Petronas Dagangan Berhad

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

Earnings Surged 2-Fold in 1Q23 over Higher Sales Volume

***Maintain* BUY**

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

KEY INVESTMENT HIGHLIGHTS

- **Revenue up +14%yoy, earnings rose nearly 2-fold; came in slightly above our yearly expectations**
- **Higher revenue due to higher sales volume and average selling price, offset by higher OPEX**
- **Commercial and Convenience segments main contributor**
- **Maintain BUY with an unchanged TP of RM24.52**

Maintain BUY, unchanged TP: RM24.52. Petronas Dagangan Berhad (PDB)'s 1QFY23 earnings came in above our yearly expectations. As such, we are maintaining a BUY call on PDB, with the unchanged target price of RM24.52.

Revenue up +14%yoy. PDB's 1QFY23 revenue was up +13.5%yoy, but down -9%qoq to RM8.6b**.** The higher revenue was due to higher sales volume (+13%yoy) and higher average selling price (+1%yoy).

Earnings up nearly 2-fold. PDB's 1QFY23 earnings were up 154.7%yoy and +108.9%qoq to RM301.8m. The surge is due to higher gross profit from Mogas, Jet A1 and Diesel. This was partially offset with higher operating expenditure attributable to dealers' commission.

Sales in Jet A1 and Mesra stores skyrocketed. We believe the increase in earnings for the Commercial segment (+471.1%yoy) and Convenience segment (+106.1%yoy) was due to increase in travelling frequency within Malaysia and internationally, as well as the increase in transportation and logistics demand from other industries. Meanwhile, consistent with the higher demand for Mesra stores and Café Mesra nationwide, Setel platform also recorded higher transactions in 1QCY23.

Consumer spending key to better performance. PDB is expected to remain cautiously optimistic and will continue to strengthen its core and business growth. Leveraging on the economic recovery, upcoming festive seasons and revival of the tourism industry, we opine that PDB's performance will return to pre-pandemic levels for its Retail and Commercial segments. Additionally, PDB will further support its sustainability agenda with plans to install additional EV chargers as well as solar panels in its stations by the end-year.

No changes to earnings estimates. We remain positive of PDB's prospects in its retail and convenience store businesses premised on increasing demands for retail fuel from travelling activities and upcoming festive seasons. Nevertheless, we continue to be vigilant on increasing inflationary pressures and unexpectedly volatile oil market. Hence, we are taking a more conservative approach of maintaining our earnings estimates at this juncture.

Target price. We maintain our target price at RM24.52 by pegging a PER of 28.5x to EPS23 of 85.6sen. The PER is based on PDB's 5-year average.

RETURN STATISTICS	
Price @ 22nd May 2023 (RM)	22.40
Expected share price return (%)	+9.5
Expected dividend yield (%)	+3.4
Expected total return (%)	**+12.9**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.3	1.5
3 months	5.0	5.2
12 months	5.4	15.0

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	40,518	45,200	49,746
Operating Profit	1,201	1.315	1,529
Profit Before Tax	1,190	1,301	1,516
Core PATAMI	850	931	1,087
Core EPS	85.6	93.8	109.4
DPS	75.6	84.0	95.4
Dividend Yield	3.4%	3.8%	4.3%

KEY STATISTICS	
FBM KLCI	1,419.00
Issue shares (m)	993.5
Estimated free float (%)	13.3
Market Capitalisation (RM'm)	22,253.4
52-wk price range	RM19.5–RM23.6
3-mth average daily volume (m)	0.2
3-mth average daily value (RM'm)	4.6
Top Shareholders (%)	
Petroliam Nasional Bhd	63.9
Employees Provident Fund	12.4
Amanah Saham Nasional Bhd	7.8

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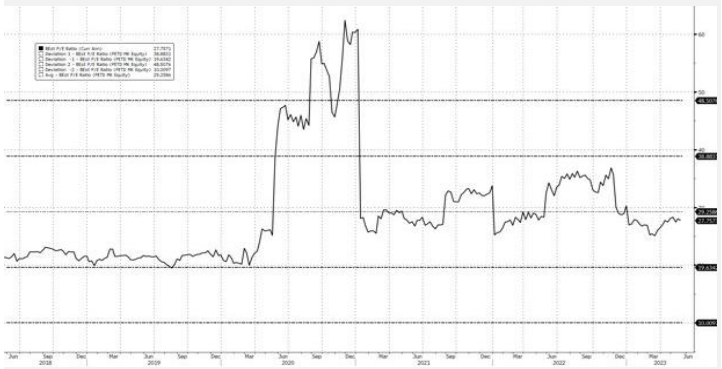
Table 1: Petronas Dagangan's quarterly earnings review

Financial year ending 31st December (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)	3MFY22	3MFY23	YoY (%)
Revenue	7,618.3	9,498.8	8,645.5	-9.0	13.5	7,618.3	8,645.5	13.5
Operating profit	**180.7**	**248.0**	**407.0**	64.1	125.2	**180.7**	**407.0**	125.2
Profit Before Tax	**178.7**	**241.7**	**408.9**	69.2	128.8	**178.7**	**408.9**	128.8
Tax expense	(58.4)	(93.0)	(102.5)	10.2	75.6	(58.4)	(102.5)	75.6
PAT from continuing operations	**120.4**	**148.6**	**306.4**	106.1	154.6	**120.4**	**306.4**	154.6
PATANCI	**118.5**	**144.5**	**301.8**	108.9	154.7	**118.5**	**301.8**	154.7
Basic EPS (sen)	0.12	0.15	0.30	109.7	155.5	0.12	0.30	155.5
DPS (sen)	0.05	0.06	0.76	1166.7	1420.0	0.05	0.76	1420.0
				+/(-) ppts				*+/(-) ppts*
Operating profit margin (%)	2.4	2.6	4.7	2.1	2.3	2.4	4.7	2.3
PBT margin (%)	2.3	2.5	4.7	2.2	2.4	2.3	4.7	2.4
PATANCI margin (%)	1.6	1.6	3.5	2.0	2.0	1.6	3.5	2.0
Tax rate (%)	32.7	38.5	25.1	(13.4)	(7.6)	32.7	25.1	-7.6
Segmental								
Revenue								
Retail	3,803.2	4,555.2	4,409.7	(3.2)	15.9	3,803.2	4,409.7	15.9
Commercial	3,763.7	4,889.0	4,172.1	(14.7)	10.9	3,763.7	4,172.1	10.9
Convenience	51.5	54.5	63.6	16.6	23.6	51.5	63.6	23.6
Operating profit								
Retail	211.9	116.7	227.9	95.3	7.5	211.9	227.9	7.5
Commercial	(43.2)	127.8	160.3	25.4	(471.4)	(43.2)	160.3	-471.4
Convenience	9.2	(7.0)	18.9	(369.4)	106.1	9.2	18.9	106.1

Source: Company, MIDFR

FORWARD BAND

BEst PE Ratio



BEst P/Bk Ratio



Source: Bloomberg, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	26,674.0	36,748.9	40,518.0	45,200.2	49,745.8
EBITDA	751.2	1,148.9	1,201.4	1,314.6	1,529.0
D&A	412.2	438.5	416.2	430.0	442.8
EBIT	740.8	1,135.0	1,189.5	1,300.6	1,515.7
Net interest	1.5	11.2	11.0	11.0	12.0
Tax	-209.5	-347.2	-333.1	-364.2	-424.4
Core PATAMI	531.2	787.8	850.4	931.4	1,087.3

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	4,017.5	4,115.3	4,400.0	4,570.0	4,727.3
Intangible assets	0.8	0.5	0.6	0.6	0.7
Non-current assets	**4,040.7**	**4,200.9**	**4,495.5**	**4,701.0**	**4,891.8**
Cash	1,911.0	2,889.2	2,903.3	2,967.5	2,983.1
Trade debtors	3,490.2	4,027.9	3,330.2	3,838.9	4,361.3
Current assets	5,560.1	7,056.6	6,283.3	6,805.5	7,344.4
Trade creditors	3,645.0	5,016.7	5,443.2	5,781.1	5,968.0
Short-term debt	24.3	49.4	50.0	55.0	60.0
Current liabilities	**3,759.2**	**5,205.8**	**5,400.0**	**5,500.0**	**5,500**
Long-term debt	92.2	134.9	172.9	263.9	354.9
Non-current liabilities	**226.2**	**264.3**	**-233.4**	**-272.4**	**-311.4**
Share capital	993.5	993.5	993.5	993.5	993.5
Retained earnings	4,588.6	4,749.3	4,998.5	4,999.5	5,000.5
Equity	**5,615.5**	**5,787.4**	**5,275.6**	**5,567.1**	**5,870.2**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	740.8	1,135.0	1,189.5	1,300.6	1,515.7
Depreciation & amortisation	412.2	438.5	416.2	430.0	442.8
Changes in working capital	-771.7	812.7	-493.1	611.3	622.0
Operating cash flow	**197.1**	**1,994.9**	**1,681.9**	**1,659.5**	**1,818.5**
Capital expenditure	-374.3	-464.9	500.0	500.0	500.0
Investing cash flow	**-297.0**	**-320.793**	**-325.0**	**-325.0**	**-325.0**
Dividends paid	-606.0	-615.9	-750.9	-834.3	-947.4
Financing cash flow	**-682.8**	**-696.0**	**-880.9**	**-964.3**	**-987.4**
Net cash flow	**-782.7**	**978.0**	**739.0**	**844.8**	**798.8**
Beginning cash flow	**2,671.0**	**2,851.0**	**1,882.6**	**2,621.6**	**3,466.4**
Ending cash flow	**2.851.0**	**1,882.6**	**2,621.6**	**3,466.4**	**4,265.2**

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	2.8%	3.1%	3.0%	2.9%	3.1%
PBT margin	2.8%	3.1%	2.9%	2.9%	3.0%
Core PAT margin	2.0%	2.1%	2.1%	2.1%	2.2%

Source: Bloomberg, 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