

29 November 2018 | Briefing Note

## Petronas Dagangan Berhad

*Softer sales volume growth expected in FY19*

**Downgrade to NEUTRAL**

*(previously BUY)*

**Revised Target Price (TP): RM27.53**

*(previously RM30.08)*

### INVESTMENT HIGHLIGHTS

- **Petronas Dagangan Bhd's (PetDag) 3QFY18 earnings declined by -19.0%yoy to RM270.3m**
- **ASP increased by +2.0%qoq while sales volume declined marginally by -3.0%qoq**
- **Higher diesel volume recorded for retail segment**
- **Downgrade to NEUTRAL with a revised TP of RM27.53 per share**

**Earnings cushioned by higher ASP.** To recap, Petronas Dagangan's 3QFY18 reported earnings declined by -19.0%yoy to RM270.3m. The decline is mainly attributable to higher opex with regards to its advertising and promotion campaigns. On a quarterly sequential basis, revenue is supported by higher average selling price of +2.0% offset by lower sales volume of -3.0%. 9MFY18 earnings accounted for 80.7% and 77.0% of our and consensus full year FY18 earnings estimates respectively.

**Retail segment.** Segment revenue grew by +8.6%yoy premised on higher volume (+2.0%yoy and +3.0%qoq) from Mogas and Diesel following stable prices and shifting of diesel customers from commercial to retail. However, earnings declined by -11.1%yoy due to higher spending on advertising and promotion.

**Commercial segment.** Similarly, commercial segment revenue grew by +19.5%yoy mainly attributable to increase in average selling price by +31.0%yoy despite a marginal -8.0% decline in volume due to lower demand for Jet A1.


**LPG segment.** As for the LPG segment, it recorded a marginal increase of +3.0%yoy for revenue attributable to higher demand of +3.0%yoy from household. However, lower volume was recorded year-over-year by -2.0% due to lower upliftment of butane gas.

**Lubricant segment.** Segment revenue increased by +14.0%yoy due to increase in volume by +4.0%yoy. The increase in volume is due to higher upliftment from OEM.

RETURN STATS	
Price (28 November 2018)	RM26.46
Target Price	RM27.53
Expected Share Price Return	+4.0%
Expected Dividend Yield	+2.9%
<b>Expected Total Return</b>	<b>+6.9%</b>

STOCK INFO	
KLCI	1,686.55
Bursa / Bloomberg	5681 / PETDAG MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	993.454
Market cap. (RM'm)	26,286.79
Price over NA	4.37x
52-wk price Range	RM23.0 – RM28.30
Beta (against KLCI)	0.74
3-mth Avg Daily Vol	0.68m
3-mth Avg Daily Value	RM18.2m
Major Shareholders (%)	
Petroleum Nasional Berhad	69.86
PNB and its associated funds	9.61
Employees Provident Fund	5.80

**Impact on earnings.** We are making no changes to our FY18F earnings estimate as we expect PetDag to meet our earnings projection for the year. However, we are lowering our FY19F earnings estimate to RM1,053m from RM1,150.6m previously.

**Downgrade to NEUTRAL.** In line with our FY19F earnings revision, we are revising our recommendation on PetDag to **NEUTRAL** (from Buy previously) with a revised TP of **RM27.53** (from RM30.08 previously). Our valuation is premised on forward PER19 of 26x pegged to EPS19 of 105.9sen. The target PER is based on PetDag's five-year rolling average PER. Our revised recommendation is in view of expected lower volume for retail segment once the targeted subsidy initiative is online as well as; the re-floating of RON95 petrol price is implemented by the government tentatively in 2QFY19. Additionally, as PetDag is currently in the midst of conducting aggressive refurbishment on some of its stations, we opine that it will lead to lower sales volume. Furthermore, we are also wary on the declining trend of Jet A1 fuel due to the aircraft optimization initiatives taken by airlines which we opine could further exacerbate the impact on earnings. 

## INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue	25,171.2	21,786.4	26,737.9	25,006.1	25,672.2
Operating profit	1,094.3	1,214.4	1,440.1	1,338.2	1,413.4
Pretax Income	1,084.6	1,212.3	1,437.9	1,339.3	1,413.4
Tax	(290.0)	297.3	(349.9)	(334.8)	(339.2)
<b>Reported PATANCI</b>	<b>819.2</b>	<b>944.6</b>	<b>1,539.5</b>	<b>994.4</b>	<b>1,052.7</b>
<b>Normalised PATANCI</b>	<b>819.2</b>	<b>944.6</b>	<b>1,089.0</b>	<b>994.4</b>	<b>1,052.7</b>
Normalised EPS (sen)	79.5	95.1	96.1	100.1	105.9
PER (x)	33.8	28.3	28.0	26.9	24.8
Dividend (sen)	60.0	70.0	97.0	80.0	77.8
Dividend yield (%)	2.3	2.7	3.7	3.0	2.9

Source: MIDFR

## 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.