

22 May 2020

Energy & Petrochemicals | Energy

Petron Malaysia Refining & Marketing (PETRONM MK)

Sell (from Neutral)

Surprising Losses In 1Q20; Cut To SELL

Target Price (Return):	MYR3.42 (-26%)
Price:	MYR4.62
Market Cap:	USD287m
Avg Daily Turnover (MYR/USD)	1.23m/0.28m

- **Downgrade to SELL from Neutral, with new TP of MYR3.42 from MYR3.02, -26% expected total return.** 1Q20 results missed expectations with substantial losses dragged by weaker refining margins, lower sales volume and inventory holding losses. We expect Petron Malaysia to stay in the red in 2Q20, factoring in the full impact from the MCO. We believe its share price has yet to factor in upcoming earnings weakness.
- **Below expectations.** Petron recorded 1Q20 core net loss of MYR84m. This missed our expectations of FY20F core net profit of MYR136m largely due to weaker-than-expected sales volume and GPM.
- **Results review.** Petron registered weaker revenue in 1Q20 (-23% QoQ; -18% YoY) mainly dragged by lower sales volume of 8.1m bbls (-12% QoQ; -11% YoY). The company fell into the red with a core loss of MYR84m (from core profit of MYR30m and MYR53m in 4Q19 and 1Q19 respectively) no thanks to weaker refining margin and higher inventory losses from the sudden plunge in oil prices.
- **Dragged by inventory losses.** We believe 2Q20 is likely to stay in the red as refining margins should remain weak. Management expects lower refinery utilisation from the normal run rate of c.60% this year due to weaker product demand. Refining margins are expected to be remain volatile and under pressure in 2020. 2Q20 results are likely to be further marred by potential inventory losses from a decline in crude oil prices. Note that crude oil prices have averaged USD28.60/bbl YTD-2Q20 – 44% lower than the average of USD51.10/bbl in 1Q20.
- **Potential new normal to cap recovery?** Retail product sales volume and jet fuel demand have fallen by as much as 60% and 80% during the Movement Control Order (MCO) period due to travel restriction. Although the MCO could end by June, we believe social distancing will remain, possibly until 2021. Furthermore, we are also uncertain over retail product demand as there is a possibility that the new normal such as working from home may continue going forward. Therefore, we believe recovery will take longer than expected.
- **Downgrade to SELL.** We project Petron to incur a MYR96m loss from MYR136m profit estimate after lowering sales volume and GPM. FY21F-22F earnings are also cut by 6-11% accordingly. Although we expect a gradual recovery of sales volume in 2H20F and 2021F, it may not return to 2019 levels, even in 2021. Post earnings adjustment, our TP is lifted to MYR3.42 from MYR3.02 after lowering our valuation base year to FY21F with an unchanged 6x P/E (-1SD from its 5-year mean).

Analyst

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Share Data

Avg Daily Turnover (MYR/USD)	1.23m/0.28m
52-wk Price low/high (MYR)	2.50 – 6.77
Free-Float (%)	21
Shares outstanding (m)	270
Expected Share Price Return	-26%
Expected Dividend Return	-
Expected Total Return	-26%

Shareholders (%)

Petron	73.4%
Tan Hock Cheng	1.0%

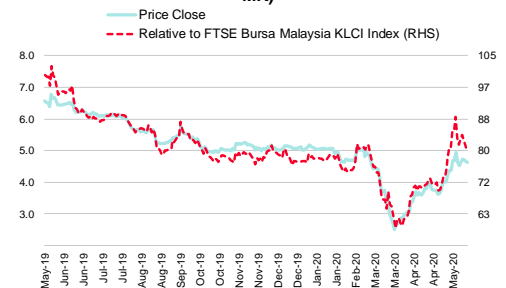
Additional Data

Bursa Code	3042
Listing Market	Main Market
Beta	1.0
3-Month Average Volume ('000)	1.23
ROA (%)	-3.7%

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(8.0)	21.9	(8.0)	(9.2)	(29.8)
Relative	0.6	16.8	(2.8)	(0.4)	(20.3)

Petron Malaysia Refining & Marketing (PETRONM MK)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	12,047	11,457	8,324	9,399	10,002
Recurring net profit (MYRm)	224	177	(96)	154	166
Recurring net profit growth (%)	(41.1)	(21.1)	(154.2)	-	8.0
Recurring P/E (x)	5.56	7.04	na	8.10	7.50
P/B (x)	0.7	0.7	0.7	0.7	0.6
P/CF (x)	8.51	2.27	35.39	6.23	5.96
Dividend Yield (%)	4.3	2.6	na	2.5	2.7
EV/EBITDA (x)	4.47	3.39	na	3.83	3.40
Return on average equity (%)	14.1	10.3	(5.5)	8.8	8.8
Net debt to equity (%)	12.7	net cash	1.7	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Malaysia	Recurring EPS	0.83	0.66	(0.36)	0.57	0.62
Energy & Petrochemicals	DPS	0.20	0.12	-	0.11	0.12
Petron Malaysia Refining & Marketing	BV/PS	6.18	6.61	6.26	6.72	7.21
PETRONM MK	Return on average equity (%)	14.1	10.3	(5.5)	8.8	8.8
Sell						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	5.56	7.04	na	8.10	7.50
P/BV	P/B (x)	0.7	0.7	0.7	0.7	0.6
	FCF Yield (%)	(0.9)	15.9	(5.2)	9.6	7.2
Key drivers	Dividend Yield (%)	4.3	2.6	-	2.5	2.7
i. Higher refinery utilisation rate;	EV/EBITDA (x)	4.47	3.39	na	3.83	3.40
ii. Higher price for commodity products.	EV/EBIT (x)	6.27	4.58	na	5.59	4.89
	Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	12,047	11,457	8,324	9,399	10,002
i. Unscheduled shutdown for refinery;	Gross profit	444	472	19	327	347
ii. Weaker refining margins.	EBITDA	326	358	(23)	310	333
	Depreciation and amortisation	(93)	(93)	(96)	(98)	(102)
Company Profile	Operating profit	233	265	(119)	212	231
Petron Malaysia is a fuel retail distributor with operations in Malaysia. The company owns a 88,000kbpd refinery in Port Dickson, Malaysia.	Net interest	(9)	(3)	(8)	(10)	(13)
	Pre-tax profit	296	239	(126)	203	219
	Taxation	(72)	(62)	30	(49)	(53)
	Reported net profit	225	177	(96)	154	166
	Recurring net profit	224	177	(96)	154	166
	Cash flow (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(157)	253	36	(52)	(58)
	Cash flow from operations	147	549	35	200	209
	Capex	(158)	(350)	(100)	(80)	(120)
	Cash flow from investing activities	(232)	(350)	(100)	(80)	(120)
	Dividends paid	(68)	(35)	0	(31)	(33)
	Cash flow from financing activities	323	2	(25)	(11)	(3)
	Cash at beginning of period	120	145	157	67	176
	Net change in cash	237	201	(90)	109	86
	Ending balance cash	359	349	70	179	265
	Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	178	166	76	185	271
	Tangible fixed assets	691	1,164	1,194	1,202	1,246
	Total assets	3,135	3,180	2,628	2,856	3,067
	Short-term debt	390	130	105	125	155
	Total liabilities	1,466	1,394	938	1,043	1,121
	Total equity	1,669	1,786	1,690	1,813	1,946
	Total liabilities & equity	3,135	3,180	2,628	2,856	3,067
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	16.2	(4.9)	(27.3)	12.9	6.4
	Recurrent EPS growth (%)	(41.1)	(21.1)	(154.2)	0.0	8.0
	Gross margin (%)	3.7	4.1	0.2	3.5	3.5
	Operating EBITDA margin (%)	2.7	3.1	(0.3)	3.3	3.3
	Net profit margin (%)	1.9	1.5	(1.2)	1.6	1.7
	Capex/sales (%)	1.3	3.1	1.2	0.9	1.2
	Interest cover (x)	19.3	38.8	(11.3)	17.0	14.9

Source: Company data, RHB

Figure 1: 1Q20 results review

FYE Dec (MYRm)	1Q19	4Q19	1Q20	QoQ	YoY	Comments
Revenue	2,747	2,915	2,240	-23%	-18%	1Q20 total sales volume weakened -12% QoQ and -11% YoY to 8.1m bbls
Other income	16	17	15	-12%	-3%	
Admin expense	-4	-4	-3	-8%	-14%	
EBITDA	114	64	-80	<i>nm</i>	<i>nm</i>	
Depreciation	-23	-21	-23	10%	2%	
EBIT	92	43	-103	<i>nm</i>	<i>nm</i>	
EBITDA margin (%)	4	2	-4			
Interest income	1	1	0	-38%	-70%	
Interest expense	-4	1	-1	<i>nm</i>	-68%	
EI/Others	-5	1	-1	<i>nm</i>	-84%	
Pretax profit	77	40	-113	<i>nm</i>	<i>nm</i>	
Pretax margin (%)	3	1	-5			
Tax	-19	-11	29	<i>nm</i>	<i>nm</i>	
Effective tax rate (%)	-25	-27	-26			
Net profit	58	29	-84	<i>nm</i>	-245%	
Core profit	53	30	-84	<i>nm</i>	-260%	Below expectations due to weaker-than-expected sales volume and gross profit margin.
Net margin (%)	2	1	-4			

Source: Company data, RHB

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