



Petronas Dagangan Berhad

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

Maintain BUY

On the Lookout for Targeted Diesel Subsidy Impact

Unchanged Target Price: RM24.91

KEY INVESTMENT HIGHLIGHTS

- Targeted Diesel subsidy may have minimal impact to Petronas Dagangan, currently in transitional stages
- Higher opex in 1QFY24 due to marketing expenses
- Higher sales in 1QFY23 saw Commercial segment earnings down in 1QFY24, normalization expected
- Maintain BUY with TP of RM24.91

We attended Petronas Dagangan Bhd's (PDB) analyst briefing yesterday. Some salient highlights are as follows:

Targeted subsidy demand to be observed. Following the Prime Minister's speech on 21 May 2024 and in line with our thematic report (*Determining Winners and Losers of Targeted Subsidy, 4 April 2024*), PDB informed that on the Retail segment, Diesel prices will only affect Peninsular demand, which stood at one third of the retail sales volume. Meanwhile, Sabah & Sarawak is expected to remain the same with subsidy categories depending on vehicle type. For Commercial, Diesel the subsidy has minimal impact as the differential of commercial Diesel today and subsidised Diesel is not overtly significant, and the intention is to be more focused on transitioning. Consequently, we are expecting the consumer sector to rationalise to the smooth transition, giving minimal impact to cost of goods. At this point, the expectation of companies applying for the targeted Diesel subsidy is relatively small, and PDB is on the lookout if the number of applicants would spike following the speech, while being mindful of the mechanics of the targeted subsidy.

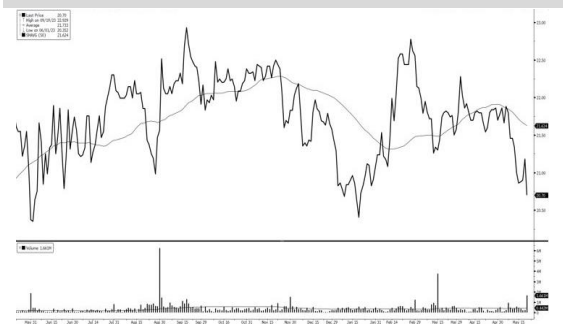
No impact on reported Shell's talks with Saudi Aramco. According to media reports, Shell had been in the talks with Saudi Aramco to sell off its pump stations in Malaysia with a deal worth up to USD1b. We opine that there would be no negative impact in terms of competition for PDB's pump stations, as the government still controls the retail pricing of fuel. Nevertheless, PDB has the leverage on its digital solutions for its operations, for all customers, which we believe gives the group an upper hand on its Retail and Convenience segments.

Operating expenditure was higher due to the festive season. PDB disclosed that its operating expenditure (opex) for 1QCY24 was due to marketing expenses following festivities (Chinese New Year and Eid), as well as promotions to the Malaysia Open 2024 and its recent sustainability project of collecting used cooking oil (UOC). Therefore, we expect opex from Retail and Convenience segments to be normalized in the next coming quarters.

RETURN STATISTICS

Price @ 23 rd May 2024 (RM)	20.42
Expected share price return (%)	+22.0
Expected dividend yield (%)	+4.5
Expected total return (%)	+26.5

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-6.3	-9.6
3 months	-5.4	-14.5
12 months	-8.6	-20.9

INVESTMENT STATISTICS

FYE Dec	2024E	2025F	2026F
Revenue	45,200	49,812	54,326
Operating Profit	1,582	1,813	1,829
Profit Before Tax	1,567	1,798	1,814
Core PATAMI	1,105	1,271	1,302
Core EPS	111.2	128.0	131.0
DPS	99.6	111.5	129.3
Dividend Yield	4.5	5.0	5.8


KEY STATISTICS

FBM KLCI	1,629.18
Issue shares (m)	993.45
Estimated free float (%)	14.03
Market Capitalisation (RM'm)	20,286.33
52-wk price range	RM20.3–RM23.6
3-mth average daily volume (m)	0.46
3-mth average daily value (RM'm)	10.02
Top Shareholders (%)	
Petroleum Nasional Bhd	63.92
Employees Provident Fund	12.42
Amanah Saham Nasional Bhd	7.66

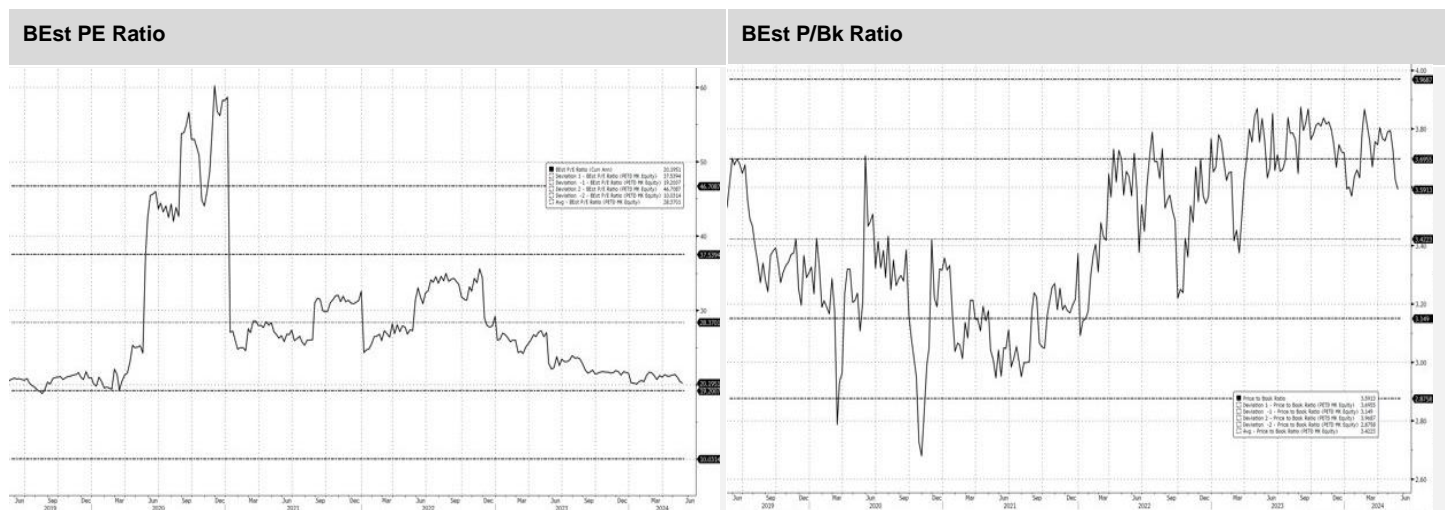
Commercial segment still an on uptrend. Petronas Dagangan Berhad (PDB)'s Commercial segment saw a decline in operational profit of -25%yoy in 1QFY24, as it achieved higher sales in 1QFY23. As of currently, the aviation sector is still contributing healthily to the Commercial segment. We believe the earnings in its Commercial segment will normalize and remain on an uptrend in the coming quarters, in line with better aviation recovery.

Brent crude oil the main indicator to costs. Echoing our report on PDB's 1QFY24 results, Brent crude oil averaged USD85pb, a +3.5%yoy increase compared to 1QCY23. The higher pricing contributed to higher average selling price (+2%yoy, 1QFY23: +1%yoy) but this caused lower sales volume growth (+7%yoy, 1QFY23: +13%yoy). While we are cautious on the demand side moving forward, geopolitical tensions and OPEC+'s prolonged production cuts continue to put a lid to hiking crude oil price, subsequently keeping crude oil price to a relatively stable range, which would still favour PDB's average selling price and sales volume in the near term.

Overall view remains positive. We reiterate our positive stance on PDB's earnings prospects, following expectations of better sales volume in the upcoming quarters, attributable to the anticipation of higher travelling frequency. Aviation sector is expecting air passenger traffic to reach 95-99% of pre-pandemic levels in CY24, giving PDB the leverage of higher Jet A1 fuel demand. Additionally, with a healthy growth of GDP numbers, PDB is expecting increased investments from ongoing multi-year projects. While the average Brent crude price is expected to be higher in 2QCY24 (estimated at USD85-88pb), we are expecting the price to be relatively stable, barring any sudden escalations in geopolitics following conflicts in Middle East and Europe, as well as the upcoming elections in many major countries in the Middle East, Europe, and Americas.

No changes to earnings estimates. Post-briefing, we make no changes to our earnings estimates, and maintain our **BUY** call on PDB with an unchanged **target price of RM24.91**. 

FORWARD BAND



Source: Bloomberg, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	36,748.9	37,549.3	45,200.2	49,811.6	54,326.4
EBITDA	1,148.9	1,351.088	1,582.232	1,813.213	1,829.391
D&A	438.5	462.8	458.8	467.0	479.3
EBIT	1,135.0	1,331.6	1,566.7	1,797.6	1,814.4
Net interest	11.2	23.7	23.0	23.0	23.0
Tax	-347.2	-364.8	-438.7	-503.3	-489.9
Core PATAMI	776.6	943.1	1,105.0	1,271.3	1,301.5
Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
Fixed assets	4,115.3	4,116.9	4,094.0	4,058.0	4,007.2
Intangible assets	0.5	0.1	0.5	0.3	0.3
Non-current assets	4,200.9	4,180.5	4,137.5	4,105.3	4,059.7
Cash	2,851.1	1,478.8	1,989.1	2,606.5	3,084.0
Trade debtors	4,027.9	5,634.0	5,677.3	5,911.6	6,293.3
Current assets	7,056.6	7,306.5	7,997.3	8,755.8	9,580.4
Trade creditors	5,016.7	5,356.9	5,464.7	5,615.1	5,769.7
Short-term debt	49.4	52.4	74.6	56.4	51.4
Current liabilities	5,205.8	5,440.3	5,613.6	5,744.2	5,902.6
Long-term debt	134.9	99.8	118.5	108.4	110.8
Non-current liabilities	264.3	210.0	245.9	235.6	236.4
Share capital	993.5	993.5	993.5	993.5	993.5
Retained earnings	4,749.3	4,774.9	5,190.5	5,773.5	6,370.3
Equity	5,787.4	5,836.7	6,275.7	6,881.3	7,501.1
Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	1,135.0	1,331.6	1,566.7	1,797.6	1,814.4
Depreciation & amortisation	438.5	462.8	458.8	467.0	479.3
Changes in working capital	812.7	-1,283.2	1,582.5	639.2	332.5
Operating cash flow	1,994.9	-87.2	3,239.6	2,476.0	2,216.7
Capital expenditure	-464.9	-466.9	-435.9	-431.0	-428.6
Investing cash flow	-320.793	-310.2	-341.9	-342.7	-346.8
Dividends paid	-615.9	-923.9	-689.5	-688.3	-704.7
Financing cash flow	-696.0	-984.6	-880.7	-879.5	-895.9
Net cash flow	978.049	-1,382.1	2,017.0	1,253.8	974.0
Beginning cash flow	1,882.6	2,851.1	1,478.8	1,989.1	2,606.5
Ending cash flow	2,851.1	1,478.8	1,989.1	2,606.5	3,084.0
Profitability Margins	2022A	2023A	2024E	2025F	2026F
EBITDA margin	3.1%	3.6%	3.5%	3.6%	3.4%
PBT margin	3.1%	3.5%	3.5%	3.6%	3.3%
Core PAT margin	2.1%	2.5%	2.4%	2.6%	2.4%

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