

18 May 2018 | 1QFY18 Results Review

Petronas Gas Berhad

Earnings buoyed by strong asset reliability

Maintain BUY

Unchanged Target Price (TP): RM20.00

INVESTMENT HIGHLIGHTS

- **Petronas Gas Bhd (PetGas) 1QFY18 earnings grew by +4.3%yoy to RM483.2m**
- **Earnings supported by strong revenue growth of +15.5%**
- **All business segments recorded sales growth**
- **Regasification revenue and earnings boost from Pengerang Regasification**
- **Maintain BUY with unchanged TP of RM20.00 per share**

Strong asset reliability at 99%. PetGas' 1QFY18 earnings grew by +4.3%yoy to RM483.2m premised on stable revenue growth of +15.8%yoy to RM1.35b (another record high). The record sale was largely attributable to strong growth from the Pengerang Regasification facility which began operations mid-4QFY17. In addition, high asset reliability above 99% coupled with higher selling prices and higher performance based income supported revenue and earnings growth. 3MFY18 earnings accounted for 25.8% and 25.6% of our and consensus full year FY18 earnings estimates respectively.

Sustained sales growth. The sustained sales growth is largely attributable to: (i) excellent plant and operational performance and reliability (100% uptime for Gas Processing segment, 100% uptime for Gas Transportation segment and 100% uptime for Regasification segment); (ii) contribution of Performance Based Scheme from Gas Processing segment and; (iii) favourable selling prices for Gas Utility segment.

Gas processing. Although segment revenue grew sustained at RM393.8m (+1.0%yoy), segment profit declined by -8.7%yoy due to higher depreciation expenses from statutory turnaround activities and higher overheads. Nonetheless, the company's gas processing plants achieved 100% asset reliability for the quarter. Profit margin expanded by +3ppts on a quarterly sequential basis.

Gas transportation. Both segment revenue and profit expanded by +3.1%yoy and +2.7%yoy respectively as gas transmission reliability was at near 100%. Segment profit margin remains stable at 77.9%.

Utilities. Segment revenue staged an increase of +11.0%yoy to RM323.7m and segment profit increased by +5.5%yoy as favourable selling prices and higher demand for electricity and steam was negated by higher cost of sales.

RETURN STATS


Price (17 May 2018)	RM17.84
Target Price	RM20.00
Expected Share Price Return	+12.1%
Expected Dividend Yield	+3.8%
Expected Total Return	+15.9%

STOCK INFO

KLCI	1,854.44
Bursa / Bloomberg	6033 / PETGAS MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	1,978.7
Market cap. (RM'm)	35,300.6
Price over NA	4.1x
52-wk price Range	RM15.71 – RM19.08
Beta (against KLCI)	0.90
3-mth Avg Daily Vol	0.6m
3-mth Avg Daily Value	RM10.9m
Major Shareholders (%)	
Petroleum Nasional Berhad	60.66
Employees Provident Fund	9.55
PNB and its associated funds	7.87

Regasification. Both segment revenue and profit were boosted by the operational commencement of the Pengerang Regasification facility. Revenue and profit increased by +82.4%yoy and +124.2%yoy respectively. Plant reliability in Sungai Udang and Pengerang was close to 100%.

Impact on earnings. No changes to earnings forecasts.

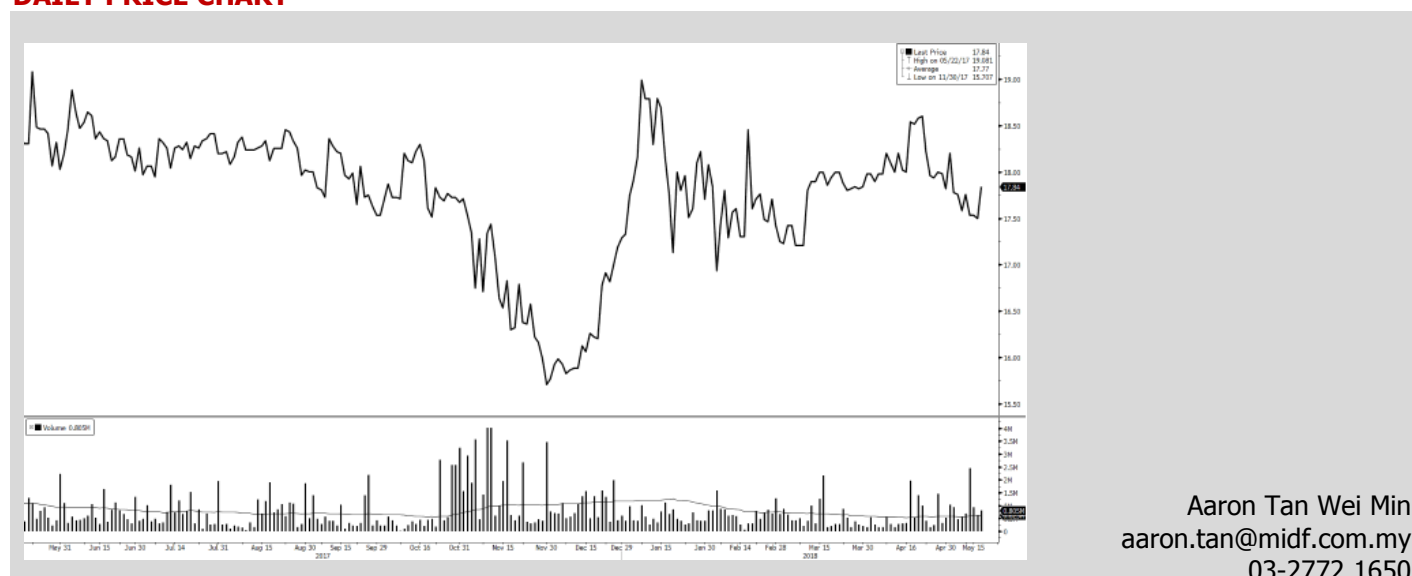
Maintain BUY. We are maintaining our **BUY** recommendation on PetGas with an unchanged TP of **RM20.00** as we are of the opinion that the company will continue to perform premised on: (i) strong and diversified income stream; (ii) expected strong national GDP 5.5% for FY18 and; (iii) strong potential capital upside. Our valuation is premised on forward PER18 of 21.2x pegged to EPS18 of 94.4sen. The target PER is based on PetGas' rolling four-quarter average PER over six years. 

INVESTMENT STATISTICS

FYE 31 Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	4,456.0	4,561.3	4,809.6	5,103.8	5,290.0
EBIT (RM'm)	2,017.0	2,137.1	2,278.4	2,267.6	2,308.8
Pretax Profit (RM'm)	2,002.1	2,106.7	2,252.7	2,283.1	2,325.4
Net Profit (RM'm)	1,987.5	1,739.1	1,792.7	1,868.2	1,907.5
EPS (sen)	100.4	87.9	90.6	94.4	96.4
EPS growth (%)	7.7	-12.5	3.1	4.2	2.1
PER(x)	17.7	20.3	19.6	18.9	18.5
Net Dividend (sen)	60	62	65	66	67
Net Dividend Yield (%)	2.7	3.5	3.7	3.7	3.8

Source: MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

1QFY18 RESULTS SUMMARY

FYE Dec	Quarterly Results				
	1Q17	4Q17	1Q18	QoQ (%)	YoY (%)
Revenue	1169.1	1303.8	1350.8	3.6	15.5
COGS	-618.0	-745.3	-709.4	-4.8	14.8
Gross Profit	551.1	558.4	641.3	14.9	16.4
Admin Expenses	-22.5	-18.1	-24.3	33.9	7.8
Other Expenses	-0.6	-2.6	-3.7	43.7	483.7
Other Income	44.9	72.1	45.6	-36.7	1.6
Operating Profit	572.9	609.8	659.0	8.1	15.0
Financing Costs	-26.3	-36.4	-39.0	7.3	48.3
JCE	30.5	32.4	17.0	-47.5	-44.2
PBT	577.0	605.9	637.0	5.1	10.4
Tax	-113.9	-95.5	-131.6	37.9	15.6
MI	-0.1	23.7	22.1	-6.8	nm
PAT	463.2	486.7	483.2	-0.7	4.3
Segmental:					
Revenue					
- Gas Processing	389.7	391.8	393.8	0.5	1.0
- Gas Transportation	323.7	329.9	333.7	1.2	3.1
- Utilities	291.5	304.9	323.7	6.1	11.0
- Regasification	164.3	277.1	299.6	8.1	82.4
Total	1169.1	1303.8	1350.8	3.6	15.5
Segmental:					
Gross Profit					
- Gas Processing	176.7	149.6	161.3	7.8	-8.7
- Gas Transportation	253.3	219.8	260.0	18.3	2.7
- Utilities	43.5	35.7	45.9	28.7	5.5
- Regasification	77.6	153.3	174.1	13.6	124.2
Expense/Income	-26.3	-175.9	17.6	-110.0	-167.1
PBT	577.0	605.9	637.0	5.1	10.4

Source: 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 <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.