised TP of RM17.27**

Earnings slipped -27%yoy. Petronas Gas Berhad's (PGB) reported its earnings down by -26.7%yoy but a gain of +7.4%qoq to RM425.8m. For the cumulative 9 months, earnings went down by -19.7%yoy to RM1.23b – which came in slightly below our expectation at 69% of full year earnings estimate. Lower profit recorded was due to: (i) higher operating cost relating to fuel gas and internal gas consumption costs, (ii) reduced impact of foreign exchange movement, and (iii) impact of higher effective tax rate from the imposition of Prosperity Tax.

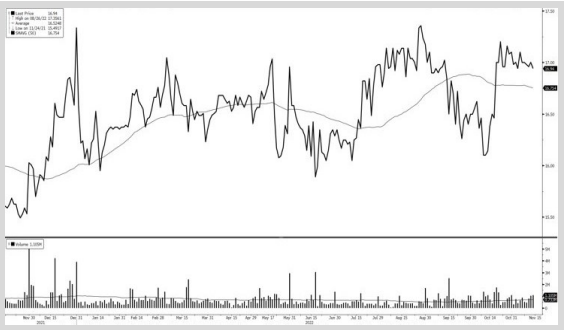
Revenue rose up by +10%yoy. Revenue increased by +9.6%yoy and +4.0%qoq to RM1.56b. For the cumulative 9MFY22, revenue gained +9.0%yoy to RM4.53b. Higher revenue was contributed by Utilities on the back of: (i) higher product prices in tandem with higher fuel gas price, and (ii) higher electricity sales volume.

Gas Processing. Segment earnings dropped by -6.2%yoy and -1.3%qoq to RM229.9m, while revenue increased by +1.8%yoy but slipped marginally by -0.1%qoq to RM437.3m. For the cumulative 9 months, earnings slipped -0.9%yoy to RM695.2m, while revenue increased by +1.7%yoy to RM1.31b. Higher revenue was attributable to higher internal gas consumption incentive achieved, while the decline in results was due to higher operating cost. Gas Processing plants are working at nearly 100% reliability for 3QFY22.

Gas Transportation. Segment earnings dropped by -14.9%yoy and -0.2%qoq to RM174.4m, while revenue dropped by -0.4%yoy but gained +1.1%qoq to RM293.6m. For 9MFY22, both earnings and revenue dropped, by -8.4%yoy to RM532.3m and by -0.2%yoy to RM872.8m respectively. Revenue decreased due to higher operating costs consequent to internal gas consumption cost and higher fuel gas prices. Nevertheless, the group's pipeline network registered achieved 100% reliability in 3QFY22.

RETURN STATISTICS	
Price @ 14th November 2022 (RM)	16.94
Expected share price return (%)	+2.0
Expected dividend yield (%)	+6.6
Expected total return (%)	**+8.6**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.4	-2.3
3 months	2.7	0.6
12 months	4.0	8.2

KEY STATISTICS	
FBM KLCI	1,464.00
Syariah compliant	Yes
FSGBM Index	Yes
ESG Grading Band	☆☆☆☆
Issues shares (m)	1978.73
Estimated free float (%)	14.98
Market Capitalisation (RM'm)	34,519.72
52-wk price range	RM15.9 - RM18.0
Beta vs FBM KLCI (x)	0.66
Monthly velocity (%)	0
Monthly volatility (%)	8.16
3-mth average daily volume (m)	0.72
3-mth average daily value (RM'm)	12.13
Top Shareholders (%)	
Petroliam Nasional Bhd	51
Employees Provident Fund Board	14.43
Kumpulan Wang Persaraan Diperbadan	9.86

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Utilities. Segment recorded a decline in earnings by -27.4%yoy but added +65%qoq to RM53.5m. Revenue increased +37.6%yoy and +12.9%qoq to RM476.7m. For the cumulative 9 months, profit sharply declined -50.8%yoy to RM107.4m. However, revenue increased by +38.4%yoy to RM1.29b. Higher product prices in line with increased fuel gas price, as well as higher electricity sales volume contributed to the higher revenue. Product prices were higher in line with fuel gas price, which is based on Malaysia Reference Price (MRP) while electricity sales volume increased following commencement of electricity supply to the grid under the New Electricity Despatch Arrangement (NEDA) from August 2021 onwards. On the other hand, results declined due to tighter margins caused by the higher fuel gas cost. Utilities plants achieved 100% Product Delivery Reliability for steam, electricity, and industrial gases in 3QFY22.

Regasification. Segment reported a drop in earnings by -30.7%yoy but rose +1.6%qoq to RM186.2m. Meanwhile, revenue was flat on-year but gained a marginal +0.8%qoq to RM357m. For the cumulative 9MFY22, earnings slipped by -9.8%yoy to RM544.4m, while revenue was down -0.3%yoy to RM1.06b. Profit declined over higher operating cost from internal gas consumption. The Group's LNG regasification terminals in Sg. Udang, Melaka (RGTSU) and Pengerang, Johor (RGTP) sustained a strong reliability performance at close to 100% during 3QFY22.

Moving forward. In view of the declining risk impact of Covid-19, a hike in demand for gas and utilities is expected in the near term. PGB anticipates that as the economy recovers, asset utilisation will increase as well. Long-term contracts are also expected to support consistent income streams – notably for the Gas Processing, Gas Transportation, and Regasification segments. During the reporting quarter, the group renewed a number of long-term Utilities contracts which helped offset the negative effects of rising fuel gas prices. However, we opine that PGB's performance until the end-year will continue to be impacted by: (i) the rising MRP, and (ii) volatility of Ringgit against USD.

FY22 third interim dividend at 18sen. The group has announced its second interim dividend of 18sen per share, amounting to RM356.2m; payable on 12 Dec CY22.

Revised FY22-23 earnings forecast. In consideration of PGB's 3QFY22 results slightly missing our expectation, we revise our FY22 and FY23 earnings estimates downwards by -5% and -6% respectively. As such, we alter the target price from RM17.65 to **RM17.27 per share**, which is based on pegging a PER of 18.8x to the revised EPS23 of 91.6sen. The PER is based on the midstream gas industry's 5-year average.

Maintain NEUTRAL with revised TP. All in, we maintain our **NEUTRAL** call for PGB. The gas market continues to be unpredictable and volatile, more so with the upcoming implementation of Russian energy sanctions as well as demand slowdown from China over its Covid-19 policies. Additionally, the volatility of foreign exchange rates, the cost of raw materials, and the price of fuel gas in the region continue to exert inflationary pressures. Nevertheless, over the longer-term, we believe that PGB will be able to weather the setbacks given its: (i) long-term contracts and prospected bids, (ii) sustained, positive revenue growth, and (iii) near 100% plant utilisation across all 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	5,906.8	6,058.4	6,196.0
EBIT (RM'm)	2,670.2	2,719.7	2,391.5	2,552.1	2,696.0
Pretax Profit (RM'm)	2,610.2	2,641.7	2,311.5	2,447.1	2,606.0
Net Profit (RM'm)	2,161.2	2,111.4	1,731.2	1,813.2	1,928.7
EPS (sen)	101.6	100.5	87.5	91.6	97.5
EPS growth (%)	3.8%	-1.0%	-13.0%	4.7%	6.4%
PER(x)	17.6	17.8	19.7	18.8	17.7
Dividend per share (sen)	82.5	127.0	109.4	114.5	121.8
Dividend Yield (%)	4.6%	7.1%	6.3%	6.6%	7.1%

Source: Company, MIDFR

Table 1: Petronas Gas's quarterly earnings review for 3QFY22

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly results					Cumulative results		
	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)
Revenue	**1,427.8**	**1,504.6**	**1,564.8**	4.0	9.6	**4,151.7**	**4,527.3**	9.0
Cost of revenue	(635.1)	(881.4)	(920.9)	4.5	45.0	(2,046.9)	(2,648.0)	29.4
Gross Profit	**792.6**	**623.2**	**643.9**	3.3	(18.8)	**2,104.8**	**1,879.3**	(10.7)
Admin expenses	(29.3)	(26.3)	(28.0)	6.3	(4.4)	(90.3)	(82.8)	(8.3)
Other expenses	(11.0)	(55.5)	(64.3)	15.9	482.4	(50.2)	(128.5)	155.9
Other income	24.5	30.6	40.6	32.7	65.8	72.2	95.7	32.4
Operating Profit	**776.8**	**572.0**	**592.3**	3.5	(23.8)	**2,036.5**	**1,763.8**	(13.4)
Financing Costs	(45.4)	(43.5)	(44.3)	1.8	(2.5)	(128.8)	(131.0)	1.7
JCE	38.7	29.9	47.3	58.3	22.3	109.7	109.2	(0.5)
Profit Before Tax	**770.1**	**558.3**	**595.3**	**6.6**	**(22.7)**	**2,017.4**	**1,741.9**	(13.7)
Tax expense	(151.1)	(142.8)	(152.0)	6.4	0.6	(394.5)	(445.5)	12.9
Profit After Tax	**619.0**	**415.5**	**443.3**	**6.7**	**(28.4)**	**1,622.9**	**1,296.4**	(20.1)
Minority interest	38.2	18.9	17.5	(7.5)	(54.2)	86.6	63.0	(27.3)
PATAMI	**580.8**	**396.6**	**425.8**	**7.4**	**(26.7)**	**1,536.3**	**1,233.4**	(19.7)
Basic EPS (sen)	29.35	20.04	21.52	7.4	(26.7)	77.64	62.31	(19.7)
DPS (sen)	127.00	16.00	50.00	212.5	(60.6)	127.00	82.00	(35.4)
				+/(-) ppts				*+/(-) ppts*
Gross Profit margin (%)	55.5	41.4	41.2	(0.3)	(14.4)	50.7	41.5	(9.2)
Operating Profit margin (%)	54.4	38.0	37.8	(0.2)	(16.6)	49.1	39.0	(10.1)
PBT margin (%)	53.9	37.1	38.0	0.9	(15.9)	48.6	38.5	(10.1)
PATAMI margin (%)	40.7	26.4	27.2	0.9	(13.5)	37.0	27.2	(9.8)
Tax rate (%)	19.6	25.6	25.5	(0.1)	5.9	19.6	25.6	6.0

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