

03 December 2018 | 3QFY18 Results Review

Petronas Gas Berhad

Another record high revenue of RM1.4b

Maintain BUY

Unchanged Target Price (TP): RM20.44

INVESTMENT HIGHLIGHTS

- **Petronas Gas Bhd (PetGas) 3QFY18 earnings grew by +19.7%yoy to RM499.8m**
- **Earnings supported by strong revenue growth of +20.5%yoy**
- **All business segments recorded sales growth**
- **Regasification revenue and earnings boost from Pengerang Regasification**
- **Third interim dividend of 18sen declared**
- **Maintain BUY with an unchanged TP of RM20.44 per share**

Strong asset reliability at 99%. PetGas' 3QFY18 earnings grew by +19.7%yoy to RM499.8m premised on stable revenue growth of +20.5%yoy to RM1.4b (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. 9MFY18 earnings accounted for 79.8% and 78.2% 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 to RM391.9m (+1.1%yoy), whilst profit grew by 0.5%yoy attributable to higher PBS income and lower OPEX. Additionally, the company's gas processing plants achieved 100% asset reliability for the quarter.

Gas transportation. Both segment revenue and profit expanded by +5.4%yoy and +1.0%yoy respectively as gas transmission reliability was at near 100%. Segment profit margin remains stable at 75.1%.

RETURN STATS	
Price (30 November 2018)	RM18.94
Target Price	RM20.44
Expected Share Price Return	+7.9%
Expected Dividend Yield	+3.5%
Expected Total Return	+11.4%

STOCK INFO	
KLCI	1,679.86
Bursa / Bloomberg	6033 / PETGAS MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	1,978.7
Market cap. (RM'm)	37,477.18
Price over NA	2.88x
52-wk price Range	RM15.8 – RM19.50
Beta (against KLCI)	0.88
3-mth Avg Daily Vol	1.05m
3-mth Avg Daily Value	RM19.7m
Major Shareholders (%)	
Petroleum Nasional Berhad	60.66
Employees Provident Fund	9.34
PNB and its associated funds	7.87

Utilities. Segment revenue staged an increase of +25.6%yoy to RM348.5m meanwhile; segment profit surged by +127.7%yoy in line with the upward revision of fuel gas price in 1 January 2018 and 1 July 2018 respectively as well as; additional surcharge on national electricity tariff.

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 surged by +89.2%yoy and +140.4%yoy respectively. Plant reliability in Sungai Udang and Pengerang was at 100% during the quarter.

Impact on earnings. No changes to earnings forecasts. Key downside risk to our earnings forecasts: 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.

Maintain BUY. We are maintaining our **BUY** recommendation on PetGas with an unchanged TP of **RM20.44**. Our buy recommendation is due to us having 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.

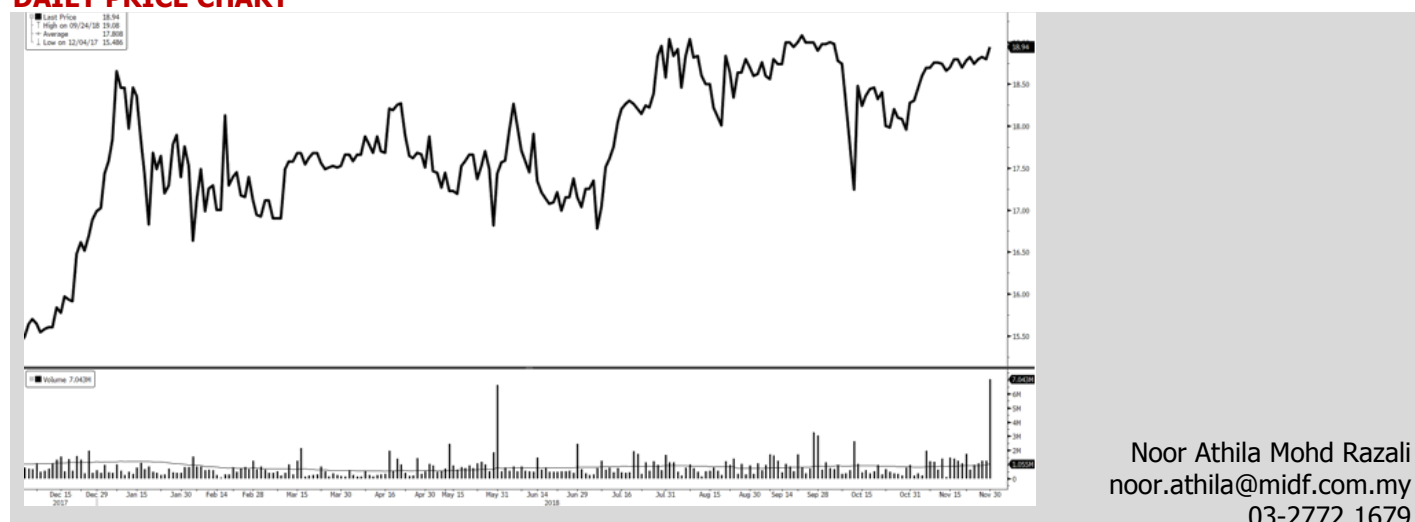


INVESTMENT STATISTICS

FYE 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)	18.9	21.5	20.9	20.1	19.6
Net Dividend (sen)	60.0	62.0	65.0	66.0	67.0
Net Dividend Yield (%)	2.7%	3.3%	3.4%	3.5%	3.5%

Source: MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

Table 1: Petronas Gas' quarterly earnings review

FYE Dec	Quarterly					Cumulative		
	3QFY17	2QFY18	3QFY18	QoQ (%)	YoY (%)	9MFY17	9MFY18	YoY (%)
Revenue	1,163.2	1,358.3	1,401.8	3.2	20.5	3,505.9	4,110.9	17.3
COGS	(657.1)	(704.1)	(754.5)	7.2	14.8	(1,921.5)	(2,168.0)	12.8
Gross Profit	506.1	654.2	647.4	(1.0)	27.9	1,584.4	1,942.9	22.6
Admin Expenses	(21.0)	(20.9)	(19.4)	(6.8)	(7.4)	(66.2)	(64.6)	(2.4)
Other Expenses	(1.0)	(8.0)	(5.7)	(28.7)	453.0	(3.5)	(7.2)	108.3
Other Income	53.1	32.8	32.8	(0.1)	(38.3)	153.8	101.1	(34.3)
Operating Profit	537.2	658.2	655.1	(0.5)	21.9	1,668.6	1,972.2	18.2
Financing Costs	(25.0)	(41.9)	(43.4)	3.8	74.1	(77.1)	(124.3)	61.2
JCE	20.4	16.5	23.1	39.8	13.6	55.4	56.7	2.4
PBT	532.6	632.8	634.8	0.3	19.2	1,646.8	1,904.6	15.7
Tax	(115.2)	(95.8)	(111.4)	16.3	(3.3)	(340.3)	(338.8)	(0.5)
MI	(0.0)	27.8	23.6	(15.1)	>-100	0.5	73.4	>100
PAT	417.4	509.3	499.8	(1.9)	19.7	1,306.5	1,492.4	14.2
Segmental:								
<i>Revenue</i>								
- Gas Processing	388.5	395.2	391.9	(0.8)	0.9	1,165.7	1,180.9	1.3
- Gas Transportation	330.1	344.2	345.5	0.4	4.7	981.2	1,023.4	4.3
- Utilities	277.6	308.3	348.6	13.1	25.6	862.5	980.5	13.7
- Regasification	167.0	310.6	315.9	1.7	89.2	496.5	926.1	86.5
Total	1,163.2	1,358.3	1,401.8	3.2	20.5	3,505.9	4,110.9	17.3
Segmental:								
<i>Operating Profit</i>								
- Gas Processing	148.7	171.2	149.4	(12.7)	0.5	486.5	481.9	(0.9)
- Gas Transportation	256.7	265.6	259.3	(2.4)	1.0	759.9	785.0	3.3
- Utilities	27.1	40.4	61.7	52.7	127.7	113.3	148.0	30.7
- Regasification	73.6	177.0	176.9	(0.0)	140.4	224.7	527.9	135.0
Expense/Income	31.1	4.0	7.7	91.8	(75.4)	84.2	29.3	(65.2)
Total	537.2	658.2	655.1	(0.5)	21.9	1,668.6	1,972.2	18.2

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.