



Petronas Gas Berhad

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

Utilities Outperform in 3Q23

KEY INVESTMENT HIGHLIGHTS

- **Revenue down -1%yoy to RM 1.6b due to lower regasification**
- **Earnings up +10%yoy to RM459m due to lower tax and exposure to forex movement**
- **Utilities earnings up +43%yoy in 3QFY23; lower earnings for other segments due to high operating expenses**
- **Maintain BUY with a revised TP of: RM18.75**

Maintain BUY, revised TP to RM18.75. Petronas Gas Berhad (PGB)'s 9MFY23 earnings result came in below our yearly earnings estimates at 66%. We maintain our **BUY** call on PGB in consideration of the higher earnings in 3QFY23. However, we shift our valuation in tandem with the lower revenue and earnings in Gas Processing, Gas Transportation and Regasification. Hence, we have revised our **target price to RM18.75** (previously RM18.79). We are optimistic on the group's prospects, with great caution on the volatile Brent price and forex movement in light of the turmoil in the Middle East. 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 down -1%yoy. PGB's 3QFY23 dropped a marginal -0.9%yoy to RM1.55b. This was due to lower approved regasification and transportation tariffs under RP2, offset higher product prices in Utilities and higher performance incentives in Gas Processing.

Earnings up +10%yoy. PGB's 3QFY23 net earnings added +10%yoy to RM468.5m. The higher earnings were due to: (i) lower tax expenses, as compared to the 3QFY22, when Prosperity Tax was applied, (ii) lower exposure to forex movement, (iii) lower financing costs following early settlement of USD lease liabilities for floating storage units at LNG regasification terminal in Sg. Udang, Melaka, and (iv) higher share of profit from joint ventures.

Gas Processing. Revenue rose +1.5%yoy to RM444.0m, due to higher performance incentive achieved. Conversely, earnings dropped -15%yoy to RM195.4m due to higher operating expenses (mainly depreciation expense in line with the higher capex).

Gas Transportation. Revenue slipped -3.9%yoy to RM282.4m, as a result of lower RP2 transportation tariff (from RM1.129/GJ in RP1 to RM1.061/GJ in RP2). This was offset by the introduction of new compression tariff (RM0.553/GJ), effective 1 January 2023. Meanwhile, earnings dropped -15%yoy to RM148.1m, which was in line with lower revenue coupled with higher operating expenses due to higher level of maintenance activities.

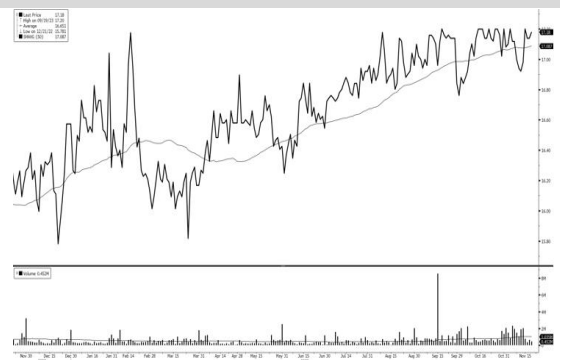
Regasification. Revenue dropped -4.9%yoy to RM339.6m, while earnings were down by -13.4%yoy to RM161.3m. The lower revenue and earnings were due to lower RP2 tariff for RGTP (from RM3.485/GJ in RP1 to RM3.165/GJ in RP2), coupled with higher operating expenses.

Maintain BUY**Revised Target Price: RM18.75***(Previously RM18.79)*

RETURN STATISTICS

Price @ 20 th November 2023 (RM)	17.18
Expected share price return (%)	+9.1
Expected dividend yield (%)	+5.6
Expected total return (%)	+14.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.1	-1.2
3 months	2.0	0.3
12 months	0.7	0.2

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	6,520	7,159	7,592
Operating Profit	2,338	2,460	2,541
Profit Before Tax	2,354	2,472	2,528
Core PATAMI	1,979	2,083	2,147
Core EPS	100.0	105.3	106.9
DPS	80	105.3	124.8
Dividend Yield	4.3%	5.6%	6.7%

KEY STATISTICS

FBM KLCI	1,456.92
Issue shares (m)	1,978.73
Estimated free float (%)	15.75
Market Capitalisation (RM'm)	33,994.61
52-wk price range	RM16.1–RM17.7
3-mth average daily volume (m)	1.03
3-mth average daily value (RM'm)	17.62
Top Shareholders (%)	
Petroleum Nasional Bhd	51.00
Employees Provident Fund	13.32
Kumpulan Wang Persaraan Diperbadan	10.07

Utilities. Revenue gained +1.6%yoy to RM484.3m, higher product prices. However, this was negated by lower sales volumes from industrial gases products following the planned plant turnaround in Kertih, Terengganu. Similarly, earnings surged +43.4%yoy to RM76.6m, in tandem with higher revenue and stronger margin following upward revision of ICPT surcharge and lower fuel gas costs in line with lower products volume.

External challenges and uncertainties remain on gas rates. PGB’s financial performance in the remainder of FY23 is projected to remain robust, supported by contracts with stable earnings and commendable operational efficiency. However, the risks to the group’s business operations in the near future remain, with the main drivers including: (i) geopolitical tensions in the Middle East which would disrupt the supply chain, escalate Brent and JCC prices (prompting higher MRP) and cause volatile energy prices (prompting higher ICPT), (ii) weakening MYR amid increased turmoil in Middle East, and (iii) heightening sustainability requirement for PGB’s operations and facilities. While these external risks would have an effect on the pricing and demand of natural gas, we believe PGB would maintain its commitment in maintaining its operational excellence. We are also expecting Utilities to continue to be the major revenue stream in the near- to mid-term, in light of the government’s initiatives for a sustainable power generation via NETR.


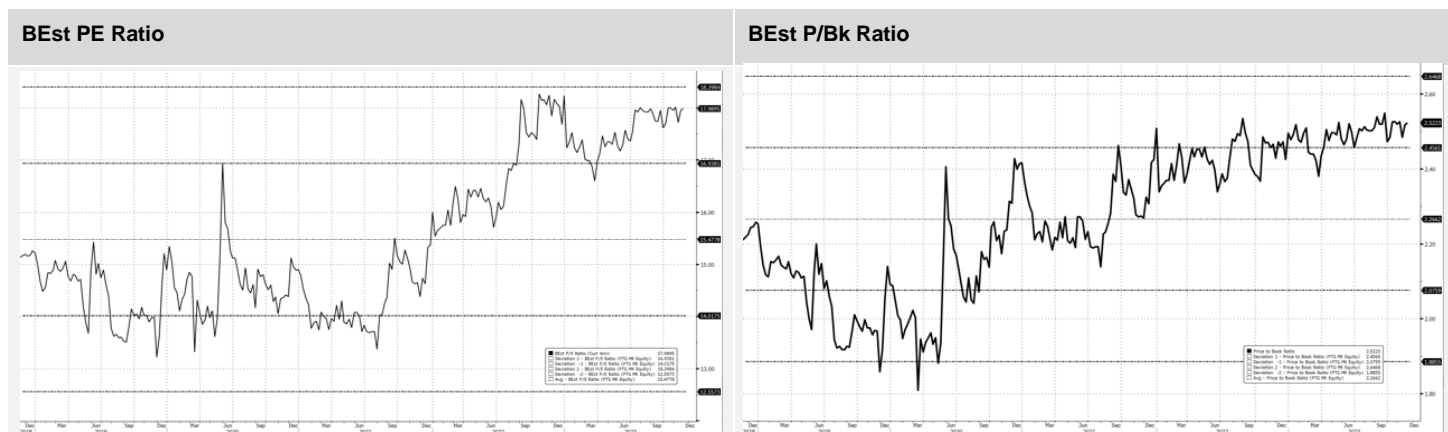
Revised earnings estimates. In consideration of the lower earnings for the group’s Gas Transportation, Gas Processing and Regasification segments for 3QFY23, we revised our earnings forecast for FY24 and FY25 downward by -9% and -14% respectively to adjust to the high operating expenses incurred in these segments. However, we maintain our **BUY** call with a revised **target price of RM18.75** (previously RM18.79), pegging a PER of 17.8x to a revised EPS24 of 105.3sen. We shift the PER based on the recent 5-year average PER for Utilities, in consideration of PGB’s robust Utilities segment. 

TABLE 1: Petronas Gas’ Segment Updates as of 3QFY23

Segment	Operational Excellence	Segment Updates
Gas Processing	<ul style="list-style-type: none"> OEE: 99.89% for C1 Salesgas, 99.85% C2 Ethane 100% Reliability 	<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
Gas Transportation	99.94% Reliability	<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 behind schedule with minimal impact to business 10km pipeline extension to Banting, Selangor completed, successfully achieved Gas-In in August 2023
Regasification	100% OEE at sustained at regasification plants in Sungai Udang (RGTSU) and Pengerang (RGTP)	LNG storage expansion at Pengerang achieved FIED in September 2023, COD expected mid-2025
Utilities	<ul style="list-style-type: none"> 99% Product Delivery Reliability for supported by higher plant availability and reliability Electricity -6%yoy to 391kWh Steam -7%yoy to 1.11mMt Industrial Gases -31%yoy to 121m Nm3 	<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) ASU Cold Energy Harnessing at FEL2, FID expected by end of 4QCY23

Source: Company, MIDFR

FORWARD BAND



Source: Bloomberg, MIDFR

Table 2: Petronas Gas's quarterly earnings review

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly results					Cumulative results		
	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Revenue	1,564.8	1,637.4	1,550.3	(5.3)	(0.9)	4,527.3	4,862.6	7.4
Cost of revenue	(920.9)	(985.8)	(968.7)	(1.7)	5.2	(2,648.0)	(3,082.4)	16.4
Operating Profit	572.0	555.4	616.1	10.9	7.7	1,171.5	1,171.4	(7.4)
Financing Costs	(44.3)	(36.9)	(23.6)	(36.0)	(46.7)	(131.0)	(103.3)	(21.1)
Profit Before Tax	595.3	626.1	594.5	(5.1)	(0.1)	1,741.9	1,777.5	2.0
Tax expense	(152.0)	(130.1)	(103.3)	(20.6)	(32.0)	(445.5)	(342.1)	(23.2)
Profit After Tax	443.3	496.0	491.2	(1.0)	10.8	1,296.4	1,435.4	10.7
PATAMI	425.8	485.4	468.5	(3.5)	10.0	1,233.4	1,378.0	11.7
Basic EPS (sen)	21.52	24.53	23.67	(3.5)	10.0	62.31	69.64	11.8
DPS (sen)	50.00	72.00	72.00	-	44.0	82.00	72.00	(12.2)
				<i>+ / (-) pts</i>				<i>+ / (-) pts</i>
Operating Profit margin (%)	37.8	37.6	37.1	(0.5)	(0.7)	39.0	35.9	(3.0)
PBT margin (%)	38.0	38.2	38.3	0.1	0.3	38.5	36.6	(1.9)
PATAMI margin (%)	27.2	29.6	30.2	0.6	3.0	27.2	28.3	1.1
Tax rate (%)	25.5	20.8	17.4	(3.4)	(8.1)	25.6	19.2	(6.3)
Segmental:								
Revenue								
- Gas Processing	437.3	447.3	444.0	(0.8)	1.5	1,308.6	1,335.2	2.0
- Gas Transportation	293.8	283.1	282.4	(0.3)	(3.9)	872.8	854.0	(2.2)
- Utilities	476.7	570.3	484.3	(15.1)	1.6	1,291.1	1,662.9	28.8
- Regasification	357.0	336.6	339.6	0.9	(4.9)	1,054.8	1,010.5	(4.2)
Operating Profit								
- Gas Processing	229.9	219.2	195.4	(10.9)	(15.0)	695.2	622.3	(10.5)
- Gas Transportation	174.4	164.8	148.1	(10.1)	(15.0)	532.3	436.0	(18.1)
- Utilities	53.5	101.2	76.6	(24.2)	43.4	107.4	234.8	118.5
- Regasification	186.2	165.9	161.3	(2.7)	(13.4)	544.4	487.2	(10.5)

Source: Company, MIDFR

FINANCIAL SUMMARY

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	2,337.6	2,460.4	2,541.3
D&A	983.0	1,035.5	1,150.0	1,126.6	1,074.9
EBIT	2,641.7	2,269.4	2,354.3	2,472.1	2,538.0
Net interest	122.5	112.5	100.0	100.0	100.0
Tax	-530.3	-510.9	-456.9	-477.1	-485.8
Core PATAMI	1,988.9	1,645.9	1,978.6	2,067.6	2,114.7
Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	13,272.4	13,408.4	14,888.4	16,243.4	17,723.4
Intangible assets	151.8	175.4	186.0	190.0	193.0
Non-current assets	14,468.1	14,608.7	16,869.4	17,033.4	17,617.4
Cash	3,782.5	4,026.2	4,154.6	4,331.3	4,451.2
Trade debtors	899.6	990.0	1,107.5	1,176.8	1,206.3
Current assets	4,718.0	5,079.7	5,414.3	5,672.8	5,833.4
Trade creditors	1,069.0	1,203.6	1,161.6	1,103.4	1,043.3
Short-term debt	168.2	172.9	1,500.0	1,119.5	1,041.4
Current liabilities	1,295.7	1,376.5	2,661.6	2,223.0	2,084.7
Long-term debt	3,278.9	3,662.8	2,796.7	2,941.3	3,267.7
Non-current liabilities	4,550.9	4,902.1	4,349.8	4,644.5	4,970.9
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	11,770.4	12,311.8	12,841.4
Equity	13,339.5	13,409.8	15,272.3	15,838.6	16,394.7
Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	2,641.7	2,269.4	2,354.3	2,472.1	2,538.0
Depreciation & amortisation	983.0	1,035.5	1,150.0	1,126.6	1,074.9
Changes in working capital	-27.0	80.1	-86.8	-30.3	39.6
Operating cash flow	3,220.1	2,926.3	3,006.6	3,118.9	3,186.9
Capital expenditure	-1,031.7	-1,169.2	-1,120.4	-1,099.4	-1,079.9
Investing cash flow	-913.7	-1,050.6	-915.8	-952.6	-970.2
Dividends paid	-1,523.6	-1,622.6	-1,442.3	-1,665.1	-1,715.0
Financing cash flow	-1,662.9	-1,631.9	-1,962.5	-1,989.6	-2,096.7
Net cash flow	643.6	243.8	128.3	176.7	119.9
Beginning cash flow	3,138.9	3,782.5	4,026.2	4,154.6	4,331.3
Ending cash flow	3,782.5	4,026.2	4,154.6	4,331.3	4,451.2
Profitability Margins	2021A	2022A	2023E	2024F	2025F
Gross profit margin	48.1%	38.1%	36.7%	35.4%	34.8%
EBITDA margin	48.1%	37.7%	35.9%	34.1%	32.9%
PBT margin	46.8%	36.8%	36.1%	34.5%	33.4%
Core PAT margin	35.2%	26.7%	30.3%	28.9%	27.9%

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