

16 August 2018 | 2QFY18 Results Review

Petronas Gas Berhad

Sustained asset reliability at 99%

Maintain BUY

Revised Target Price (TP): RM20.44
(previously RM20.00)

INVESTMENT HIGHLIGHTS

- **Petronas Gas Bhd (PetGas) 2QFY18 earnings grew by +19.7%yoy to RM509.3m**
- **Earnings supported by strong revenue growth of +15.7%**
- **All business segments recorded sales growth**
- **Regasification revenue and earnings boost from Pengerang Regasification**
- **Second interim dividend of 16sen declared**
- **Maintain BUY with unchanged TP of RM20.00 per share**

Strong asset reliability at 99%. PetGas' 2QFY18 earnings grew by +19.7%yoy to RM509.3m premised on stable revenue growth of +15.7%yoy to RM1.36b (another record high). The record sale was largely attributable to increased contribution from the completion of tower two in its 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. 6MFY18 earnings accounted for 53.1% and 52.8% 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. Segment revenue grew marginally at RM395.2m (+2.0%yoy), whilst profit rose by +6.2%yoy attributable to higher PBS income and lower OPEX. Additionally, the company's gas processing plants achieved 100% asset reliability for the quarter. Profit margin expanded by +2.4ppts on a quarterly sequential basis.

Gas transportation. Both segment revenue and profit expanded by +5.1%yoy and +6.3%yoy respectively as gas transmission reliability was at near 100%. Segment profit margin remains stable at 77.2%.


Utilities. Segment revenue staged an increase of +5.0%yoy to RM308.3m however; segment profit declined by -5.3%yoy due to higher cost of sales and higher depreciation following the completion of several projects.

RETURN STATS	
Price (15 August 2018)	RM18.66
Target Price	RM20.44
Expected Share Price Return	+9.5%
Expected Dividend Yield	+3.5%
Expected Total Return	+13.0%

STOCK INFO	
KLCI	1,785.94
Bursa / Bloomberg	6033 / PETGAS MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	1,978.7
Market cap. (RM'm)	36,293.14
Price over NA	2.88x
52-wk price Range	RM15.8 – RM19.50
Beta (against KLCI)	0.88
3-mth Avg Daily Vol	0.89m
3-mth Avg Daily Value	RM16.1m
Major Shareholders (%)	
Petroleum Nasional Berhad	60.66
Employees Provident Fund	9.61
PNB and its associated funds	7.87

Regasification. Both segment revenue and profit were boosted by the completion of second tank in its Pengerang Regasification facility terminal on 9 April 2018. Revenue and profit increased by +88.1%yoy and +141.1%yoy respectively. Plant reliability in Sungai Udang and Pengerang was close to 100%.

Impact on earnings. No changes to earnings forecasts. Key downside risk to our earnings forecasts is the potential downward revision of its tariff which will significantly impact earnings. That said, our status quo is premised on the fact that we opine that the tariff will not be drastically altered. Instead, it will be reduced in a gradual manner over time.

Maintain BUY. We are maintaining our **BUY** recommendation on PetGas with a revised TP of **RM20.44** 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 PER19 of 21.2x pegged to EPS19 of 96.4sen. 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	3.5	3.6

Source: MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

2QFY18 RESULTS SUMMARY

FYE Dec	Quarterly Results			Cumulative			Comments
	2Q18	QoQ (%)	YoY (%)	6M17	6M18	YoY (%)	
Revenue	1,358.3	0.6	15.7	2,343	2,709	15.6	Higher contribution from RGPT and other business segments
COGS	(704.1)	-0.7	8.9	(1,264)	(1,414)	11.8	
Gross Profit	654.2	2.0	24.1	1,078	1,295	20.1	
Admin Expenses	(20.9)	-14.2	-8.0	(45)	(45)	-0.1	
Other Expenses	(8.0)	116.6	342.5	(2)	(2)	-35.2	
Other Income	32.8	-28.0	-41.1	101	68	-32.1	
Operating Profit	658.2	-0.1	17.9	1,131	1,317	16.4	
Financing Costs	(41.9)	7.3	61.8	(52)	(81)	54.9	
JCE	16.5	-2.8	265.3	35	34	-4.1	
PBT	632.8	-0.7	17.8	1,114	1,270	14.0	
Tax	(95.8)	-27.3	-13.9	(225)	(227)	1.0	
MI	27.8	25.4	4486.8	1	50	9293.2	
PAT	509.3	5.4	19.7	889	993	11.7	
Segmental:							
<i>Revenue</i>							
- Gas Processing	395.2	0.4	2.0	777.2	789.0	1.5	
- Gas Transportation	344.2	3.1	5.1	651.1	677.9	4.1	
- Utilities	308.3	-4.8	5.0	584.9	631.9	8.0	
- Regasification	310.6	3.7	88.1	329.4	610.2	85.2	Higher contribution from completion of second tank in RGPT
Total	1,358.3	0.6	15.8	2,342.7	2,709.0	15.6	
Segmental:							
<i>Gross Profit</i>							
- Gas Processing	171.2	6.1	6.2	337.8	332.5	-1.6	
- Gas Transportation	265.6	2.1	6.3	503.2	525.6	4.5	
- Utilities	40.4	-11.9	-5.3	86.2	86.3	0.1	
- Regasification	177.0	1.7	141.1	151.0	351.0	132.4	
Expense/Income	(43.3)	-345.5	-169.6	35.9	(25.7)	-171.5	
PBT	632.8	-0.7	17.8	1,114.2	1,269.8	14.0	

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.