



Petronas Gas Berhad

(6033 | PTG MK) Utilities | Gas, Water & Multi-Utilities

Utilities Segment Pushed 2QFY23 Earnings Up

KEY INVESTMENT HIGHLIGHTS

- Revenue up +15%yoy to RM 1.6b due to higher product prices
- Earnings up +22%yoy to RM485m due to higher profit share and lower exposure to forex, in-line with expectations
- Utilities is the key highlights as 2QFY23 earnings surged by +212%yoy
- Maintain BUY with revised TP: RM18.79

Maintain BUY, revised TP: RM18.79. Petronas Gas Berhad (PGB)'s 1HFY23 earnings result fell within our yearly earnings estimates at 45%. In consideration of the higher earnings in 2QFY23, we maintain our **BUY** call on PGB with a revised target price of RM18.79 (previously RM18.43). We are optimistic about the group's prospects, with caution on the volatile gas prices and foreign exchange, which would impact PGB's FY23 results. Nevertheless, we expect that its long-term contracts and resiliency in its Utilities division would sustain the group in the near to mid-term.

Revenue up +9%yoy. PGB's 2QFY23 revenue added +8.8%yoy to RM1.63b. Higher revenue was due to its Utilities segment, in line with higher product prices.

Earnings up +22%yoy. PGB's 2QFY23 net earnings improved +22.4%yoy to RM485.4m mainly due to higher share of profit from joint venture companies, higher interest income from fund investments and lower exposure from foreign exchange movement following early settlement of USD lease liabilities for FPSOs at LNG regasification terminal in Sg. Udang, Melaka.

Gas Processing. Revenue for this segment rose +2.2%yoy to RM447.3m, due to higher internal gas consumption incentive achieved, supported by continuous operational optimization efforts. Conversely, earnings dropped -5.9%yoy to RM219.2m due to higher operating expenses.

Gas Transportation. Revenue for this segment slipped -2.6%yoy to RM283.1m, as a result of lower RP2 transportation tariff. This was cushioned by the introduction of a new compression tariff effective 1 January 2023. Meanwhile, earnings dropped -5.6%yoy to RM164.8m, due to higher operating expenses, mainly internal gas consumption expense in tandem with higher fuel gas price.

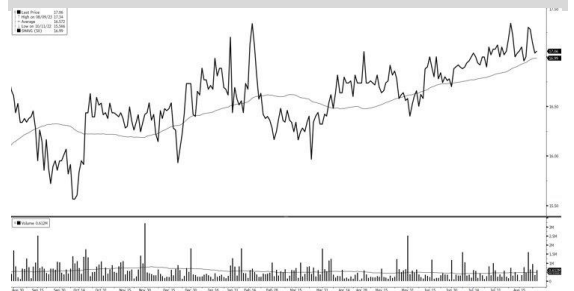
Regasification. Revenue for this segment slipped -4.9%yoy to RM219.2m, while earnings were down by -9.5%yoy to RM165.9m. The lower revenue and earnings were attributable to lower RP2 tariff for RGTP.

Maintain BUY**Revised Target Price: RM18.79**
(previously RM18.43)

RETURN STATISTICS

Price @ 25 th August 2023 (RM)	17.06
Expected share price return (%)	+10.1
Expected dividend yield (%)	+7.1
Expected total return (%)	+17.2

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.1	0.3
3 months	2.2	-1.2
12 months	-2.6	1.1

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	6,520	7,159	7,592
Operating Profit	2,708	2,971	3,197
Profit Before Tax	2,635	2,882	3,159
Core PATAMI	2,094	2,287	2,509
Core EPS	105.8	115.6	126.8
DPS	116.4	132.9	152.1
Dividend Yield	6.2%	7.1%	8.1%

KEY STATISTICS

FBM KLCI	1,444.4
Issue shares (m)	1,978.7
Estimated free float (%)	14.9
Market Capitalisation (RM'm)	33,757.2
52-wk price range	RM15.9–RM17.7
3-mth average daily volume (m)	0.5
3-mth average daily value (RM'm)	8.5
Top Shareholders (%)	
Petroliam Nasional Bhd	51.00
Employees Provident Fund	14.23
Kumpulan Wang Persaraan Diperbadan	10.05

Utilities. Revenue for this segment gained +35%yoy to RM570.3m, due to higher product prices. The product price for steam and industrial gases were higher in line with the increase of fuel gas price, which is based on Malaysia Reference Price (MRP). As for electricity, the tariff was higher as a result of upward revision of imbalance cost passthrough (ICPT) surcharge for 1HCY23. Similarly, earnings surged nearly 4-fold to RM101.2m in 2QFY23 from RM32.4m in 2QFY22, in tandem with higher revenue and improved margins following favourable impact of improved terms in the contract renewals which allow a more balanced cost pass-through to customers and reduce the business exposure to gas price volatility.

Operations anticipated to remain robust. PGB’s performance in FY23 is expected to remain healthy, on the strength of the stable-earning contracts and sustained operational excellence. However, the volatile movement of gas price may impact the group’s full year result. Additionally, PGB’s exposure to volatility of foreign exchange has been reduced through the full early settlement made on the lease liabilities for FPSO units at LNG regasification terminal, Sg. Udang, Melaka. Amidst higher operating costs environment post-pandemic, we expect PGB will continue to maintain its operational excellence on all of its segments, with Utilities expected to be the major revenue stream in FY23.


Revised earnings estimates. In consideration of PGB’s improved performance for 2QFY23, we revised our earnings forecast for FY23 and FY24 upward by +2.5% and +7% respectively. As we rollover to FY24, we revise our **target price to RM18.79**; which pegged a PER of 16.3x to a revised EPS24 of 115.6sen. The PER is based on the 3-year average PER for the utilities sector. 

TABLE 1: Petronas Gas’ Segment Updates as of 2QFY23

Segment	Operational Excellence	Segment Updates
Gas Processing	<ul style="list-style-type: none"> 99.9% OEE (stable for C1 Salesgas and C2 Ethane) 100% Reliability Performance incentives at RM43m 	<ul style="list-style-type: none"> Terengganu Crude Oil Terminal (TCOT) Off-Gas Rerouting Project progressing slightly behind schedule, but minimal impact to business Third Term GPA negotiations with PETRONAS to be completed by end of 2QCY23
Gas Transportation	<ul style="list-style-type: none"> 99.99% Reliability 2,149 mmscf/d average salesgas delivered 	<ul style="list-style-type: none"> 42km pipeline extension to Pulau Indah, Selangor progressing slightly behind schedule with minimal impact to business New gas compressor station in Kluang Johor progressing slightly behind schedule with minimal impact to business 10km pipeline extension to Banting, Selangor achieved gas-in ahead of schedule, to be completed by end 3QCY23
Utilities	<ul style="list-style-type: none"> 100% Product Delivery Reliability for Electricity and Steam Cogen Optimisation valued at RM7.2m as at 2QCY23 	<ul style="list-style-type: none"> Sipitang Power Plant EPCC progressing within schedule Imbalance Cost Past Through (ICPT) surcharge is extended (2HCY23: 17 sen/kWh)
Regasification	<ul style="list-style-type: none"> 100% OEE at sustained at regasification plants in Sungai Udang (RGTSU) and Pengerang (RGTP) 27 Cargoes received in 2QFY23 (4 at RGTSU, 23 at RGTP) Ancillary Service Offering – 1,091 truck loading delivered, 5 GUCD and 18 reloading in 1HCY23 	LNG storage expansion at Pengerang (Target final investment decision by 2HCY23)

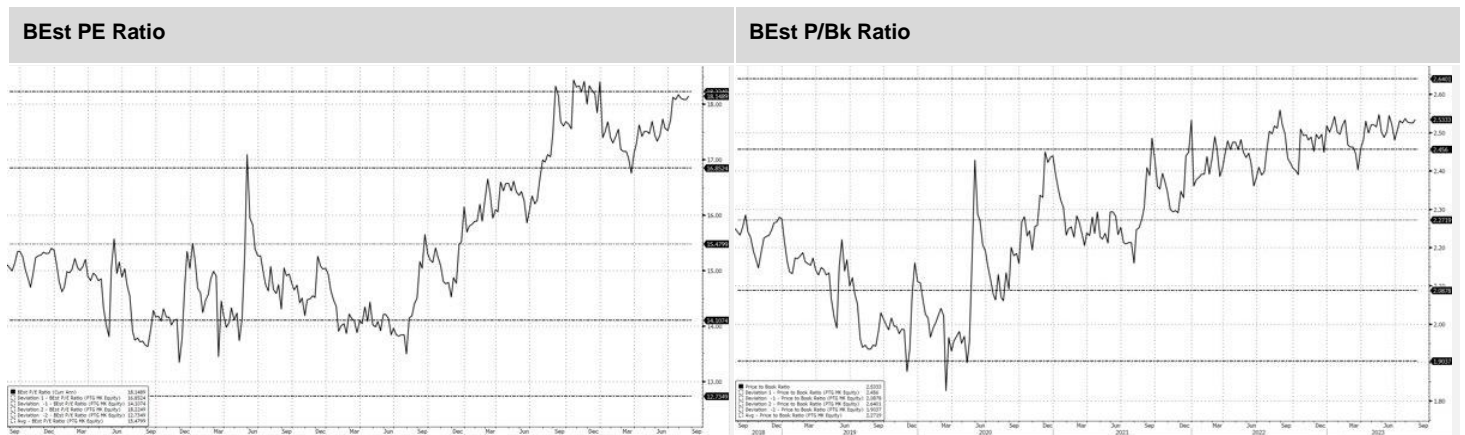
Source: Company, MIDFR

Table 2: Petronas Gas's quarterly earnings review

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly results					Cumulative results		
	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	1HFY22	1HFY23	YoY (%)
Revenue	1,504.6	1,674.9	1,637.4	(2.2)	8.8	2,962.5	3,312.3	14.9
Operating Profit	572.0	555.4	616.1	10.9	7.7	1,171.5	1,171.4	(7.4)
Profit Before Tax	558.3	556.9	626.1	12.4	12.1	1,146.6	1,183.1	(5.3)
Tax expense	(142.8)	(108.6)	(130.1)	19.8	(8.9)	(293.6)	(238.8)	(27.9)
Profit After Tax	415.5	448.3	496.0	10.6	19.4	853.1	944.3	2.4
PATAMI	396.6	424.2	485.4	14.4	22.4	807.6	909.6	3.2
Basic EPS (sen)	20.04	21.44	24.53	14.4	22.4	40.79	45.97	3.3
DPS (sen)	16.00	82.00	72.00	(12.2)	350.0	32.00	72.00	412.5
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Operating Profit margin (%)	38.0	33.2	37.6	4.5	(0.4)	39.5	35.4	(8.0)
PBT margin (%)	37.1	33.3	38.2	5.0	1.1	38.7	35.7	(7.1)
PATAMI margin (%)	26.4	25.3	29.6	4.3	3.3	27.3	27.5	(2.9)
Tax rate (%)	25.6	19.5	20.8	1.3	(4.8)	25.6	20.2	(6.1)
Segmental:								
Revenue								
- Gas Processing	437.7	443.9	447.3	0.8	2.2	871.3	891.2	1.3
- Gas Transportation	290.6	288.4	283.1	(1.8)	(2.6)	579.0	571.6	(2.4)
- Utilities	422.3	608.4	570.3	(6.3)	35.0	814.4	1,178.6	12.3
- Regasification	354.0	334.3	336.6	0.7	(4.9)	697.8	670.9	(6.4)
Operating Profit								
- Gas Processing	232.9	207.6	219.2	5.6	(5.9)	465.3	426.9	5.3
- Gas Transportation	174.7	123.0	164.8	34.0	(5.6)	357.9	287.9	295.9
- Utilities	32.4	57.0	101.2	77.6	212.2	54.0	158.1	69.5
- Regasification	183.2	160.0	165.9	3.7	(9.5)	358.2	325.8	(22.5)

Source: Company, MIDFR

FORWARD BAND



Source: Bloomberg, MIDFR

				Monday, August 28, 2023	
Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	5,648.6	6,160.2	6,520.2	7,159.0	7,591.5
EBITDA	2,719.7	2,320.1	2,708.4	2,970.6	3,196.6
D&A	983.0	1,035.5	1,050.0	1,060.0	1,047.2
EBIT	2,641.7	2,269.4	2,635.0	2,881.9	3,159.1
Net interest	122.5	112.5	100.0	100.0	100.0
Tax	-530.3	-510.9	-598.8	-657.7	-717.8
Core PATAMI	1,988.9	1,645.9	2,094.0	2,286.7	2,508.6
Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	13,272.4	13,408.4	14,888.4	16,368.4	17,848.4
Intangible assets	151.8	175.4	146.0	148.4	150.3
Non-current assets	14,468.1	14,608.7	15,034.4	16,516.8	17,998.7
Cash	3,782.5	4,026.2	4,404.6	4,723.0	4,908.2
Trade debtors	899.6	990.0	926.9	972.1	980.0
Current assets	4,718.0	5,079.7	5,430.0	5,781.1	5,942.1
Trade creditors	1,069.0	1,203.6	861.6	903.4	959.9
Short-term debt	168.2	172.9	132.1	136.5	143.6
Current liabilities	1,295.7	1,376.5	993.6	1,040.0	1,103.5
Long-term debt	3,278.9	3,662.8	3,346.7	3,407.9	3,437.1
Non-current liabilities	4,550.9	4,902.1	4,554.1	4,615.4	4,644.6
Share capital	3,165.2	3,165.2	3,165.2	3,165.2	3,165.2
Retained earnings	9,933.4	9,982.9	9,770.4	9,840.5	9,846.1
Equity	13,339.5	13,409.8	13,232.3	13,310.6	13,304.3
Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	2,641.7	2,269.4	2,635.0	2,881.9	3,159.1
Depreciation & amortisation	983.0	1,035.5	1,050.0	1,060.0	1,047.2
Changes in working capital	-27.0	80.1	67.8	73.1	90.2
Operating cash flow	3,220.1	2,926.3	3,206.6	3,252.2	3,242.4
Capital expenditure	-1,031.7	-1,169.2	-1,170.4	-1,057.7	-1,081.3
Investing cash flow	-913.7	-1,050.6	-1,115.8	-985.9	-1,009.1
Dividends paid	-1,523.6	-1,622.6	-1,642.3	-1,698.4	-1,753.9
Financing cash flow	-1,662.9	-1,631.9	-1,712.5	-1,947.9	-2,048.1
Net cash flow	643.6	243.8	378.3	318.4	185.2
Beginning cash flow	3,138.9	3,782.5	4,026.2	4,404.6	4,723.0
Ending cash flow	3,782.5	4,026.2	4,404.6	4,723.0	4,908.2
Profitability Margins	2021A	2022A	2023E	2024F	2025F
Gross profit margin	48.1%	38.1%	43.7%	43.8%	44.4%
EBITDA margin	48.1%	37.7%	41.5%	41.5%	42.1%
PBT margin	46.8%	36.8%	40.4%	40.3%	41.6%
Core PAT margin	35.2%	26.7%	32.1%	31.9%	33.0%

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