

28 February 2018 | Briefing Note

## Petronas Dagangan Berhad

*Hats Off to Management*

**Maintain BUY**

**Unchanged Target Price (TP): RM28.00**

### INVESTMENT HIGHLIGHTS

- **Petronas Dagangan Bhd's (PetDag) FY17 normalised earnings exceeded RM1b mark**
- **Special dividend of 22sen and fourth interim dividend of 27sen announced**
- **Total dividend 97sen representing payout ratio of 89%**
- **Aggressive marketing and promotional strategies to arrest decline in sales volume**
- **Large headway made in Jet A1 segment**
- **Maintain BUY with an unchanged TP of RM28.00 per share**

**Earnings outpaced expectations.** To recap, PetDag's 4QFY17 earnings grew by approximately +7.4%yoy to RM278.6m. The commendable earnings were supported by strong revenue growth of +16.4%yoy. Cumulative FY17 normalised earnings (excluding gains on disposal) expanded by approximately +15%yoy to RM1.09b, exceeding our expectations by a variance of more than >10%.

**Dividends.** As anticipated from the gains on disposal of the Philippines units, PetDag has proposed a special dividend of 22sen per share coupled with a fourth interim dividend of 27sen per share. The total cumulative dividend announced for FY17 is 97sen per share, representing a payout ratio of 89%.

**Overall sales volume.** Overall sales volume for FY17 declined by -1.3%yoy to 14,916.5m liters. The lower sales volumes were across mogas, diesel, fuel oil and LPG.

**Retail segment.** Segment revenue increased by +18%yoy to RM12,728.1m despite volume declining by -6% to 6,236.5m liters. The decline in volume is a result of market de-growth and station closures for enhancement works.

**Commercial segment.** The commercial segment staged a revenue growth of +34%yoy to RM12,180.2m supported by a +2% growth in sales volume to 7,122.1m liters. The growth was largely attributable to large headway made in the Jet A1 segment where new customers such as Biman Bangladesh and Himalaya Airlines were secured. Major customers such as Air Asia had also increased its demand with increased flight frequencies.

### RETURN STATS

Price (27 February 2018)	RM25.80
Target Price	RM28.00
Expected Share Price Return	+8.5%
Expected Dividend Yield	+3.1%
<b>Expected Total Return</b>	<b>+11.6%</b>

### STOCK INFO

KLCI	1,871.46
Bursa / Bloomberg	5681 / PETD MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	993.5
Market cap. (RM'm)	25,631.8
Price over NA	5.1x
52-wk price Range	RM21.26 – RM25.80
Beta (against KLCI)	0.45
3-mth Avg Daily Vol	0.30m
3-mth Avg Daily Value	RM26.8m
Major Shareholders (%)	
Petroleum Nasional Berhad	69.86
Permodalan Nasional Bhd and its associated funds	9.51
Employees Provident Fund	3.84

**LPG and Lubricants segment.** Revenue for the LPG segment grew by +7%yoy to RM1,264.6m supported by sales volume increase of +3% to 1,499.2m liters. This is a direct result of new sales incentive programmes. PetDag's lubricant segment has also staged a commendable rebound with revenue increasing by +4% to RM545.4m with sales volume increasing by +1% to 58.7m liters. The increase in lubricant sales volume is attributable to its strong OEM supply market.

**Hats off to management.** FY17 performed above our expectations particularly due to aggressive strategies put in place by the management. For FY17, we understand that the strategies employed were targeted with three main objectives which are: (i) to increase throughput and sales volume for each station; (ii) to reimage the brand name in preparation for an eventual de-regularisation of the industry and; (iii) to enhance customer experience with the brand and the stations. We opine that all these strategies worked as the decline in sales volume were largely arrested. The sales volume movements across the year were as follow: (i) 1QFY17 declined by -4%yoy; (ii) 2QFY17 declined by -5%yoy; (iii) 3QFY17 increased by +3%yoy and; (iv) 4QFY17 increased by +1%.

**Moving forward,** the strategies deployed will still be in line with the above stated objectives. In addition, there will be more aggressive reimagining and refurbishments of stations. The target is to reimage approximately 50 stations in FY18 where the shutdown of each station will take approximately one month compared with three months previously. In accordance with that, we will be expecting capex to increase year-over-year and potential downward pressure in sales volume.

**Impact on earnings.** Taking into consideration the strategic initiatives employed and also heavy reimagining exercise this year, we are maintaining our earnings forecasts at this juncture.

**Maintain BUY.** We are maintaining our **Buy** recommendation on PetDag with an unchanged TP of **RM28.00** per share. Our valuation is premised on PER18 of 28x pegged to EPS18 of 100.1sen. The target PER is based on PetDag's average four-quarter rolling PER over the past five years.



## INVESTMENT STATISTICS

Income statement	2015	2016	2017	2018F	2019F
Revenue	25,171.2	21,786.4	26,737.9	25,006.1	25,806.7
Operating profit	1,094.3	1,214.4	1,440.1	1,338.2	1,544.9
Pretax Income	1,084.6	1,212.3	1,437.9	1,339.3	1,544.9
Tax	(290.0)	297.3	(349.9)	(334.8)	(370.8)
<b>Reported PATANCI</b>	<b>819.2</b>	<b>944.6</b>	<b>1,539.5</b>	<b>994.4</b>	<b>1,150.6</b>
<b>Normalised PATANCI</b>	<b>819.2</b>	<b>944.6</b>	<b>1,089.0</b>	<b>994.4</b>	<b>1,150.6</b>
Normalised EPS (sen)	79.5	95.1	96.1	100.1	115.7
PER (x)	32.3	27.0	26.7	25.7	22.2
Dividend (sen)	60.0	70.0	97.0	80.0	85.0
Dividend yield (%)	2.3	2.7	3.8	3.1	3.3

Source: MIDFR, Company

## DAILY PRICE CHART



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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 <i>rise</i> 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 <i>fall</i> 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.