



Petronas Dagangan Berhad

(5861 | PETD MK) Consumer Products & Services | Retailers

Maintain BUY

Earnings Up in Tandem with Growing Tourism Sector

Revised Target Price: RM24.91
(Previously RM24.52)

KEY INVESTMENT HIGHLIGHTS

- **Earnings rose by +16%yoy despite lower revenue (-6%yoy) which was above our expectation**
- **Lower revenue due to lower average selling price, offset by higher sales volume**
- **The improvement in earnings mainly stem from favourable price for Jet A1 and diesel from the commercial segment**
- **Maintain BUY with a revised TP of RM24.91**

Maintain BUY, revised TP: RM24.91. Petronas Dagangan Berhad (PDB)'s 2QFY23 earnings came in above our expectations at 67.9%. As such, we are maintaining a **BUY** call on PDB, with a revised **target price of RM24.52** (previously RM24.52).

Revenue down -6%yoy. PDB's 2QFY23 revenue slipped by -6.2%yoy to RM8.9b. The lower revenue was attributed to lower average selling prices by -14%yoy despite higher sales volume by +9%yoy. In 2QCY23, Brent crude oil averaged to USD78pb, a drop by -30%yoy and -5%qoq, due to slower demand from China.

Earnings up +16%yoy. PDB's 2QFY23 earnings were up +16%yoy to RM275.7m. The higher earnings were attributable to the Commercial segment; partially offset by higher operating expenditure mainly attributable to repair and maintenance.

Retail affected by lower crude price, but sales increased. 2QFY23 revenue rose +2%yoy to RM4.6b, while operational profit dropped -27.3%yoy to RM225.9m. The higher revenue was in line with higher sales volume, as a result from higher demand. The lower earnings were due to: (i) one-off gain from disposal of LPG business in Sarawak in 2QFY22, (ii) higher operating expenditure from transportation services, and (iii) lower gross profit from LPG and Mogas.

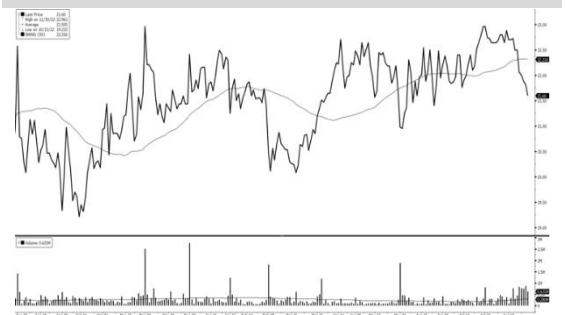
Commercial profited from Jet A1 and Diesel. 2QFY23 revenue dropped -13.8%yoy to RM4.3b, while operational profit surged to RM139.6m from a loss of -RM3.6m in 2QFY22. Lower revenue was mainly attributed to lower average selling prices (-28%yoy), offset with higher sales volume by (+20%yoy). Surge in earnings was mainly due to higher gross profit from Jet A1 and Diesel following stability in prices' trend and higher demand from tourism and manufacturing sectors; offset by higher operating expenditure due to repair and maintenance.

Convenience benefitted from higher domestic travels. 2QFY23 revenue improved +20.3%yoy to RM59.9m, while operational profit surged over 2-fold to RM13m from RM5.8m in 2QFY22. Higher revenue was contributed by higher sales for MESRA and PETRONAS Shop, while surging earnings were due to higher gross profit from MESRA. We believe this signals an increase in domestic travelling, and higher demand for high-end consumer experience through its Café MESRA franchises.

RETURN STATISTICS

Price @ 28 th August 2023 (RM)	21.60
Expected share price return (%)	+15.3
Expected dividend yield (%)	+4.5
Expected total return (%)	+19.8

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-5.9	-5.5
3 months	-2.7	-5.1
12 months	1.5	5.6

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	40,518	45,200	49,746
Operating Profit	1,476	1,550	1,717
Profit Before Tax	1,473	1,546	1,711
Core PATAMI	1,050	1,102	1,221
Core EPS	105.7	111.0	122.9
DPS	93.3	99.4	107.1
Dividend Yield	4.2%	4.5%	4.8%

KEY STATISTICS

FBM KLCI	1,444.1
Issue shares (m)	993.5
Estimated free float (%)	13.2
Market Capitalisation (RM'm)	21,458.6
52-wk price range	RM19.5–RM23.6
3-mth average daily volume (m)	0.3
3-mth average daily value (RM'm)	6.5
Top Shareholders (%)	
Petroleum Nasional Bhd	63.9
Employees Provident Fund	12.5
Amanah Saham Nasional Bhd	7.8

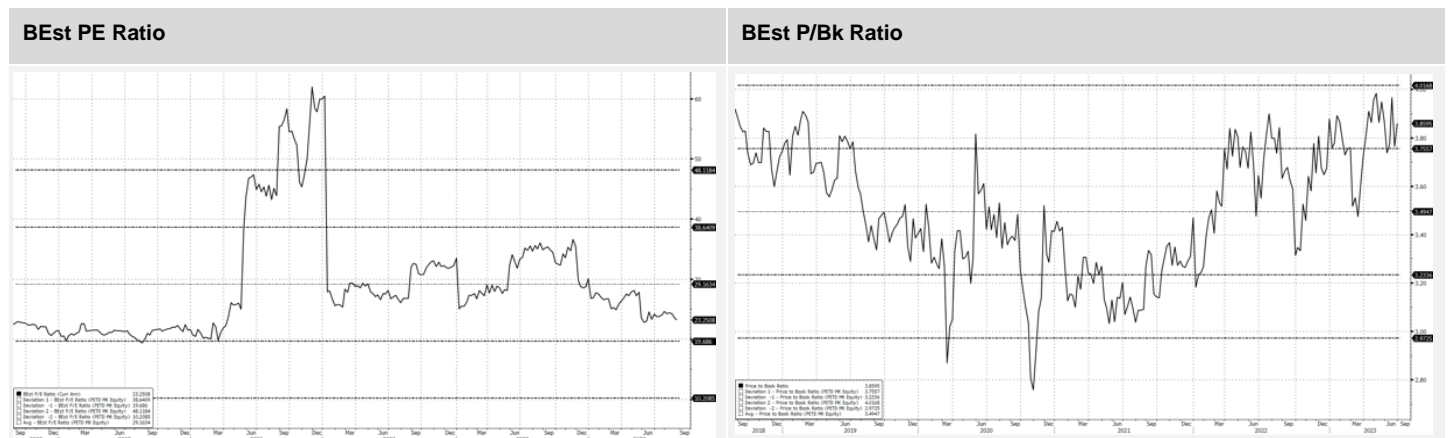
International and domestic travelling to contribute to Jet A1 and MESRA. 1QCY23 saw a huge increase of tourist at approximately 4.4m which was nearly half of CY22's total tourist arrival at 10m. For CY23, Malaysia is expecting approximately 18m international tourists. Additionally, according to Department of Statistics Malaysia, domestic travellers had increased by +34%yoy to 48.6m in 1QCY23. We believe the increase in earnings for the Commercial and Convenience segments was due to the increase in travelling frequency, in addition to the increase in transportation and logistics demand from other industries. Hence, with the expected increase in tourism activities in our local front, we opine that these segments will continue to be the main contributor to PDB's performance in FY23.

Tourism and Manufacturing Sector to play vital roles for better performance. PDB is expected to remain cautiously optimistic and will continue to strengthen its core and business growth. Leveraging on the economic recovery, upcoming festive seasons and revival of the tourism industry, we opine that PDB's performance will return to pre-pandemic levels for its Retail and Commercial segments. Additionally, PDB will further support its sustainability agenda with plans to install additional EV chargers as well as solar panels in its stations by the end-year. We are optimistic of PDB's prospects in its commercial and convenience businesses, on the back of increasing demands from travelling activities and industrials and manufacturing sectors. Nevertheless, we also continue to any indication of an unexpected volatile oil market that would impact PDB in the near future.

Revised earnings estimates. In consideration that PDB's 2QFY23 earnings are above our expectations, coupled with the bright prospects of PDB's businesses in line with the higher demand for fuel and non-fuel products, notably from the tourism and manufacturing sectors, we revised our FY23 and FY24 earnings upwards by +23% and +18% respectively.

Revised target price. As we rollover to FY24 valuations, we also revise our **target price from RM24.52** to RM24.91, by pegging a PER of 22.4x to EPS24 of 111sen. The PER is based on PDB's 3-year PER.

FORWARD BAND



Source: Bloomberg, MIDFR

Table 1: Petronas Dagangan's quarterly earnings review

Financial year ending 31st December (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	1HFY22	1HFY23	YoY (%)
Revenue	9,501.1	8,645.5	8,912.5	3.1	-6.2	17,119.4	17,558.0	2.6
Operating profit	317.0	407.0	378.5	-7.0	19.4	497.8	785.5	57.8
Finance cost	(4.4)	(2.7)	(2.6)	-1.8	-40.3	(7.2)	(5.3)	-26.3
Assc. & JV	2.9	4.5	(0.7)	-114.6	-123.1	3.6	3.8	5.8
Profit Before Tax	315.5	408.9	375.2	-8.2	18.9	494.2	784.1	58.6
Tax expense	(76.1)	(102.5)	(98.5)	-3.9	29.5	(134.4)	(201.0)	49.5
PAT from continuing operations	239.4	306.4	276.7	-9.7	15.6	359.8	583.1	62.1
Non-controlling interest	1.7	4.5	1.0	-78.2	-43.2	3.6	5.5	53.6
PATANCI	237.7	301.8	275.7	-8.7	16.0	356.2	577.5	62.2
Basic EPS (sen)	0.24	0.30	0.28	-8.6	16.3	0.36	0.58	62.6
DPS (sen)	0.11	0.15	0.18	20.0	63.6	0.16	0.33	106.3
				+ / (-) ppts				+ / (-) ppts
Operating profit margin (%)	3.3	4.7	4.2	(0.5)	0.9	2.9	4.5	1.6
PBT margin (%)	3.3	4.7	4.2	(0.5)	0.9	2.9	4.5	1.6
PATANCI margin (%)	2.5	3.5	3.1	(0.4)	0.6	2.1	3.3	1.2
Tax rate (%)	24.1	25.1	26.3	1.2	2.1	27.2	25.6	-1.6
Segmental								
Revenue								
Retail	4,476.3	4,409.7	4,565.1	3.5	2.0	8,279.5	8,974.8	8.4
Commercial	4,975.0	4,172.1	4,287.5	2.8	(13.8)	8,738.6	8,459.6	-3.2
Convenience	49.8	63.6	59.9	(5.8)	20.3	101.3	123.6	22.0
Operating profit								
Retail	310.5	227.9	225.9	(0.9)	(27.3)	524.8	453.7	-13.5
Commercial	(3.6)	160.3	139.6	(12.9)	(3,977.8)	(42.3)	299.9	-809.8
Convenience	5.8	18.9	13.0	(31.1)	124.1	15.2	31.9	109.6
OP Margin (%)								
Retail	6.9	5.2	4.9	-0.2	-2.0	6.3	5.1	-1.3
Commercial	-0.1	3.8	3.3	-0.6	3.3	(0.5)	3.5	4.0
Convenience	11.6	29.6	21.7	-8.0	10.0	15.0	25.8	10.8

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	26,674.0	36,748.9	40,518.0	45,200.2	49,745.8
EBITDA	751.2	1,148.9	1,476.1	1,549.6	1,716.7
D&A	412.2	438.5	348.7	366.5	315.8
EBIT	740.8	1,135.0	1,473.2	1,546.4	1,711.4
Net interest	1.5	11.2	11.0	11.0	11.0
Tax	-209.5	-347.2	-412.5	-433.0	-479.2
Core PATAMI	531.2	787.8	1,049.7	1,102.4	1,221.2
Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	4,017.5	4,115.3	4,224.1	4,276.3	4,224.8
Intangible assets	0.8	0.5	0.5	0.5	0.5
Non-current assets	4,040.7	4,200.9	4,253.8	4,220.0	4,096.1
Cash	1,911.0	2,889.2	3,766.0	4,811.1	5,870.0
Trade debtors	3,490.2	4,027.9	3,981.3	3,724.1	3,554.2
Current assets	5,560.1	7,056.6	7,673.4	8,461.3	9,350.1
Trade creditors	3,645.0	5,016.7	5,118.2	5,412.4	5,606.9
Short-term debt	24.3	49.4	69.1	77.9	80.4
Current liabilities	3,759.2	5,205.8	5,439.8	5,694.1	5,847.3
Long-term debt	92.2	134.9	154.5	179.4	181.6
Non-current liabilities	226.2	264.3	330.7	360.1	372.6
Share capital	993.5	993.5	993.5	993.5	993.5
Retained earnings	4,588.6	4,749.3	5,107.6	5,567.0	6,155.7
Equity	5,615.5	5,787.4	6,156.6	6,627.1	7,226.8
Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	740.8	1,135.0	1,473.2	1,546.4	1,711.4
Depreciation & amortisation	412.2	438.5	348.7	366.5	315.8
Changes in working capital	-771.719	812.699	121.4	533.3	336.9
Operating cash flow	197.1	1,994.9	1,954.1	2,458.4	2,379.3
Capital expenditure	-374.3	-464.9	-437.5	-430.0	424.0
Investing cash flow	-297.0	-320.793	-353.5	-348.4	-350.4
Dividends paid	-606.0	-615.9	-611.4	-583.0	-532.5
Financing cash flow	-682.8	-696.0	-686.2	-661.5	-650.9
Net cash flow	-782.7	978.0	923.4	1,053.5	1,067.1
Beginning cash flow	2,671.0	2,851.0	2,851.0	3,766.0	4,811.1
Ending cash flow	2,851.0	1,882.6	3,766.0	4,811.1	5,870.0
Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	2.8%	3.1%	3.6%	3.4%	3.5%
PBT margin	2.8%	3.1%	3.6%	3.4%	3.4%
Core PAT margin	2.0%	2.1%	2.6%	2.4%	2.5%

Source: Bloomberg, 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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology