Petronas Gas Berhad

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

Upgrade to BUY

(previously NEUTRAL)

Expect more stable gas market

Revised Target Price: RM18.43

(previously RM17.27)

KEY INVESTMENT HIGHLIGHTS

- **Petronas Gas's FY22 earnings lower by -17%yoy to RM1.65b over unfavourable forex movement**
- **Earnings came in within our expectation**
- **Revenue up by +9%yoy on higher sales volume**
- **Fourth interim dividend of 22sen per share declared**
- **Revised FY23-24 earnings forecast up by +17%**
- **Upgrade to BUY with revised TP of RM18.43**

Earnings slipped -9%yoy. Petronas Gas Berhad's (PGB) reported earnings were down by -8.9%yoy and -3.1%qoq to RM412.5m in 4QFY22. For FY22, earnings dropped by -17.2%yoy to RM1.65b, which came in within our one-year expectation at 95%, and consensus at 94%. Lower profit recorded was due to lower share profit from joint ventures and unfavourable forex movement, offset by higher interest income from fund investments.

Revenue up +9%yoy. Revenue increased by +9.1%yoy and +4.4%qoq to RM1.63b in 4QFY22. For FY22, revenue gained +9.1%yoy to RM6.16b. Higher revenue was contributed by Utilities on the back of higher contribution from steam and industrial gasses product sales in tandem with higher product prices in line with fuel gas price movement.

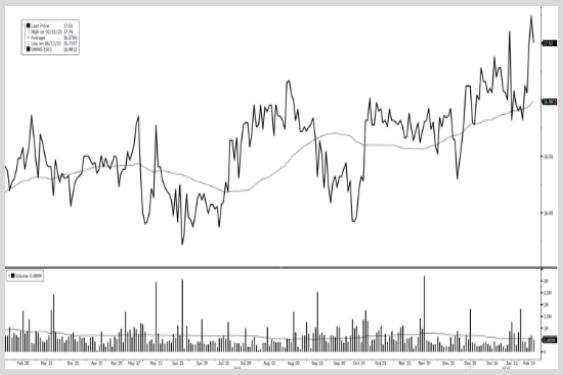
FY22 interim dividend. The group announced its fourth interim dividend of 22sen per share, amounting to RM435.3m.

Gas Processing. Revenue gained +1.1%yoy and +0.2%qoq to RM438.2m, while earnings dropped by -16.1%yoy and -14.2%qoq to RM197.2m in 4QFY22. For FY22, revenue added +1.6%yoy to RM1.75b, while earnings slipped -4.7%yoy to RM892.4m. The segment recorded close to 100% reliability. Higher revenue was due to higher internal gas consumption incentive achieved, supported by continuous operational optimisation efforts. Conversely, results declined due to higher operating expenses in line with higher level of activities performed.

Gas Transportation. In 4QFY22, segment revenue added marginally by +0.1%yoy and +0.6%qoq to RM295.6m while earnings dropped by -73.6%yoy and -82.2%qoq to RM31.1m. For FY22, both revenue and earnings dropped, by -0.1%yoy to RM1.17b and by -19.4%yoy to RM563.3m respectively. The group's pipeline network registered close to 100% reliability. Lower revenue and earnings were due to higher operating expenses, mainly internal gas consumption expense in tandem with higher fuel gas price.

RETURN STATISTICS	
Price @ 16th February 2023 (RM)	17.50
Expected share price return (%)	+5.3
Expected dividend yield (%)	+6.3
Expected total return (%)	**+11.6**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.7	4.2
3 months	3.6	2.7
12 months	3.4	11.1

KEY STATISTICS	
FBM KLCI	1,484.26
Syariah compliant	Yes
FSGBM Index	Yes
ESG Grading Band	☆☆☆☆
Issues shares (m)	1978.73
Estimated free float (%)	14.80
Market Capitalisation (RM'm)	35,102.70
52-wk price range	RM15.9 - RM17.7
Beta vs FBM KLCI (x)	0.67
3-mth average daily volume (m)	0.55
3-mth average daily value (RM'm)	9.36
Top Shareholders (%)	
Petroliam Nasional Bhd	51.00
Employees Provident Fund Board	14.43
Kumpulan Wang Persaraan Diperbadan	10.04

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Utilities. In 4QFY22, segment recorded higher revenue by +31.4%yoy and +13.7%qoq to RM541.8m while earnings declined -39.1%yoy and -37.1%qoq to RM33.6m. For FY22, revenue gained +36.2%yoy to RM1.83b while earnings dropped -48.5%yoy to RM141m. The group's Utilities plants achieved close to 100% Product Delivery Reliability for steam, electricity, and industrial gases. The higher revenue was mainly attributable to higher product prices in line with the increase of fuel gas price, which is based on Malaysia Reference Price (MRP). Earnings, meanwhile, declined due to higher fuel gas costs but mitigated by favourable impact of improved terms in contract renewals which allowed for a more balanced cost pass-through.

Regasification. In 4QFY22, segment reported a marginal increase in revenue by +0.4%yoy and +0.1%qoq to RM357.3m while earnings slipped by -0.3%yoy but rose up +10.9%qoq to RM206.5m. For FY22, revenue dropped slightly by -0.1% to RM1.41b, while earnings declined by -7.4%yoy to RM750.9m. PGB's LNG regasification terminals in Sg. Udang, Melaka (RGTSU) and Pengerang, Johor (RGTP) sustained its strong reliability performance at close to 100%.

TABLE 1: Petronas Gas' Segment Updates as of FY22

Segment	Operational Excellence	Segment Updates
Gas Processing	• 100% OEE (stable for C1 Salesgas and C2 Ethane) • 100% Reliability • Higher level of efficiency translates to higher incentives (currently	• Terengganu Crude Oil Terminal (TCOT) Off-Gas Rerouting Project progressing within schedule
Gas Transportation	• 100% Reliability • 2,188 mmscfd average salesgas delivered	• 42km pipeline extension to Pulau Indah, Selangor to accommodate requirement from local authority; aligned with customer delivery date • New gas compressor station in Kluang Johor progressing within schedule • 10km pipeline extension to Banting, Selangor progressing within schedule
Utilities	• 100% Product Delivery Reliability for Electricity and Steam • Higher electricity and steam volumes due to higher offtake from customers	• Utilities connection to PCC Oxylalkylates Malaysia (PCC OM) • 52MW power plant in Sipitang; expected to be commissioned in 2026
Regasification	• 100% OEE at LNG Regasification Sungai Udang (RGTSU) and LNG Regasification Pengerang (RGTP) • 54 Cargoes received in FY22 (11 at RGTSU, 43 at RGTP) • Ancillary services offering - 971 truck loading delivered	• Potential third LNG storage tank at Pengerang, currently strategizing project execution approach following high-cost environment

Source: Company, MIDFR

Moving forward. The Government of Malaysia through Energy Commission has approved the Incentive-based Regulation (IBR) tariffs for the Regulatory Period 2 (RP2) for the Gas Transportation and Regasification services which commencing from January 2023 to December 2025. While the new tariffs are expected to translate into lower Transportation and Regasification business segment revenues, both segments are anticipated to continue contributing positively to PGB's earnings. The Gas Processing segment is expected to remain stable on the back of long-term contracts. The Government has also announced the imbalance cost pass-through surcharge for the first half of the year 2023 that will help to partly mitigate the adverse impact of elevating Malaysia Reference Price (MRP) to the Utilities segment performance which highly correlate with fuel gas price movement.

Revised FY23-24 earnings forecast. In consideration of group's positive prospects and the expectation of a more stable gas market going forward, we revise our FY23 and FY24 earnings estimates both upwards by +17%. As such, we revise our **target price** from RM17.27 to **RM18.43**, which is based pegging a PER of 18x to the revised EPS23 of 102.7 sen. The PER is based on the midstream gas industry's 5-year average.

Upgrade to BUY. We upgrade our stock recommendation from NEUTRAL to **BUY** for PGB. The gas market is expected to gradually minimise its volatility amid the recovery in China's economy after lifting its strict Covid-19 restrictions. However, foreign exchange rates, the cost of raw materials, and the price of fuel gas in the region continues to be impacted by inflationary pressures. Nevertheless, we believe that PGB will continue to stay resilient given its: (i) long-term contracts and prospected bids, (ii) sustained, positive revenue growth, and (iii) near 100% plant utilisation across all of its business segments.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless otherwise stated)	2021F	2022F	2023F	2024F	2025F
Revenue (RM'm)	5,648.6	6,160.2	6,058.4	6,196.0	6,315.2
EBIT (RM'm)	2,719.7	2,320.1	2,607.0	2,747.1	4,407.4
Pretax Profit (RM'm)	2,641.7	2,269.4	2,546.2	2,676.4	4,507.4
Net Profit (RM'm)	2,111.4	1645.9	2,031.3	2,127.8	3,357.0
EPS (sen)	100.5	83.2	102.7	107.5	169.7
EPS growth (%)	-1.0%	-17.3%	23.4%	4.7%	57.8%
PER(x)	18.3	22.2	18.0	17.1	10.9
Dividend per share (sen)	127.0	104.0	112.9	123.7	203.6
Dividend Yield (%)	6.9%	5.6%	6.1%	6.7%	11.0%

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		
	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)
Revenue	**1,496.9**	**1,564.8**	**1,632.9**	4.4	9.1	**5,648.6**	**6,160.2**	**9.1**
Cost of revenue	(881.9)	(920.9)	(1,164.5)	26.5	32.0	(2,928.9)	(3,812.5)	30.2
Gross Profit	**615.0**	**643.9**	**468.4**	(27.3)	(23.8)	**2,719.7**	**2,347.7**	**(13.7)**
Admin expenses	(41.7)	(28.0)	(30.8)	9.9	(26.2)	(132.0)	(113.5)	(14.0)
Other expenses	(10.3)	(64.3)	(22.5)	(65.0)	118.0	(60.5)	(151.0)	149.4
Other income	60.0	40.6	141.2	247.8	135.3	132.3	236.9	79.1
Operating Profit	**623.0**	**592.3**	**556.3**	(6.1)	(10.7)	**2,659.5**	**2,320.1**	**(12.8)**
Financing Costs	(46.2)	(44.3)	(47.4)	7.0	2.7	(175.0)	(178.4)	2.0
JCE	47.4	47.3	18.6	(60.8)	(60.9)	157.1	127.7	(18.7)
Profit Before Tax	**624.2**	**595.3**	**527.5**	**(11.4)**	**(15.5)**	**2,641.7**	**2,269.4**	**(14.1)**
Tax expense	(135.7)	(152.0)	(65.4)	(57.0)	(51.9)	(530.3)	(510.9)	(3.7)
Profit After Tax	**488.5**	**443.3**	**462.1**	**4.2**	**(5.4)**	**2,111.4**	**1,758.5**	**(16.7)**
Minority interest	35.9	17.5	49.6	183.6	38.2	122.5	112.5	(8.1)
PATAMI	**452.6**	**425.8**	**412.5**	**(3.1)**	**(8.9)**	**1,988.9**	**1,645.9**	**(17.2)**
Basic EPS (sen)	22.87	21.52	20.85	(3.1)	(8.8)	100.51	83.16	(17.3)
DPS (sen)	127.00	50.00	22.00	(56.0)	(82.7)	127.00	104.00	(18.1)
				+/(-) ppts				*+/(-) ppts*
Gross Profit margin (%)	41.1	41.2	28.7	(12.5)	(12.4)	48.1	38.1	(10.0)
Operating Profit margin (%)	41.6	37.8	34.1	(3.8)	(7.5)	47.1	37.7	(9.4)
PBT margin (%)	41.7	38.0	32.3	(5.7)	(9.4)	46.8	36.8	(9.9)
PATAMI margin (%)	30.2	27.2	25.3	(1.9)	(5.0)	35.2	26.7	(8.5)
Tax rate (%)	21.7	25.5	12.4	(13.1)	(9.4)	20.1	22.5	2.4

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