

30 May 2024

Energy & Petrochemicals | Downstream Products

Petronas Gas (PTG MK)

Neutral (Maintained)

A Decent Start

- **NEUTRAL, new MYR17.47 from MYR17.04, 4% downside.** Petronas Gas' results are in line, with core earnings improving 11% YoY on stronger gas processing and transportation contributions as well as lower operating costs. We expect the group to continue investing in both regulated and non-regulated projects, but near-term earnings could be still pressured by elevated maintenance costs. While we see flattish growth in its core business in the near term, PTG still offers decent dividend yields of c.4.4-4.5%, backed by a strong balance sheet (1Q24 net gearing of 0.01x).
- **Within expectations.** 1Q24 core earnings of MYR470m (+7% QoQ, +11% YoY) are within expectations, at 25% and 24% of our and Street full-year estimates. A first interim DPS of 16 sen was declared (1Q23: 16 sen).
- **Results review.** 1Q24 core earnings improved by 7% QoQ, led by higher reservation charges for the gas processing division and gas transportation revenue following the upward tariff rate adjustment that took effect this year. This was further anchored by a decrease in opex, as a result of lower maintenance activities. YoY, 1Q24 core earnings also increased by 11% on stronger numbers from utilities (+32%; lower fuel gas cost) and gas transportation (+32%; lower internal gas consumption expense and opex).
- **Outlook.** In March, PTG announced that it will build a new compression station in Jeram, to improve Peninsular Gas Utilities III capacity, with a total investment cost of <MYR650m. This project will be regulated under the Incentive-Based Regulation (IBR) framework and will be compensated via a transmission pipeline tariff. The >MYR100m third LNG storage tank project at Pengerang is still progressing as planned, with the commercial operation date scheduled for mid-2025. The recently announced IBR tariff adjustment for FY24 is estimated to lift segmental revenue by 1.6% this year. Overall maintenance activities scheduled for this year are likely to be similar to that of FY23, but maintenance costs will be higher due to the implementation of an 8% service tax. Capex spending is also guided to be higher this year with a 60:40 ratio between non-regulated and regulated capex. As our dividend payout ratio assumption is 85% (vs the average 5-year payout ratio of 90%), PTG still offers decent dividend yields of c.4.4-4.5% for FY24-26F.
- **We maintain our earnings estimates** but lift our TP to MYR17.47 after rolling forward our valuation base year to FY25. Our TP incorporates a 6% ESG discount, based on the group's ESG score of 2.7 out of 4 (country median: 3). Key upside risks: Stronger-than-expected operating margins and lower-than-expected tariff cuts. Key downside risks: Higher-than-expected tariff cuts and the removal of gas subsidies.

Target Price (Return): MYR17.47 (-4%)
Price (Market Cap): MYR18.30 (USD7,689m)
ESG score: 2.7 (out of 4)
Avg Daily Turnover (MYR/USD) 18.3m/3.87m

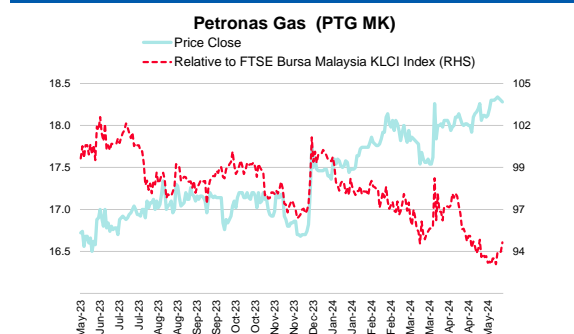
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.1	1.4	1.9	8.6	8.8
Relative	(5.3)	0.0	(1.6)	(2.4)	(5.5)
52-wk Price low/high (MYR)				16.5	18.3



Source: Bloomberg

Overall ESG Score: 2.7 (out of 4)

E: MODERATE

The group's sustainability blueprint is in line with Petronas' Net Zero Carbon Emissions by 2050 (NZCE). It continues to curb emissions, primarily through two key strategies – enhancing its Operational Excellence (OE) to reduce Scope 1 emissions and exploring renewable energy opportunities such as Green Electricity Tariff (GET) to reduce Scope 2 emissions. However, its emissions with exported energy increased by 1.8% to 5.91m tCO₂e in 2023.

S: EXCELLENT

Efforts on employee relations, health & safety, and community engagement are well-organised, with good disclosure. There are ongoing efforts such as its Fatigue Management System to reduce incidents. In 2023, the group reported zero fatalities. Its lost time injury rate (LTIR) was at 0.12 in 2023, level with that of the previous year.

G: EXCELLENT

Board characteristics are within the requirements stipulated by Bursa Malaysia. More than half of it consists of independent directors, with 38% female representation, and directors are skilled and experienced. Shareholder rights are well protected.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	6,160	6,445	6,474	6,503	6,532
Recurring net profit (MYRm)	1,727	1,850	1,860	1,877	1,895
Recurring net profit growth (%)	(14.7)	7.2	0.5	0.9	1.0
Recurring P/E (x)	20.95	19.55	19.45	19.27	19.09
P/B (x)	2.8	2.7	2.6	2.6	2.5
P/CF (x)	12.36	12.04	12.26	12.07	12.03
Dividend Yield (%)	3.9	4.4	4.4	4.4	4.5
EV/EBITDA (x)	10.03	9.91	9.33	9.13	8.87
Return on average equity (%)	12.5	13.6	13.6	13.4	13.3
Net debt to equity (%)	net cash	0.9	0.7	0.3	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.87	0.94	0.94	0.95	0.96
Energy & Petrochemicals	DPS	0.72	0.80	0.80	0.81	0.81
Petronas Gas	BVPS	6.64	6.85	6.99	7.13	7.28
PTG MK	Return on average equity (%)	12.5	13.6	13.6	13.4	13.3
Neutral						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	20.95	19.55	19.45	19.27	19.09
SOP	P/B (x)	2.8	2.7	2.6	2.6	2.5
	FCF Yield (%)	4.9	5.1	4.8	5.0	5.5
Key drivers	Dividend Yield (%)	3.9	4.4	4.4	4.4	4.5
i. No downward adjustment in tariff rates;	EV/EBITDA (x)	10.03	9.91	9.33	9.13	8.87
ii. Securing a new regasification facility.	EV/EBIT (x)	14.50	14.88	13.76	13.46	13.09
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	6,160	6,445	6,474	6,503	6,532
Key upside risks:	Gross profit	2,348	2,287	2,433	2,443	2,453
i. Stronger-than-expected operating margins;	EBITDA	3,356	3,415	3,567	3,582	3,598
ii. Lower-than-expected tariff cuts.	Depreciation and amortisation	(1,036)	(1,141)	(1,147)	(1,153)	(1,159)
Key downside risks:	Operating profit	2,320	2,274	2,420	2,430	2,440
i. Higher-than-expected tariff rate cuts;	Net interest	(178)	(127)	(142)	(142)	(142)
ii. Removal of gas subsidies.	Pre-tax profit	2,269	2,386	2,529	2,551	2,575
	Taxation	(511)	(485)	(582)	(587)	(592)
Company Profile	Reported net profit	1,645	1,820	1,860	1,877	1,895
Petronas Gas is Malaysia's leading gas infrastructure and centralised utilities company. It is involved in gas transportation, processing, LNG regasification and utilities.	Recurring net profit	1,727	1,850	1,860	1,877	1,895
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	17	(538)	(34)	1	1
	Cash flow from operations	2,926	3,005	2,951	2,996	3,007
	Capex	(1,169)	(1,167)	(1,200)	(1,200)	(1,000)
	Cash flow from investing activities	(1,051)	(1,430)	(1,200)	(1,200)	(1,000)
	Dividends paid	(1,425)	(1,576)	(1,581)	(1,596)	(1,611)
	Cash flow from financing activities	(1,632)	(2,573)	(1,723)	(1,737)	(1,753)
	Cash at beginning of period	3,782	4,026	3,028	3,056	3,115
	Net change in cash	244	(998)	28	59	254
	Ending balance cash	4,026	3,028	3,056	3,115	3,369
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	4,026	3,028	3,056	3,115	3,369
	Tangible fixed assets	13,408	13,630	13,683	13,731	13,572
	Total investments	942	1,020	1,271	1,535	1,812
	Total assets	19,688	19,319	19,655	20,029	20,405
	Short-term debt	173	1,293	1,293	1,293	1,293
	Total long-term debt	3,663	1,859	1,859	1,859	1,859
	Total liabilities	6,279	5,504	5,473	5,478	5,483
	Total equity	13,410	13,815	14,181	14,550	14,922
	Total liabilities & equity	19,688	19,319	19,655	20,029	20,405
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	9.1	4.6	0.4	0.4	0.4
	Recurrent EPS growth (%)	(14.7)	7.2	0.5	0.9	1.0
	Gross margin (%)	38.1	35.5	37.6	37.6	37.6
	Operating EBITDA margin (%)	54.5	53.0	55.1	55.1	55.1
	Net profit margin (%)	26.7	28.2	28.7	28.9	29.0
	Dividend payout ratio (%)	86.6	86.6	85.0	85.0	85.0
	Capex/sales (%)	19.0	18.1	18.5	18.5	15.3
	Interest cover (x)	13.0	17.9	17.1	17.1	17.2

Source: Company data, RHB

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Figure 1: 1Q24 results review

FYE Dec (MYRm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)	Comments
Revenue	1,674.9	1,582.8	1,618.8	2%	-3%	YoY: Revenue from the utilities segment declined as a result of lower product prices, which masked higher turnover from the gas transportation and processing segments.
EBITDA	823.9	831.4	883.1	6%	7%	
Depreciation	(268.5)	(304.8)	(289.7)	-5%	8%	
EBIT	555.4	526.6	593.4	13%	7%	
Interest expense	(42.8)	(23.4)	(23.0)	-2%	-46%	
Associates	44.4	105.3	26.9	-74%	-39%	
El/Others	(2.8)	(2.5)	12.9	-622%	-567%	
Pretax profit	556.9	608.5	597.3	-2%	7%	
Tax	(108.6)	(142.9)	(125.1)	-12%	15%	
Minority interest	(24.1)	(24.0)	(15.6)	-35%	-35%	
Net profit	424.2	441.6	456.6	3%	8%	
Core profit	421.4	439.1	469.5	7%	11%	
Net margin (%)	38.5	27.7	29.0			

Source: RHB

Figure 2: 1Q24 – segmental breakdown of numbers

FYE Dec (MYRm)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)	Comments
Segment revenue						
Gas processing	443.9	443.0	467.8	6%	5%	
Gas transportation	288.4	290.2	299.5	3%	4%	
Utilities	608.4	507.9	515.3	1%	-15%	YoY: Lower product prices.
Regasification	334.3	341.7	336.2	-2%	1%	
Segment EBIT						
Gas processing	207.6	174.2	207.2	19%	0%	
Gas transportation	123.0	126.2	162.6	29%	32%	YoY: lower operating costs including IGC.
Utilities	57.0	56.0	75.2	34%	32%	YoY: Improved margins, due to low fuel gas costs.
Regasification	159.5	150.4	156.2	4%	-2%	YoY: Higher operating costs including maintenance and depreciation expenses
Segment EBIT margin (%)						
Gas processing	46.8	39.3	44.3			
Gas transportation	42.7	43.5	54.3			
Utilities	9.4	11.0	14.6			
Regasification	47.7	44.0	46.5			

Source: RHB

Figure 3: SOP valuation

Segments	Value (MYRm)	Remarks
Core operating business	35,598.8	DCF, based on a WACC of 7%.
Gas Malaysia	684.1	14.8% stake, based on Gas Malaysia's market capitalisation of MYR4.3bn.
Kimanis Power	580.1	DCF based on a WACC of 7%.
	36,862.9	
Net cash	-96.1	
Total (MYR)	36,766.8	
Shares (m)	1,978.7	
ESG premium/(discount)	-6%	Based on its ESG score of 2.7 out of 4.
TP (MYR)	17.47	

Source: RHB

Emissions And ESG

Trend analysis

PTG's total GHG emissions (inclusive of emissions from exported energy to other PETRONAS subsidiaries i.e electricity and steam) increased 1.8% YoY, due to reliability issues related to equipment.

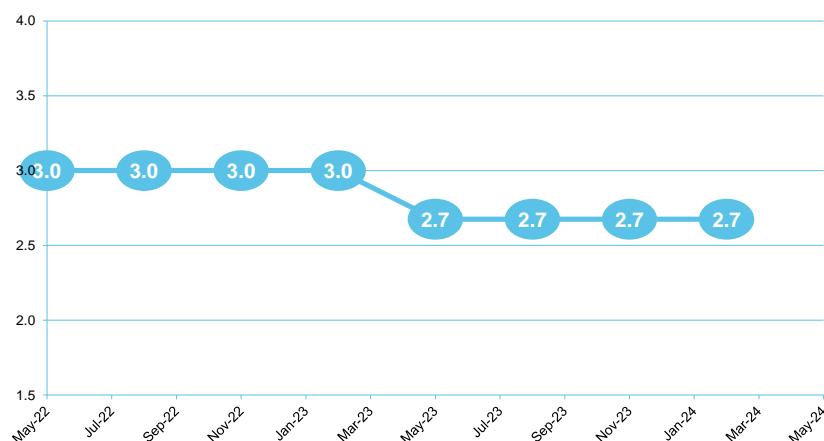
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	5,874,940	5,857,870	5,859,402
Scope 2	37,989	49,697	49,165
Scope 3	na	na	na
Total emissions	5,912,929	5,907,567	5,908,567

Source: Company data, RHB

Latest ESG-Related Developments

- The group carried out four OE clusters encompassing operational excellence, fuel switching, renewable energy and CO₂ monetisation, which contributed to the reduction of approximately 517,280 tCO₂e of GHG emissions.
- In 2023, its rating on the FTSE4Good Bursa Malaysia Index (Index) rose from 3.5 to 4.1, with full marks achieved within the governance scope.
- In Dec 2023, PetGas approved for the installation of an air separation unit (ASU) at Pengerang, which will enable the group to harness clean cold energy released during the regasification process.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-28	Neutral	17.0	18.0
2023-11-20	Neutral	16.8	17.2
2023-05-23	Neutral	16.8	17.0
2023-02-16	Neutral	17.4	17.5
2022-08-29	Neutral	17.4	17.4
2022-05-19	Neutral	17.4	17.4
2022-02-23	Neutral	17.7	17.2
2021-11-23	Neutral	17.4	16.3
2021-08-23	Neutral	17.1	16.0
2021-02-23	Neutral	17.1	16.2
2020-08-20	Neutral	17.2	16.4
2020-05-21	Neutral	16.7	17.1
2020-02-19	Neutral	16.7	16.5
2019-12-23	Neutral	17.3	17.7
2019-11-20	Neutral	15.3	16.5

Source: RHB, Bloomberg

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