Petronas Gas Berhad

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

***Maintain* BUY**

Utilities Supporting 1QFY23 Earnings

***Unchanged* Target Price: RM18.43**

KEY INVESTMENT HIGHLIGHTS

- **Revenue up 15%yoy due to higher product prices**
- **Earnings +3%yoy contributed by Utilities, came in within yearly earnings**
- **New tariffs RM1.05/GJ for regulated transportation pipes**
- **RGTSU and RGTP tariffs at RM3.46/GJ and RM3.17/GJ respectively**
- **Maintain BUY with an unchanged TP: RM18.43**

Maintain BUY, TP: RM18.43. Petronas Gas Berhad (PGB)'s 1QFY23 earnings result fell within our yearly earnings estimates. As such, we are maintaining our BUY call on PGB with the unchanged target price of RM18.43. We are sanguine on the group's prospects, with caution on the possibility of higher prices in the near-term due to the anticipation of a global economic slowdown and financial collapse, which would impact PGB's FY23 results. Nevertheless, we expect that its long-term contracts would sustain the group, despite lower RP2 tariffs and higher post-pandemic operating costs.

Revenue up +15%yoy. PGB's 1QFY23 added +14.9%yoy, +2.6%qoq to RM1.7b. Higher revenue was due to its Utilities segment, in line with higher product prices. This was partially offset by higher internal gas and fuel gas consumption, and maintenance expenses.

Earnings up +3%yoy. PGB's 1QFY23 net earnings added +3.2%yoy, +2.8%qoq to RM424.2m due to lower tax expenses and higher share of profit from joint ventures.

100% reliability on plants and pipes. Gas Processing and Utilities plants achieved 100% reliability, while the pipelines for Gas Transportation reached close to 100% utilisation. Meanwhile, the group's LNG regasification terminals in Sg Udang (RGTSU) and Pengerang (RGTP) sustained close to 100% performance.

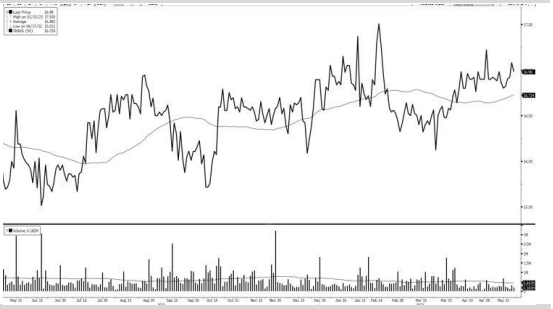
Regulated transportation tariff RM1.06/GJ. The Energy Commission (EC) has approved a regulated transportation tariff of RM1.061/GJ. The EC also introduced a separate tariff for high-pressure gas delivery called compression tariff, of RM0.553/GJ for PGU pipeline network, which is applicable for Regulatory Period 2 (RP2).

Tariff of RM3.46/GJ for RGTSU, RM3.17/GJ for RGTP. The EC has approved regulated tariff of RM3.455/GJ and RM3.165/GJ for RGTSU and RGTP respectively, which are applicable for RP2.

Utilities championed with +164%yoy growth in earnings. Higher product prices for steam and industrial gasses had contributed to the higher earnings - in line with the increase in fuel gas price, based on the Malaysia Reference Price (MRP). The group's improved margins for Utilities was due to the favourable impact of improved terms in contract renewals and a more balanced cost pass-through.

RETURN STATISTICS	
Price @ 22nd May 2023 (RM)	16.98
Expected share price return (%)	+8.5
Expected dividend yield (%)	+6.2
Expected total return (%)	**+14.7**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.3	1.5
3 months	3.0	4.3
12 months	1.1	10.3

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	6,058	6,196	6,315
Operating Profit	2,607	2,747	4,407
Profit Before Tax	2,560	2,687	4,331
Core PATAMI	2,042	2,136	3,223
Core EPS	103.2	107.9	162.9
DPS	113.5	124.1	195.4
Dividend Yield	6.2%	6.7%	10.6%

KEY STATISTICS	
FBM KLCI	1,419.0
Issue shares (m)	1,978.7
Estimated free float (%)	15.0
Market Capitalisation (RM'm)	33,598.9
52-wk price range	RM15.9–RM17.7
3-mth average daily volume (m)	0.4
3-mth average daily value (RM'm)	7.4
Top Shareholders (%)	
Petroliam Nasional Bhd	51.00
Employees Provident Fund	14.26
Kumpulan Wang Persaraan Diperbadan	10.04

MIDF Research
research@midf.com.my

Investment in growth projects. PGB is continuously investing in growth projects to enhance revenue and expand its asset base. For CY23, we are expecting PGB to complete its TCOT Off-Gas Rerouting project, and increase their capacity for its Lateral Gas Pipeline to Pulau Indah and Banting. Additionally, PGB is expanding its LNG storage in Pengerang, exploring power generation opportunities, integrating its Utilities operations and invest in carbon capture and storage (CCS) value chain. We opine that this would ensure a continuously sustained operations for PGB, particularly in the current volatile oil and gas market.

Challenges in high price and volatile forex. We remain positive for PGB's prospects, considering its resiliency amid a volatile oil and gas market, and robust operations over the years. However, risks remain, which includes: (i) continuously high fuel gas price, (ii) continued forex volatility, (iii) lower RP2 tariffs, and (iv) higher cost environment post-pandemic.

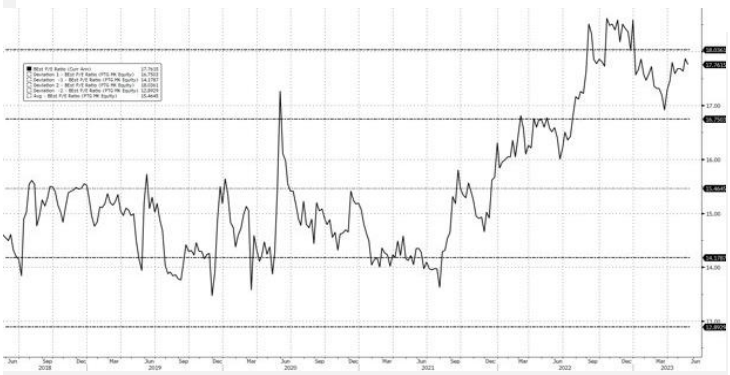
No changes to estimates. We make no changes to our earnings estimates as we believe the group is following the trend of our projection. We maintain our target price at RM18.43; which pegged a PER of 18x to EPS23 of 103.2sen. The PER is based on the midstream gas industry's 5-year average.

Table 1: Petronas Gas's quarterly earnings review

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly results					Cumulative results		
	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)	3MFY22	3MFY23	YoY (%)
Revenue	1,457.9	1,632.9	1,674.9	2.6	14.9	1,457.9	1,674.9	14.9
Operating Profit	599.5	556.3	555.4	(0.2)	(7.4)	599.5	555.4	(7.4)
Profit Before Tax	588.3	527.5	556.9	5.6	(5.3)	588.3	556.9	(5.3)
Tax expense	(150.7)	(65.4)	(108.6)	66.2	(27.9)	(150.7)	(108.6)	(27.9)
Profit After Tax	437.6	462.1	448.3	(3.0)	2.4	437.6	448.3	2.4
PATAMI	411.0	412.5	424.2	2.8	3.2	411.0	424.2	3.2
Basic EPS (sen)	20.75	20.85	21.44	2.8	3.3	20.75	21.44	3.3
DPS (sen)	16.00	22.00	82.00	272.7	412.5	16.00	82.00	412.5
				+/(-) ppts				*+/(-) ppts*
Operating Profit margin (%)	41.1	34.1	33.2	(0.9)	(8.0)	41.1	33.2	(8.0)
PBT margin (%)	40.4	32.3	33.3	0.9	(7.1)	40.4	33.3	(7.1)
PATAMI margin (%)	28.2	25.3	25.3	0.1	(2.9)	28.2	25.3	(2.9)
Tax rate (%)	25.6	12.4	19.5	7.1	(6.1)	25.6	19.5	(6.1)
Segmental:								
Revenue								
- Gas Processing	433.6	438.2	443.9	1.3	2.4	438.2	443.9	1.3
- Gas Transportation	288.4	295.6	288.4	(2.4)	(0.0)	295.6	288.4	(2.4)
- Utilities	392.1	541.8	608.4	12.3	55.2	541.8	608.4	12.3
- Regasification	343.8	357.3	334.3	(6.4)	(2.8)	357.3	334.3	(6.4)
Operating Profit								
- Gas Processing	232.4	197.2	207.6	5.3	(10.7)	197.2	207.6	5.3
- Gas Transportation	183.2	31.1	123.0	295.9	(32.8)	31.1	123.0	295.9
- Utilities	21.6	33.6	57.0	69.5	164.0	33.6	57.0	69.5
- Regasification	175.0	206.5	160.0	(22.5)	(8.6)	206.5	160.0	(22.5)

Source: Company, MIDFR

FORWARD BAND

BEst PE Ratio	BEst P/Bk Ratio
	

Source: Bloomberg, MIDFR

TABLE 2: Petronas Gas' Segment Updates as of 1QFY23

Segment	Operational Excellence	Segment Updates
Gas Processing	• 100% OEE (stable for C1 Salesgas and C2 Ethane) • 100% Reliability • Performance incentives at RM39m	• Terengganu Crude Oil Terminal (TCOT) Off-Gas Rerouting Project progressing slightly behind schedule • Third Term GPA negotiations with PETRONAS

Gas Transportation	• 100% Reliability
	• 2,231 mmscfd average salesgas delivered
	• New RP2 tariffs effective 1 Jan 2023
	  ○ PGU at RM1.061/GJ
	  ○ PGU II Sector 3 at RM1.614/GJ
		• 42km pipeline extension to Pulau Indah, Selangor progressing within schedule (target gas-in by June 2023)
		• New gas compressor station in Kluang Johor progressing slightly behind schedule
		• 10km pipeline extension to Banting, Selangor progressing within schedule (target gas-in by August 2023)

Utilities	• 100% Product Delivery Reliability for Electricity and Steam • Lower electricity and steam volumes due to lower offtake from customers	• All electricity and utilities contracts renewed • Engaging with government to ensure Imbalance Cost Pass Through (ICPT) surcharge is extended beyond June 2023

Regasification	• 100% OEE at sustained at regasification plants in Sungai Udang (RGTSU) and Pengerang (RGTP)
	• 15 Cargoes received in 1QFY23 (3 at RGTSU, 12 at RGTP)
	• New RP2 tariffs effective 1 Jan 2023
	  ○ RGTSU at RM3.455/GJ
	  ○ RGTP at RM3.165/GJ
		• Regasification Terminal Remote Operation Centre in Segamat to enhance safety, flexibility and agility in monitoring plant conditions
		• LNG storage expansion at Pengerang (Target final investment decision by 2HCY23)

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	5,648.6	6,160.2	6,508.4	6,196.0	6,315.2
EBITDA	2,659.5	2,320.1	2,607.0	2,747.1	4,407.4
D&A	983.0	1,035.5	1,050.0	1,060.0	1,047.2
EBIT	2,641.7	2,269.4	2,559.9	2,686.9	4,330.7
Net interest	122.5	112.5	-95.0	-100.0	-99.0
Tax	-530.3	-510.9	-580.9	-613.5	-1,009.3
Core PATAMI	1,988.9	1,645.9	2,041.8	2,135.9	3,222.5

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	13,272.4	13,408.4	14,888.4	16,368.4	17,848.4
Intangible assets	151.8	175.4	146.0	148.4	150.3
Non-current assets	**14,468.1**	**14,608.7**	**15,034.4**	**16,516.8**	**17,998.7**
Cash	3,782.5	4,026.2	4,404.6	4,723.0	4,908.2
Trade debtors	899.6	990.0	926.9	972.1	980.0
Current assets	**4,718.0**	**5,079.7**	**5,430.0**	**5,781.1**	**5,942.1**
Trade creditors	1,069.0	1,203.6	861.6	903.4	959.9
Short-term debt	168.2	172.9	132.1	136.5	143.6
Current liabilities	**1,295.7**	**1,376.5**	**993.6**	**1,040.0**	**1,103.5**
Long-term debt	3,278.9	3,662.8	3,346.7	3,407.9	3,437.1
Non-current liabilities	**4,550.9**	**4,902.1**	**4,554.1**	**4,615.4**	**4,644.6**
Share capital	3,165.2	3,165.2	3,165.2	3,165.2	3,165.2
Retained earnings	9,933.4	9,982.9	9,770.4	9,840.5	9,846.1
Equity	**13.339.5**	**13,409.8**	**13,232.3**	**13,310.6**	**13,304.3**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT					
Depreciation & amortisation	983.0	1,035.5	1,050.0	1,060.0	1,047.2
Changes in working capital	-27.0	80.1	67.8	73.1	90.2
Operating cash flow	**3,220.1**	**2,926.3**	**3,206.6**	**3,252.2**	**3,242.4**
Capital expenditure	-1,031.7	-1,169.2	-1,170.4	-1,057.7	-1,081.3
Investing cash flow	**-913.7**	**-1,050.6**	**-1,115.8**	**-985.9**	**-1,009.1**
Dividends paid	-1,523.6	-1,622.6	-1,642.3	-1,698.4	-1,753.9
Financing cash flow	**-1,662.9**	**-1,631.9**	**-1,712.5**	**-1,947.9**	**-2,048.1**
Net cash flow	**643.6**	**243.8**	**378.3**	**318.4**	**185.2**
Beginning cash flow	**3,138.9**	**3,782.5**	**4,026.2**	**4,404.6**	**4,723.0**
Ending cash flow	**3,782.5**	**4,026.2**	**4,404.6**	**4,723.0**	**4,908.2**

Profitability Margins	2021A	2022A	2023E	2024F	2025F
Gross profit margin	1.0%	9.1%	-1.7%	2.3%	1.9%
EBITDA margin	-0.4%	-12.8%	12.4%	5.4%	60.4%
PBT margin	1.2%	-14.1%	12.8%	5.0%	61.2%
Core PAT margin	-1.0%	-17.2%	24.1%	4.6%	50.9%

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