



Petronas Dagangan Berhad

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

Maintain BUY

On the Right Trajectory Despite Lower 3QFY23 Earnings

Unchanged Target Price: RM24.91

KEY INVESTMENT HIGHLIGHTS

- **Weakness in 3QFY23 earnings due to unfavourable price for Jet A1 and Diesel and higher operating expenses**
- **Cumulative 9MFY23 financial performance remains robust, up by +20%yoy, in-line with our expectation**
- **PDB's well-being will be driven by the continuous recovery in the demand of its products**
- **Maintain BUY with TP of RM24.91**

Maintain BUY, TP: RM24.91. Petronas Dagangan Berhad (PDB)'s 3QFY23 earnings came in within our expectations at 73%. As such, we are maintaining a **BUY** call on PDB, with a **target price of RM24.91**. Our positivity will be supported by the anticipated recovery in the aviation and tourism sector which ride on the recuperation of the Malaysian economy. This will help to propel the demand for its products and help to partially mitigate the drop in ASP.

Revenue down -2%yoy. PDB's 3QFY23 revenue slipped by -2.1%yoy to RM9.92b. The lower revenue was attributed to lower average selling prices by -7% despite higher sales volume by +6%. In 3QCY23, Brent crude oil averaged at USD87pb, a drop of -14%yoy due to the Russia-Ukraine conflict in 3QFY22, but sequentially gained +11%qoq, due to the voluntary production cut by Saudi Arabia and Russia.

Earnings down -20%yoy. PDB's 3QFY23 earnings were down by -20.4%yoy to RM184.7m. The lower earnings were due to unfavourable price movements impacting Jet A1 and Diesel, and higher operating expenditure.

Retail benefitted from higher crude price. 3QFY23 revenue rose +5.1%yoy to RM4.77b, while operating profit surged +34.1%yoy to RM168.4m. The higher revenue was attributable to higher sales volume (+5%) in line with higher demand. Higher earnings were contributed by higher gross margin from Mogas and Diesel as a result of favourable MOPS price and higher interest income. However, this was offset by higher operating expenditure.

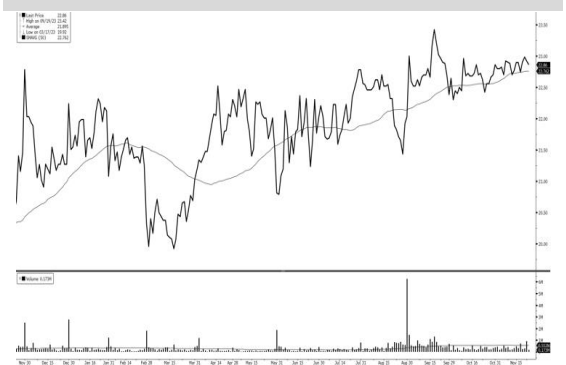
Commercial's Jet A1 and Diesel impacted by volatile prices. 3QFY23 revenue dropped -8%yoy to RM5.08b, while operational profit slipped -70%yoy to RM80.9m. The lower revenue was due to lower average selling prices (-13%), offset with higher sales volume (+6%). The lower earnings were due to unfavourable price movements impacting Jet A1 and Diesel, offset with higher interest income.

Convenience saw higher demand for MESRA. 3QFY23 revenue was down by -2.2%yoy to RM6.1m, while operational profit surged +47.9%yoy to RM11.5m. The lower revenue was attributed to lower chargeable sales for MESRA. The higher earnings were mainly due to lower operating expenditure and higher interest income. This was offset by lower gross profit mainly from MESRA.

RETURN STATISTICS

Price @ 23 rd November 2023 (RM)	22.86
Expected share price return (%)	+9.0
Expected dividend yield (%)	+4.5
Expected total return (%)	+13.5

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.1	0.0
3 months	2.1	3.0
12 months	6.6	5.9

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

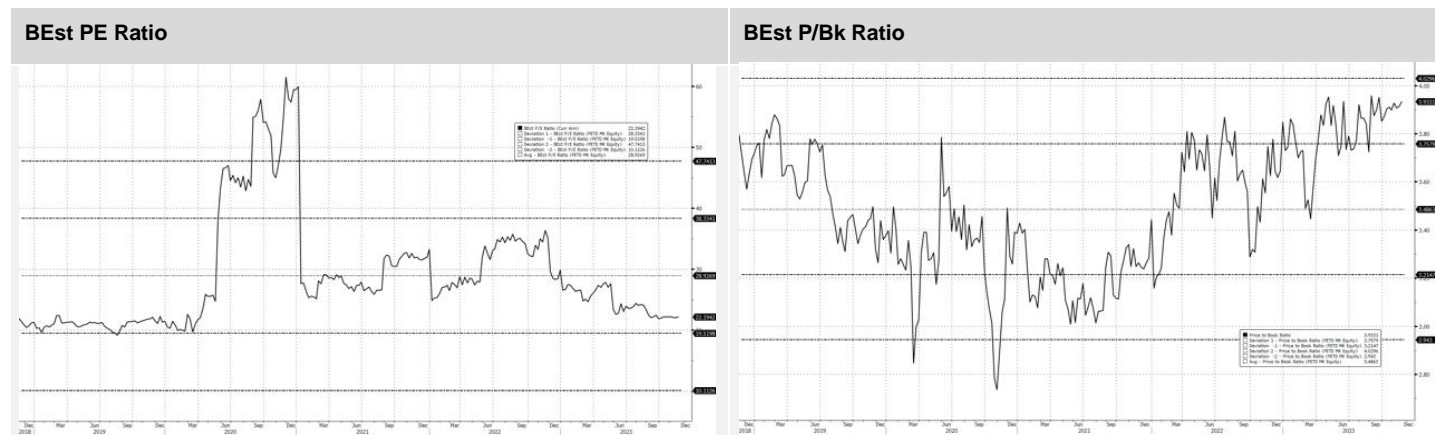
FBM KLCI	1,453.29
Issue shares (m)	993.45
Estimated free float (%)	13.41
Market Capitalisation (RM'm)	22,710.36
52-wk price range	RM20.9–RM23.6
3-mth average daily volume (m)	0.57
3-mth average daily value (RM'm)	12.97
Top Shareholders (%)	
Petroliam Nasional Bhd	63.92
Employees Provident Fund	12.23
Amanah Saham Nasional Bhd	7.84

Retail and Convenience improved performance due to higher demand. Despite the volatile oil market, PDB continued to benefit from local and international tourism and travels, which consequently contributed to higher flight frequency and improved domestic household spending. Despite the weaker quarterly performance due to less favorable MOPS prices for commercial business products, the impact was mitigated by festivities marketing campaigns which supported higher volume for the retail business. Café Mesra's expansion, including the deployment of Café Mesra Trailers in various locations and pop-up cafes across Malaysia, remained an ongoing venture that we opine would add more value to PDB's convenience segment. Simultaneously, Kedai Mesra continued to improve on the back of product diversification and optimization of in-store merchandises.

Aviation and Tourism Sectors to continue contributing to future performance. We echo PDB's anticipation of a growth in Malaysia's economy contributed by: (i) higher consumer consumption, (ii) lower inflation rate, and (iii) improved services and manufacturing industries. Despite a higher projected crude oil price (approximate estimation of USD85pb average in CY24), we believe PDB has reached the position where it could sustain a robust performance in the near term. The group's Retail segment will continue to capitalize from the aviation and tourism industries, while its Commercial segment is expected to expand and optimize its LPG and Lubricant products. In light of PDB's expansion in its Convenience segment, we opine that the group will continue to grow its non-fuel business by leveraging on digitalization and diversification of products and services at all its MESRA outlets. All in all, coupled with PDB's effort in sustainability by expanding its EV infrastructure and increase its Used Cooking Oil collection initiative, we are positive of PDB's future trajectory.

No changes to earnings estimates. In consideration that PDB's 3QFY23 earnings are within our expectations, we make no changes to our earnings estimates. Our **target price of RM24.91** is based on pegging 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		
	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Revenue	10,130.7	8,912.5	9,916.0	11.3	-2.1	27,250.1	27,474.0	0.8
Operating profit	403.1	378.5	260.9	-31.1	-35.3	900.9	1,046.4	16.1
Finance cost	(7.5)	(2.6)	(2.6)	-2.6	-66.1	(14.7)	(7.9)	-46.6
Assc. & JV	3.5	(0.7)	3.4	-614.1	-4.4	7.2	7.2	0.8
Profit Before Tax	399.1	375.2	261.7	-30.3	-34.4	893.3	1,045.7	17.1
Tax expense	(119.7)	(98.5)	(61.6)	-37.4	-48.5	(254.2)	(262.6)	3.3
PAT from continuing operations	279.4	276.7	200.0	-27.7	-28.4	639.2	783.1	22.5
Non-controlling interest	3.5	1.0	15.3	1453.7	341.9	7.1	20.8	195.2
PATANCI	276.0	275.7	184.7	-33.0	-33.1	632.1	762.3	20.6
Basic EPS (sen)	0.28	0.28	0.19	-33.1	-33.1	0.64	0.77	20.8
DPS (sen)	0.54	0.18	0.43	138.9	-20.4	0.70	0.76	8.6
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Operating profit margin (%)	4.0	4.2	2.6	(1.6)	(1.3)	3.3	3.8	0.5
PBT margin (%)	3.9	4.2	2.6	(1.6)	(1.3)	3.3	3.8	0.5
PATANCI margin (%)	2.8	3.1	2.0	(1.1)	(0.7)	2.3	2.9	0.5
Tax rate (%)	30.0	26.3	23.6	(2.7)	(6.4)	28.4	25.1	-3.3
Segmental								
Revenue								
Retail	4,536.8	4,565.1	4,768.5	4.5	5.1	12,816.3	13,743.3	7.2
Commercial	5,528.9	4,287.5	5,084.0	18.6	(8.0)	14,267.5	13,543.6	-5.1
Convenience	65.0	59.9	63.6	6.1	(2.2)	166.3	187.1	12.5
Operating profit								
Retail	125.6	225.9	168.4	(25.4)	34.1	650.4	622.2	-4.3
Commercial	269.7	139.6	80.9	(42.0)	(70.0)	227.5	380.9	67.4
Convenience	7.8	13.0	11.5	(11.7)	47.9	23.0	43.3	88.7
OP Margin (%)								
Retail	2.8	4.9	3.5	-1.4	0.8	5.1	4.5	-0.5
Commercial	4.9	3.3	1.6	-1.7	-3.3	1.6	2.8	1.2
Convenience	11.9	21.7	18.0	-3.6	6.1	13.8	23.2	9.3

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