



## Petronas Gas Berhad

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

**Maintain BUY**

### Positive Outlook for PGB's Utilities in FY24

**Revised Target Price: RM19.37**  
(previously RM18.75)

#### KEY INVESTMENT HIGHLIGHTS

- **4QFY23 revenue down -3%yoy due to lower product prices, lower RP2 tariff**
- **4QFY23 earnings up +10%yoy (within expectations) due to optimization efforts, higher share profit**
- **Earnings for Gas Transportation surged 3-fold, Utilities added +67%yoy in 4QFY23 due to lower opex**
- **Maintain BUY with revised TP: RM19.37**

**Maintain BUY, revised TP: RM19.37.** Petronas Gas Berhad (PGB)'s 4QFY23 earnings result came in below our yearly earnings estimates at 92% and within consensus' at 97%. In consideration of the higher earnings in 4QFY23, we maintain our **BUY** call on PGB, and **revise our target price to RM19.37** (previously RM18.75). We are optimistic on the group's prospects, in line with the recent GPA with PETRONAS and the government's ICPT surcharge to cushion an anticipated high gas cost. We expect that its long-term contracts and resiliency in its Utilities division would sustain the group in FY24.

**Revenue down -3%yoy.** PGB's 4QFY23 dropped -3.1%yoy to RM1.6b. This was due to lower product prices and customer offtakes in Utilities, as well as lower RP2 tariff in Regasification.

**Earnings up +7%yoy.** PGB's 4QFY23 net earnings added +7%yoy to RM441.6m. The higher earnings were due to: (i) lower fuel gas consumption, partly driven by optimisation efforts, (ii) higher gross profit, and (iii) higher share of profit from joint venture companies.

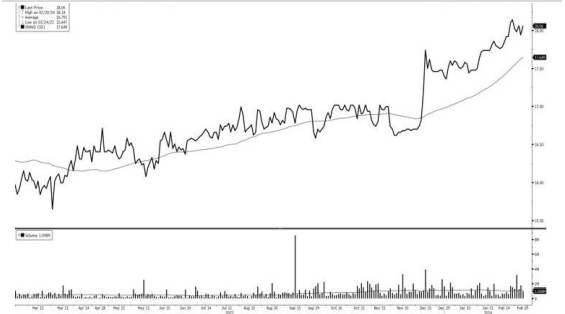
**Gas Processing.** 4QFY23 revenue rose +1.1%yoy to RM443m, due to higher performance incentive achieved. Conversely, earnings dropped -11.7%yoy to RM174.2m due to higher operating expenses (mainly depreciation expense in line with higher capex).

**Gas Transportation.** 4QFY23 revenue slipped -1.8%yoy to RM290.2m, 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 surged over 3-fold to RM126.1m from RM31.1m in 4QFY22, which was in line with lower operating expenses, mainly internal gas consumption. PGB's pipeline network achieved close to 100% reliability in 4QFY23.

#### RETURN STATISTICS

Price @ 27 <sup>th</sup> February 2024 (RM)	18.06
Expected share price return (%)	+7.3
Expected dividend yield (%)	+4.3
<b>Expected total return (%)</b>	<b>+11.6</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.9	-1.5
3 months	3.8	-0.4
12 months	8.4	1.1

#### INVESTMENT STATISTICS

FYE Dec	2024E	2025F	2026F
Revenue	7,098	7,524	7,990
Operating Profit	2,724	2,834	3,043
Profit Before Tax	2,785	2,884	3,070
Core PATAMI	2,129	2,191	2,327
Core EPS	107.6	110.7	117.6
DPS	80.7	83.0	88.2
Dividend Yield	4.3%	4.4%	4.7%

#### KEY STATISTICS

FBM KLCI	1,558.80
Issue shares (m)	1,978.73
Estimated free float (%)	15.96
Market Capitalisation (RM'm)	35,735.90
52-wk price range	RM16.1–RM18.2
3-mth average daily volume (m)	1.14
3-mth average daily value (RM'm)	19.89
Top Shareholders (%)	
Petroleum Nasional Bhd	51.00
Employees Provident Fund	13.22
Kumpulan Wang Persaraan Diperbadan	9.96

**Regasification.** 4QFY23 revenue dropped -4.4%yoy to RM341.8m, while earnings were down by -27.1%yoy to RM150.4m. 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; mainly higher floating storage charges and internal gas consumption. Nevertheless, LNG regasification terminals in Sg. Udang, Melaka (RGTSU) and Pengerang, Johor (RGTP) sustained a robust reliability performance close to 100% in 4QFY23.

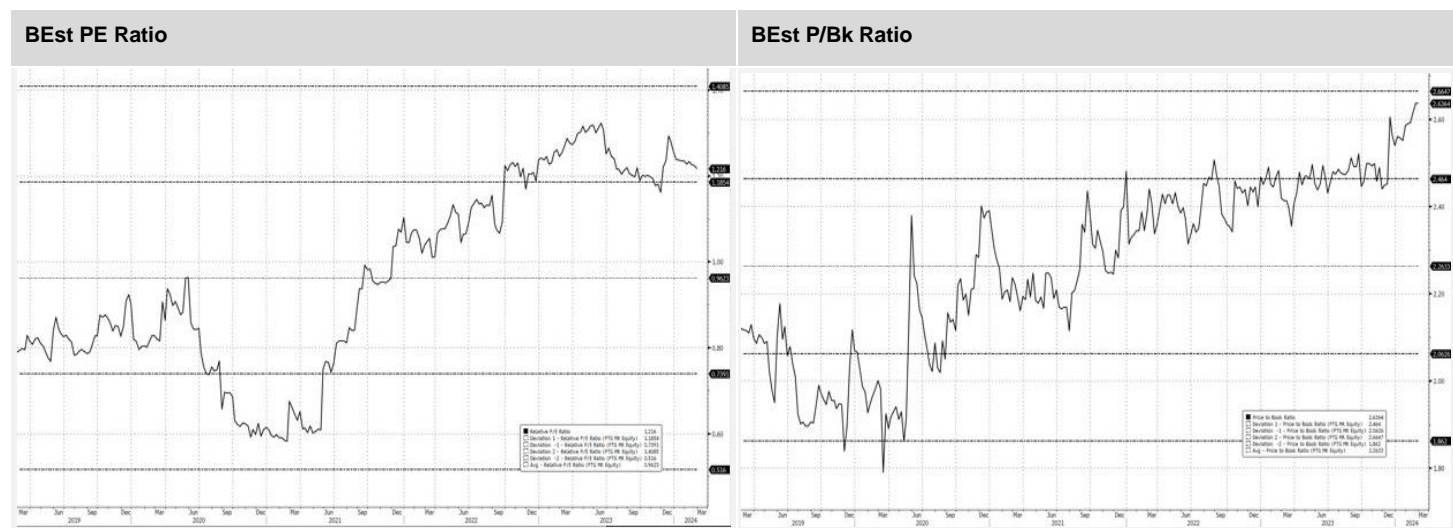
**Utilities.** 4QFY23 revenue decline by -6.3%yoy to RM507.9m, attributable to lower product prices and sales volume from steam and industrial gases products following lower fuel gas price and lower customers' offtake, offset by upward revision of ICPT surcharge. Meanwhile, earnings surged +66.5%yoy to RM55.9m, due to lower operating expenses, mainly fuel gas costs, in line with downward movement of benchmark price.

**Sanguine performance ahead.** Moving forward into FY24, we maintain our positive view on PGB's financial performance, supported by the group's creditable operational efficiency. The Gas Processing Agreement (GPA) for the third term was successfully concluded with PETRONAS in end-CY23, and the Gas Processing segment is expected to sustain robust earnings through this agreement. Additionally, the continuation of the imbalance cost pass-through (ICPT) surcharge initiated by the government for 1HCY24, related to electricity tariffs, is expected to partially offset the adverse impact of high fuel gas costs on the Utilities segment's earnings.

**External risks expected to extend into FY24.** The group will potentially face ongoing risks, primarily driven by: (i) geopolitical tensions in the Middle East, which could disrupt the supply chain, escalate Brent and JCC prices (leading to higher MRP), and result in volatile energy prices (leading to higher ICPT), (ii) a weakening MYR and (iii) a growing emphasis on sustainability requirements for PGB's operations and facilities. Despite the potential impact of these external risks on natural gas pricing and demand, we anticipate that PGB will uphold its commitment to operational excellence.

**Revised earnings estimates.** In consideration of the higher earnings in FY23 despite coming in slightly below our expectations, coupled with adjustments made to our forecast post-FY23 results, we revised our earnings forecast for FY24 and FY25 upward by +3% and +4% respectively. We maintain our **BUY** call with a revised **target price of RM19.37** (previously RM18.75), pegging a PER of 18x to a revised EPS24 of 107.6sen. The PER is a slight premium from the 5-year average PER for Utilities (17.8x), in consideration of PGB's robust FY23 earnings from its Utilities segment (+106.1%yoy to RM290.7m).

**FORWARD BAND**



Source: Bloomberg, MIDFR

**Table 1: Petronas Gas's quarterly earnings review**

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly results					Cumulative results		
	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)
<b>Revenue</b>	<b>1,632.9</b>	<b>1,550.3</b>	<b>1,582.8</b>	2.1	(3.1)	<b>6,160.2</b>	<b>6,445.4</b>	4.6
Cost of revenue	(1,164.5)	(968.7)	(1,076.0)	11.1	(7.6)	(3,812.5)	(4,158.4)	9.1
<b>Gross Profit</b>	<b>468.4</b>	<b>581.5</b>	<b>506.8</b>	(12.8)	8.2	<b>2,347.7</b>	<b>2,287.0</b>	(2.6)
Admin expenses	(30.8)	(28.1)	(39.1)	39.1	27.1	(113.5)	(131.1)	15.5
Other expenses	(22.5)	(13.3)	(3.0)	(77.4)	(86.7)	(151.0)	(62.1)	(58.9)
Other income	141.2	35.5	61.9	74.1	(56.2)	236.9	179.9	(24.1)
<b>Operating Profit</b>	<b>556.3</b>	<b>575.7</b>	<b>526.6</b>	(8.5)	(5.3)	<b>2,320.1</b>	<b>2,273.7</b>	(2.0)
Financing Costs	(47.4)	(23.6)	(23.4)	(0.8)	(50.6)	(178.4)	(126.8)	(29.0)
JCE	18.6	42.4	105.3	148.2	467.4	127.7	239.1	87.2
<b>Profit Before Tax</b>	<b>527.5</b>	<b>594.5</b>	<b>608.5</b>	<b>2.4</b>	<b>15.4</b>	<b>2,269.4</b>	<b>2,386.0</b>	5.1
Tax expense	(65.4)	(103.3)	(142.9)	38.3	118.6	(510.9)	(485.0)	(5.1)
<b>Profit After Tax</b>	<b>462.1</b>	<b>491.2</b>	<b>465.6</b>	<b>(5.2)</b>	<b>0.8</b>	<b>1,758.5</b>	<b>1,901.0</b>	8.1
Minority interest	49.6	22.7	24.0	5.8	(51.5)	112.5	81.4	(27.6)
<b>PATAMI</b>	<b>412.5</b>	<b>468.5</b>	<b>441.6</b>	<b>(5.7)</b>	<b>7.0</b>	<b>1,645.9</b>	<b>1,819.6</b>	10.6
Basic EPS (sen)	20.85	23.67	22.32	(5.7)	7.1	83.16	91.96	10.6
DPS (sen)	22.00	72.00	72.00	-	227.3	104.00	72.00	(30.8)
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross Profit margin (%)	28.7	37.5	32.0	(5.5)	3.3	38.1	35.5	(2.6)
Operating Profit margin (%)	34.1	37.1	33.3	(3.9)	(0.8)	37.7	35.3	(2.4)
PBT margin (%)	32.3	38.3	38.4	0.1	6.1	36.8	37.0	0.2
PATAMI margin (%)	25.3	30.2	27.9	(2.3)	2.6	26.7	28.2	1.5
Tax rate (%)	12.4	17.4	23.5	6.1	11.1	22.5	20.3	(2.2)
<b>Segmental:</b>								
<b>Revenue</b>								
- Gas Processing	438.2	444.0	443.0	(0.2)	1.1	1,746.8	1,778.2	1.8
- Gas Transportation	295.6	282.4	290.2	2.8	(1.8)	1,168.4	1,144.1	(2.1)
- Utilities	541.8	484.3	507.9	4.9	(6.3)	1,832.9	2,170.8	18.4
- Regasification	357.3	339.6	341.8	0.6	(4.4)	1,412.1	1,352.3	(4.2)
<b>Operating Profit</b>								
- Gas Processing	197.2	195.4	174.2	(10.9)	(11.7)	892.4	796.5	(10.7)
- Gas Transportation	31.1	148.1	126.2	(14.8)	306.3	563.3	562.2	(0.2)
- Utilities	33.6	76.6	55.9	(27.0)	66.5	141.0	290.7	106.1
- Regasification	206.5	161.3	150.4	(6.8)	(27.1)	750.9	637.6	(15.1)

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
Revenue	6160.176	6,445.4	7,097.5	7,523.9	7,989.8
EBITDA	2,320.1	2,273.7	2,724.0	2,834.3	3,042.6
D&A	1,035.5	1,141.4	1,175.2	1,181.6	1,188.9
EBIT	2,269.4	2,386.0	2,784.6	2,883.8	3,070.2
Net interest	112.5	81.439	87.6	95.3	99.9
Tax	-510.9	-485.0	-568.2	-597.5	-643.1
Core PATAMI	1,645.9	1,819.6	2,128.8	2,191.0	2,327.2
<b>Balance Sheet (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
Fixed assets	13,408.4	13,630.5	14,877.6	15,129.6	15,445.6
Intangible assets	298.3	255.9	357.1	340.8	329.7
<b>Non-current assets</b>	<b>14,608.7</b>	<b>14,806.1</b>	<b>15,067.6</b>	<b>15,322.6</b>	<b>15,639.6</b>
Cash	4,026.2	3,025.4	3,126.3	3,310.0	3,683.3
Trade debtors	990.0	926.6	972.3	1,071.9	1,182.1
<b>Current assets</b>	<b>5,079.7</b>	<b>4,513.2</b>	<b>4,236.1</b>	<b>4,522.8</b>	<b>5,010.3</b>
Trade creditors	1,203.6	1,097.4	942.7	1,005.8	1,185.3
Short-term debt	172.9	1,293.3	1,046.1	1,262.7	1,481.4
<b>Current liabilities</b>	<b>1,376.5</b>	<b>2,390.7</b>	<b>1,988.8</b>	<b>2,268.5</b>	<b>2,667.7</b>
Long-term debt	3,662.8	1,859.2	2,145.5	2,316.1	2,652.5
<b>Non-current liabilities</b>	<b>4,902.1</b>	<b>3,113.5</b>	<b>3,407.2</b>	<b>3,576.1</b>	<b>3,908.9</b>
Share capital	3,165.2	3,165.2	3,165.2	3,165.2	3,165.2
Retained earnings	9,982.9	10,389.9	10,443.7	10,549.9	10,628.2
<b>Equity</b>	<b>13,409.8</b>	<b>13,815.2</b>	<b>13,907.8</b>	<b>14,001.0</b>	<b>14,073.6</b>
<b>Cash Flow (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
PBT	2,269.4	2,386.0	2,784.6	2,883.8	3,070.2
Depreciation & amortisation	1,035.5	1,141.4	1,175.2	1,181.6	1,188.9
Changes in working capital	80.1	-3.4	-57.1	-22.5	10.3
<b>Operating cash flow</b>	<b>2,926.3</b>	<b>3,005.1</b>	<b>3,228.4</b>	<b>3,362.5</b>	<b>3,570.0</b>
Capital expenditure	-1,169.2	-1,167.2	-1,157.2	-1,147.3	-1,106.2
<b>Investing cash flow</b>	<b>-1,050.6</b>	<b>-1,430.3</b>	<b>-1,138.3</b>	<b>-1,136.9</b>	<b>-1,093.4</b>
Dividends paid	-1,622.6	-1,424.7	-1,662.1	-1,711.6	-1,759.4
<b>Financing cash flow</b>	<b>-1,631.9</b>	<b>-2,575.7</b>	<b>-1,989.1</b>	<b>-2,041.9</b>	<b>-2,103.3</b>
<b>Net cash flow</b>	<b>243.8</b>	<b>-1,000.9</b>	<b>100.9</b>	<b>183.7</b>	<b>373.3</b>
<b>Beginning cash flow</b>	<b>3,782.5</b>	<b>4,026.2</b>	<b>3,025.4</b>	<b>3,126.3</b>	<b>3,310.0</b>
<b>Ending cash flow</b>	<b>4,026.2</b>	<b>3,025.4</b>	<b>3,126.3</b>	<b>3,310.0</b>	<b>3,683.3</b>
<b>Profitability Margins</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
EBITDA margin	37.7%	35.3%	38.4%	37.7%	38.1%
PBT margin	36.8%	37.0%	39.2%	38.3%	38.4%
Core PAT margin	26.7%	28.2%	30.0%	29.1%	29.1%

Source: Bloomberg, MIDFR

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#### 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