



Petronas Gas Berhad

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

Maintain BUY

Lower Fuel Gas Price Pushed 1QFY24 Earnings Upwards

Revised Target Price: RM19.44
(Previously RM19.37)

KEY INVESTMENT HIGHLIGHTS

- **1QFY24 earnings up +8%yoy due to lower fuel gas, came in within expectations**
- **1QFY24 revenue down -3%yoy due to lower product prices, offset by higher reservation, upward tariff**
- **Stable earnings in coming quarters on estimated slower MRP growth in 2HCY24**
- **Maintain BUY with revised TP: RM19.44**

Maintain BUY, TP: RM19.37. Petronas Gas Berhad (PGB)'s 4QFY23 earnings result came in within our yearly earnings estimates at 22% and consensus' at 24%. We maintain our **BUY** call on PGB and **revise our target price to RM19.44** (previously RM19.37).

1QFY24 revenue down -3%yoy. PGB's 1QFY24 revenue was down by -3.4% to RM1.6b. This was mainly attributable to lower revenue from Utilities segment in line with lower product prices, offset by higher revenue from Gas Processing following higher reservation charges income under the new term, and higher revenue from Gas Transportation due to upward tariff adjustment.

1QFY24 normalised earnings up +8%yoy. 1QFY24 normalised earnings gained +7.7%yoy to RM456.6m. The higher earnings were due to lower fuel gas and internal gas consumption expenses, in tandem with lower fuel gas price. However, this was partly negated by unfavourable foreign exchange movement.

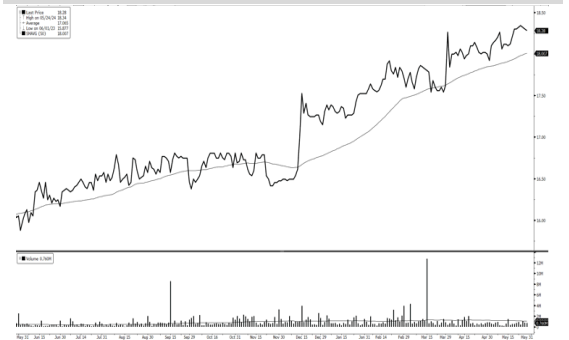
Gas Processing. 1QFY24 revenue rose +5.4%yoy to RM467.8m, due to higher reservation charges income under the new term of gas processing agreement effective 1st January 2024. Conversely, earnings dropped -marginally by -0.2%yoy to RM207.2m. The comparable results was due to higher operating expenses. The Gas Processing plant performed close to 100% reliability in 1QFY24.

Gas Transportation. 1QFY24 revenue added +3.8%yoy to RM299.5m, due to upward tariff adjustment mainly related to change in internal gas consumption as allowed under Incentive-Based Regulation (IBR) framework by Suruhanjaya Tenaga. Meanwhile, earnings increased by +32.2%yoy to RM162.6m mainly attributable to lower operating expenses, internal gas consumption expense in tandem with lower fuel gas price coupled with higher revenue. The group's pipeline network registered close to 100% reliability.

RETURN STATISTICS

Price @ 29 th May 2024 (RM)	18.28
Expected share price return (%)	+6.4
Expected dividend yield (%)	+4.2
Expected total return (%)	+10.6

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.4	0.0
3 months	3.7	-1.5
12 months	8.8	-4.8

INVESTMENT STATISTICS

FYE Dec	2024E	2025F	2026F
Revenue	7,112	7,572.9	7,990.4
Operating Profit	2,640	2,672.7	2,874.7
Profit Before Tax	2,700	2,722.2	2,927.3
Core PATAMI	2,138	2,198.1	2,368.0
Core EPS	108.0	111.1	119.7
DPS	81.0	83.3	89.8
Dividend Yield	4.2%	4.3%	4.6%

KEY STATISTICS

FBM KLCI	1,605.35
Issue shares (m)	1,978.73
Estimated free float (%)	16.34
Market Capitalisation (RM'm)	3,6171.2
52-wk price range	RM16.4 - RM18.4
3-mth average daily volume (m)	1.126763
3-mth average daily value (RM'm)	20.19079
Top Shareholders (%)	
Petroliam Nasional Bhd	51
Employees Provident Fund	12.96
Kumpulan Wang Persaraan	9.96
Diperbadan	

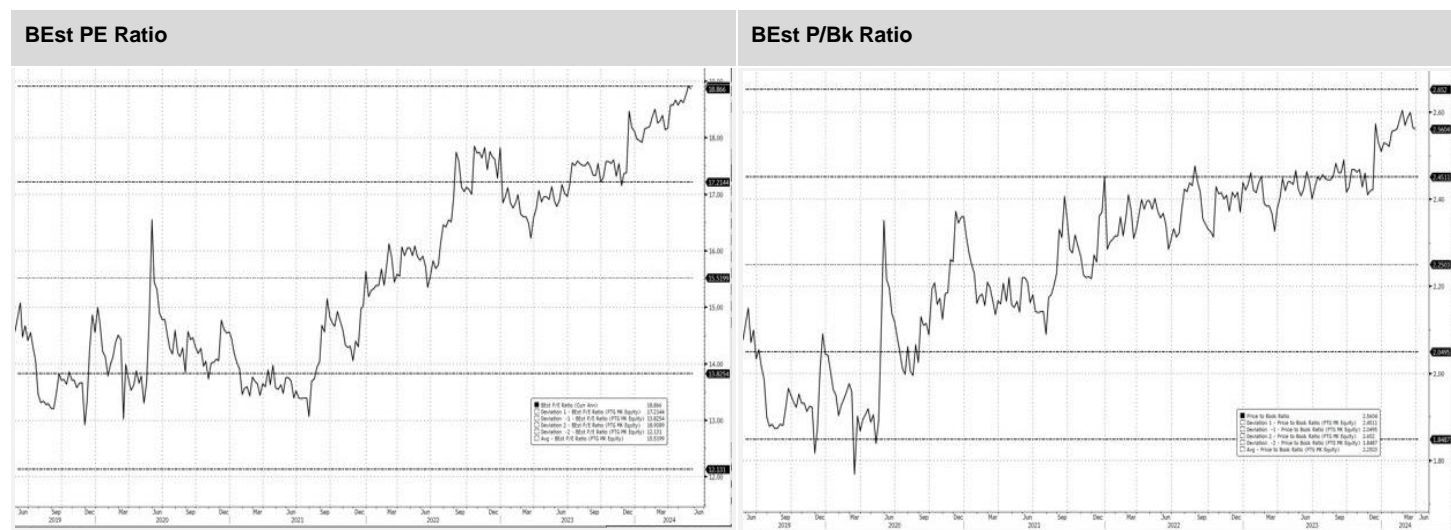
Regasification. 1QFY24 revenue added +0.6%yoy to RM336.2m, while earnings were down by -2.3%yoy to RM156.2m. The higher earnings were due to higher operating expenses, mainly maintenance and depreciation expenses, in line with higher level of activities performed. LNG regasification terminals in Sg. Udang, Melaka (RGTSU) and Pengerang, Johor (RGTP) sustained its strong reliability performance at 100%.

Utilities. 1QFY24 revenue declined by -15.3%yoy to RM515.3m, attributable to lower product prices in tandem with reduced fuel gas price and lower electricity tariff in line with downward revision of Imbalance Cost Pass-Through (ICPT) surcharge. Meanwhile, earnings surged +32%yoy to RM75.2m, due to favourable impact of lower fuel gas cost. The average fuel gas price was lower by -28.0%yoy to RM46.36pMMBtu (CY23: RM64.38pMMBtu). PCG’s Utilities plants achieved 100% Product Delivery Reliability for steam and electricity while close to 100% for industrial gases in 1QFY24.

Stable performance expected ahead. We reiterate our positive stance on PGB's as we expect the group’s performance in FY24 is to remain resilient, on the strength of the stable-earning contracts and sustained operational performance. The new 3rd Term Gas Processing Agreement and the approved upward tariff adjustment for Gas Transportation changes to internal gas consumption effective 1st January 2024, are anticipated to support PGB’s upcoming earnings. While challenges may occur in terms of inflationary costs, we believe with PGB’s prioritisation in operation efficiency and sustainability could minimise the impact of inflationary operating cost.

Revised earnings estimates. While 1QFY24 earnings came in within our expectations, we adjusted the revenue according to the higher reservation charges income under the new term, as well as the upward tariff adjustment. However, FY24 and FY25 earnings estimates only moved upwards marginally (+0.4% and +0.3% respectively). We had factored in the possible lower prices for fuel gas in the near term, considering MRP is expected to stagnate in 2HCY24 following an expected stable Brent crude oil. We maintain our **BUY** call with a revised **target price of RM19.44** (previously RM19.37), pegging a PER of 18x to a revised EPS24 of 108sen.

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		
	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)	3MFY23	3MFY24	YoY (%)
Revenue	1,674.9	1,582.8	1,618.8	2.3	(3.4)	1,674.9	1,618.8	(3.4)
Cost of revenue	(1,127.9)	(1,076.0)	(1,017.6)	(5.4)	(9.8)	(1,127.9)	(1,017.6)	(9.8)
Gross Profit	547.1	506.8	601.2	18.6	9.9	547.1	601.2	9.9
Admin expenses	(33.9)	(39.1)	(37.2)	(4.9)	9.5	(33.9)	(37.2)	9.5
Other expenses	(1.9)	(3.0)	(13.8)	361.9	619.0	(1.9)	(13.8)	619.0
Other income	44.2	61.9	43.2	(30.2)	(2.2)	44.2	43.2	(2.2)
Operating Profit	555.4	526.6	593.4	12.7	6.9	555.4	593.4	6.9
Financing Costs	(42.8)	(23.4)	(23.0)	(1.9)	(46.3)	(42.8)	(23.0)	(46.3)
JCE	44.4	105.3	26.9	(74.4)	(39.4)	44.4	26.9	(39.4)
Profit Before Tax	556.9	608.5	597.3	(1.8)	7.3	556.9	597.3	7.3
Tax expense	(108.6)	(142.9)	(125.1)	(12.5)	15.1	(108.6)	(125.1)	15.1
Profit After Tax	448.3	465.6	472.3	1.4	5.4	448.3	472.3	5.4
Minority interest	24.1	24.0	15.6	(34.9)	(35.1)	24.1	15.6	(35.1)
PATAMI	424.2	441.6	456.6	3.4	7.7	424.2	456.6	7.7
Basic EPS (sen)	21.44	22.32	23.08	3.4	7.6	21.44	23.08	7.6
DPS (sen)	82.00	72.00	16.00	(77.8)	(80.5)	82.00	16.00	(80.5)
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross Profit margin (%)	32.7	32.0	37.1	5.1	4.5	32.7	37.1	4.5
Operating Profit margin (%)	33.2	33.3	36.7	3.4	3.5	33.2	36.7	3.5
PBT margin (%)	33.3	38.4	36.9	(1.5)	3.6	33.3	36.9	3.6
PATAMI margin (%)	25.3	27.9	28.2	0.3	2.9	25.3	28.2	2.9
Tax rate (%)	19.5	23.5	20.9	(2.5)	1.4	19.5	20.9	1.4
Segmental:								
Revenue								
- Gas Processing	443.9	443.0	467.8	5.6	5.4	443.9	467.8	5.4
- Gas Transportation	288.4	290.2	299.5	3.2	3.8	288.4	299.5	3.8
- Utilities	608.4	507.9	515.3	1.5	(15.3)	608.4	515.3	(15.3)
- Regasification	334.3	341.8	336.2	(1.6)	0.6	334.3	336.2	0.6
Operating Profit								
- Gas Processing	207.6	174.2	207.2	18.9	(0.2)	207.6	207.2	(0.2)
- Gas Transportation	123.0	126.2	162.6	28.8	32.2	123.0	162.6	32.2
- Utilities	57.0	55.9	75.2	34.4	32.0	57.0	75.2	32.0
- Regasification	160.0	150.4	156.2	3.8	(2.3)	160.0	156.2	(2.3)

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	6160.176	6,445.4	7,111.9	7,572.9	7,990.4
EBITDA	2,320.1	2,273.7	2,639.8	2,672.7	2,874.7
D&A	1,035.5	1,141.4	1,175.2	1,181.6	1,188.9
EBIT	2,269.4	2,386.0	2,700.4	2,722.2	2,927.3
Net interest	112.5	81.439	87.6	95.3	99.9
Tax	-510.9	-485.0	-475.1	-428.8	-459.4
Core PATAMI	1,645.9	1,819.6	2,137.7	2,198.1	2,368.0
Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
Fixed assets	13,408.4	13,630.5	14,877.6	15,129.6	15,445.6
Intangible assets	298.3	255.9	190.0	193.0	194.0
Non-current assets	14,608.7	14,806.1	15,067.6	15,322.6	15,639.6
Cash	4,026.2	3,025.4	3,042.1	3,064.1	3,294.5
Trade debtors	990.0	926.6	974.2	1,078.9	1,182.1
Current assets	5,079.7	4,513.2	4,154.9	4,286.2	4,623.5
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
Current liabilities	1,376.5	2,390.7	1,988.8	2,268.5	2,667.7
Long-term debt	3,662.8	1,859.2	2,145.5	2,316.1	2,652.5
Non-current liabilities	4,902.1	3,113.5	3,407.2	3,576.1	3,908.9
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	10,362.7	10,036.4	10,524.1
Equity	13,409.8	13,815.2	13,907.8	14,001.0	14,073.6
Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
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
Operating cash flow	2,926.3	3,005.1	3,144.2	3,200.9	3,427.1
Capital expenditure	-1,169.2	-1,167.2	-1,157.2	-1,147.3	-1,106.2
Investing cash flow	-1,050.6	-1,430.3	-1,138.3	-1,136.9	-1,093.4
Dividends paid	-1,622.6	-1,424.7	-1,662.1	-1,711.6	-1,759.4
Financing cash flow	-1,631.9	-2,575.7	-1,989.1	-2,041.9	-2,103.3
Net cash flow	243.8	-1,000.9	16.7	22.0	230.4
Beginning cash flow	3,782.5	4,026.2	3,025.4	3,042.1	3,064.1
Ending cash flow	4,026.2	3,025.4	3,042.1	3,064.1	3,294.5
Profitability Margins	2022A	2023A	2024E	2025F	2026F
EBITDA margin	37.7%	35.3%	37.1%	35.3%	36.0%
PBT margin	36.8%	37.0%	38.0%	35.9%	36.6%
Core PAT margin	26.7%	28.2%	30.1%	29.0%	29.6%

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