Petronas Dagangan Berhad

***Maintain* BUY**

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

FY22 ends positively but external risks remain

***Unchanged* Target Price: RM24.52**

KEY INVESTMENT HIGHLIGHTS

- **FY22 earnings rose +47% to RM777m; slightly below our expectation**
- **FY22 revenue increased +63% to RM37b**
- **Higher profit on high demand and sales volume, one-off disposal of LPG business**
- **No changes to earnings estimates**
- **Maintain BUY with unchanged TP of RM24.52 per share**

Earnings rose 5%yoy. In 4QFY22, Petronas Dagangan Bhd's (PDB) earnings rose +5.3%yoy but slipped -47.7%qoq to RM144.5m. For FY22, earnings rose +46.6%yoy to RM776.6m, which came in slightly below our expectation at 92% but within consensus at 103%. The improved FY22 earnings were mainly contributed by increase in demand and the one-off gain from disposal of LPG business in Sarawak; offset by higher OPEX from dealers' commission and purchased of professional services.

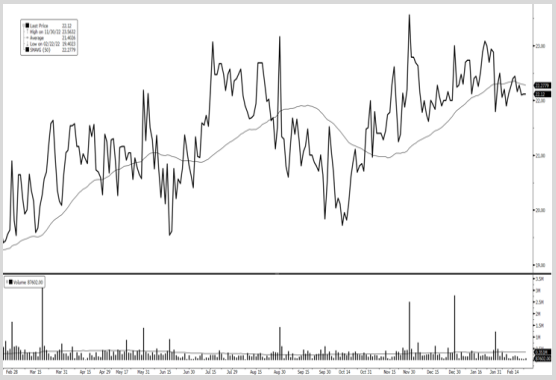
Revenue rose +35%yoy. In 4QFY22, revenue rose +34.6%yoy but dropped -6.2%qoq to RM9.5b. For FY22, revenue rose +63.3%yoy to RM36.8b. The higher FY22 revenue was due to higher sales volume by +28% and increase in average selling prices (ASP) by +26%.

Retail. In 4QFY22, revenue rose by +17.7%yoy and +0.4%qoq to RM4.56b. Earnings however declined -19.3%yoy and -8.9%qoq to RM116.7m. For FY22, both revenue and earnings increased by +38.4%yoy to RM17.4b and +62.6%yoy to RM759m respectively. Higher revenue was due to higher sales volume of 33%, in line with higher demand, as well as an increase in ASP by +4%. Higher sales volume for Mogas and Diesel and the gain on disposal of LPG business contributed to higher earnings.

Commercial. This segment's revenue increased by +53.5%yoy but slipped -11.6%qoq to RM4.9b in 4QFY22. Earnings gained >100% to RM127.8m from RM32.6m in 4QFY21 but fell -53.4%qoq. For FY22, revenue increased +92.6%yoy to RM19.2b, while profit added +49.5yoy to RM349m. Revenue increase was due to higher ASP and sales volume of 61% and 20% respectively. Higher sales of Diesel, in line with favourable price trend, as well as Jet A1 contributed to the earnings. However, this was offset by increase in OPEX due to purchased and professional services.

RETURN STATISTICS	
Price @ 22nd February 2023 (RM)	22.12
Expected share price return (%)	+10.9
Expected dividend yield (%)	+3.1
Expected total return (%)	**+14.0**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-4.2	-1.8
3 months	-3.8	1.7
12 months	10.7	19.9

KEY STATISTICS	
FBM KLCI	1,464.00
Syariah compliant	Yes
FSGBM Index	Yes
ESG Grading Band	☆☆☆☆
Issues shares (m)	993.45
Estimated free float (%)	11.93
Market Capitalisation (RM'm)	21,975.20
52-wk price range	RM19.6 - RM23.7
Beta vs FBM KLCI (x)	0.89
3-mth average daily volume (m)	0.36
3-mth average daily value (RM'm)	8.00
Top Shareholders (%)	
Petroliam Nasional Bhd	63.92
Employees Provident Fund Board	12.38
Amanah Saham Nasional Bhd	8.65

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Convenience. Revenue dropped -1.7%yoy and -16.1%qoq to RM54.5m, while earnings declined >100%yoy and >100%qoq to a deficit of -RM7m, from RM22m in 4QFY21 and from RM8m in 3QFY22. For FY22, revenue rose +26%yoy to RM220.8m, but earnings dropped -60.2%yoy to RM15.7m. Revenue increase was contributed by higher sales from Mesra stores, Café Mesra and petrol station following improved demand during endemic phase. Higher OPEX from business expansions caused the decline in earnings, which was mitigated by increased sales in Mesra stores.

Moving forward. Malaysia's economy is anticipated to be robust in 2023, driven by increasing domestic demand, stronger tourism industry recovery, and ongoing investment in infrastructure projects. We believe the economic expansion will be beneficial to PDB's retail and commercial businesses. However, risks of inflationary pressures on operating cost, as well as the possibility of a global recession remain on the group's future performance. Nevertheless, the group continues to commit to its growth, notably in its Convenience segment offerings and digital transformations for its customers. The increase in international and domestic travelling, as well as China's removal of travel restrictions is projected to continue supporting the aviation sector, hence the group's sales for Mogas, Diesel and Jet A1. Additionally, PDB continues to expand its EV charger installation nationwide, as part of its sustainability agenda. This is in line with the global projection for e-mobility to grow at about 27% to 29% in less than 10 years.

Dividend declared. The group announced an interim dividend of 26 sen per share amounting to RM258.3m and a special dividend of 14 sen per share amounting to RM139.1m

No changes to earnings estimates. Considering PDB's FY22 results improved (albeit slightly below our expectation) over the previous financial year, we make no changes to our earnings estimates. As such, we maintain our **target price at RM24.52;** pegging a PER of 26.5x to EPS23 of 92.4sen. The PER is based on PDB's 5-year average.

Maintain BUY with unchanged TP. All in, we are maintaining our **BUY** call on PDB, with an unchanged **TP of RM24.52**. We continue to maintain a positive stance on PDB's financial performance on the basis of the recovery in the travel and tourism industry. We believe the sales for PDB's petroleum products, as well as non-fuel products, will maintain its uptrend in line with the demand. However, the risks of inflationary pressures and global economic slowdown, as well as geopolitical tensions affecting the volatility of the crude oil and natural gas prices, continues to present a cautious sentiment on oil and gas retailers. Nevertheless, we like PDB for its: (i) expansion and diversification of its non-fuel sales to leverage on the higher demand for fuel, (ii) improvement on its digital platforms and fuel access to remote areas nationwide, and (iii) strategic commercialisation into the clean energy market and expansion of its EV charger installations.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless otherwise stated)	2021A	2022A	2023E	2024F	2025F
Revenue	22,505.3	36,748.9	42,244.6	48,528.7	49,745.8
Operating profit	740.8	1,148.9	1,262.3	1,456.2	1,529.0
Pretax Income	531.2	1,135.0	1,242.1	1,431.2	1,515.7
Tax	(209.5)	(347.2)	(310.5)	(357.8)	(424.4)
Reported PATANCI	**529.8**	**787.8**	**922.2**	**1,062.7**	**1,087.3**
Normalised PATANCI	**529.8**	**776.6**	**922.2**	**1,062.7**	**1,087.3**
Normalised EPS (sen)	53.3	78.1	92.4	106.3	109.4
PER (x)	41.5	28.3	26.5	23.1	22.4
Dividend (sen)	70.0	76.0	74.8	87.2	95.4
Dividend yield (%)	3.2	3.4	3.1	3.6	4.3

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		
	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)
Revenue	7,057.4	10,130.7	9,498.8	-6.2	34.6	22,505.3	36,748.9	63.3
Operating profit	**203.4**	**403.1**	**248.0**	-38.5	21.9	**751.2**	**1,148.9**	52.9
Finance cost	(4.2)	(7.5)	(10.5)	39.0	147.0	(11.6)	(25.2)	116.5
Assc. & JV	0.6	3.5	4.2	17.1	588.4	1.2	11.3	828.2
Profit Before Tax	**199.8**	**399.1**	**241.7**	-39.4	21.0	**740.8**	**1,135.0**	53.2
Tax expense	(61.7)	(119.7)	(93.0)	-22.3	50.7	(209.5)	(347.2)	65.7
PAT from continuing operations	**138.1**	**279.4**	**148.6**	-46.8	7.6	**531.2**	**787.8**	48.3
Non-controlling interest	0.9	3.5	4.2	20.7	368.1	1.5	11.2	661.2
PATANCI	**137.2**	**276.0**	**144.5**	-47.7	5.3	**529.8**	**776.6**	46.6
Basic EPS (sen)	0.14	0.28	0.15	-47.8	5.1	0.53	0.78	46.5
DPS (sen)	0.26	0.54	0.06	-88.9	-76.9	0.70	0.76	8.6
				+/(-) ppts				*+/(-) ppts*
Operating profit margin (%)	2.9	4.0	2.6	(1.4)	(0.3)	3.3	3.1	-0.2
PBT margin (%)	2.8	3.9	2.5	(1.4)	(0.3)	3.3	3.1	-0.2
PATANCI margin (%)	2.0	2.8	1.6	(1.2)	(0.4)	2.4	2.1	-0.2
Tax rate (%)	30.9	30.0	38.5	8.5	7.6	28.3	30.6	2.3
Segmental								
Revenue								
Retail	3,870.5	4,536.8	4,555.2	0.4	17.7	12,551.4	17,371.5	38.4
Commercial	3,185.8	5,528.9	4,889.0	(11.6)	53.5	9,947.4	19,156.5	92.6
Others	55.5	65.0	54.5	(16.1)	(1.7)	175.2	220.8	26.0
Operating profit								
Retail	144.6	128.1	116.7	(8.9)	(19.3)	466.8	759.0	62.6
Commercial	32.6	274.3	127.8	(53.4)	292.0	233.4	349.0	49.5
Others	22.0	8.0	(7.0)	(187.4)	(131.8)	39.4	15.7	-60.2
OP Margin (%)								
Retail	3.7	2.8	2.6	-0.3	-1.2	3.7	4.4	0.7
Commercial	1.0	5.0	2.6	-2.3	1.6	2.3	1.8	-0.5
Others	39.6	0.0	-12.8	-12.8	-52.5	22.5	7.1	-15.4

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

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