

# Petronas Gas (PTG MK)

## A slow start

### Utilities squeeze

PTG's 1Q22 core net profit was below our/consensus forecasts due mainly to margin squeeze on electricity sales at the utilities division. Current risk-reward remains largely balanced in our view. Maintain HOLD with an unchanged MYR17.20 TP. We currently prefer Gas Malaysia (GMB MK, BUY, CP: MYR3.15, TP: MYR3.30) among the gas utilities.

### A slight miss

Excluding unrealised forex, PTG's 1Q22 core net profit of MYR416m (-23% YoY, -8% QoQ) was 22%/21% of our/consensus full-year forecasts respectively. The miss was mainly attributable to the utilities division which seemingly suffered from a margin squeeze on electricity sales due to the non-pass through of higher gas costs. A 16sen interim DPS was declared, unchanged YoY.

### Mixed segmentals

Segmental trends were mixed. On a QoQ basis, processing EBIT was stable, transport EBIT was higher, while regas and utilities EBIT were lower. Regas experienced higher maintenance activities during the quarter. Utilities meanwhile suffered from a margin squeeze on electricity sales, with the results commentary alluding to the non-pass through of higher gas costs. This is despite the imposition of 3.7sen/kWh surcharge in Peninsular Malaysia for 1H22.

### Maintaining forecasts

Management will host a results call this morning, and should offer additional colour on the outlook of the utilities division. Our earnings forecasts and MYR17.20 TP (DCF-based assuming 7.2% WACC and 2% long-term growth) are unchanged for now. We believe the earnings step-down from both Cukai Makmur (FY22) and potentially lower transport tariff (FY23) are largely priced-in.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	5,592	5,649	5,641	5,437	5,437
EBITDA	3,543	3,603	3,676	3,510	3,524
Core net profit	1,995	2,020	1,865	1,939	1,946
Core EPS (sen)	100.8	102.1	94.3	98.0	98.4
Core EPS growth (%)	5.8	1.2	(7.7)	3.9	0.4
Net DPS (sen)	127.0	82.0	72.0	72.0	72.0
Core P/E (x)	17.0	17.6	18.4	17.7	17.6
P/BV (x)	2.7	2.7	2.5	2.4	2.4
Net dividend yield (%)	7.4	4.6	4.1	4.1	4.1
ROAE (%)	15.5	15.5	14.0	14.1	13.6
ROAA (%)	10.5	10.8	9.6	9.6	9.3
EV/EBITDA (x)	9.7	9.9	9.3	9.6	9.5
Net gearing (%) (incl perps)	1.1	net cash	net cash	net cash	net cash
Consensus net profit	-	-	1,922	1,938	1,931
MKE vs. Consensus (%)	-	-	(2.9)	0.0	0.8

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# HOLD

Share Price	MYR 17.36
12m Price Target	MYR 17.20 (+3%)
Previous Price Target	MYR 17.20

### Company Description

Petronas Gas is the gas infrastructure arm of national oil company PETRONAS.

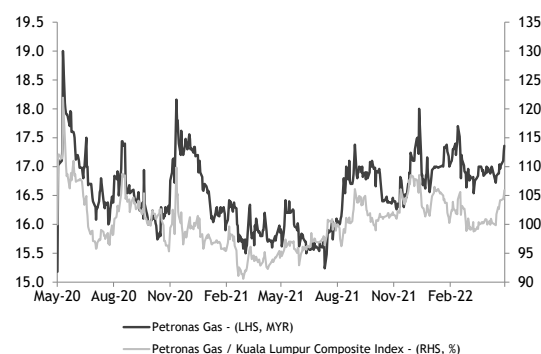
### Statistics

52w high/low (MYR)	18.00/15.24
3m avg turnover (USDm)	2.7
Free float (%)	34.6
Issued shares (m)	1,979
Market capitalisation	MYR34.4B USD7.8B

### Major shareholders:

Government of Malaysia	51.0%
Employees Provident Fund	13.9%
Kumpulan Wang Persaraan	10.4%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	3	2	9
Relative to index (%)	5	5	11

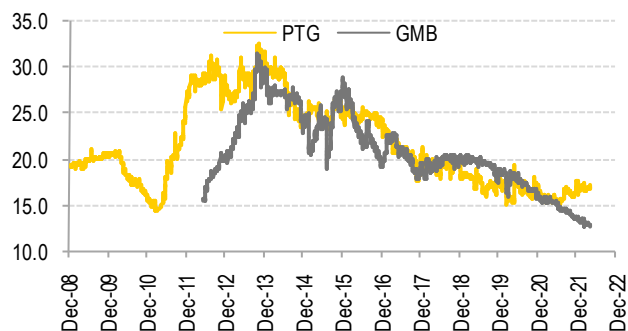
Source: FactSet

Results summary- Petronas Gas

FY Dec (MYR m)	Quarterly				
	1Q22	1Q21	%YoY	4Q21	%QoQ
Revenue	1,457.9	1,340.0	8.8	1,496.9	(2.6)
EBITDA	823.2	896.6	(8.2)	816.0	0.9
EBIT	577.7	649.7	(11.1)	595.5	(3.0)
Net interest	(21.4)	(24.1)	(11.4)	(18.7)	14.2
Associate & JV	32.0	45.0	(29.0)	47.4	(32.6)
<b>Pre-tax profit</b>	<b>588.3</b>	<b>670.5</b>	<b>(12.3)</b>	<b>624.2</b>	<b>(5.8)</b>
Tax	(150.7)	(130.5)	15.5	(135.7)	11.0
Minority Interests	(27.0)	(23.6)	14.4	(35.9)	(24.7)
<b>Net profit</b>	<b>410.6</b>	<b>516.4</b>	<b>(20.5)</b>	<b>452.6</b>	<b>(9.3)</b>
<b>Core net profit</b>	<b>415.6</b>	<b>541.1</b>	<b>(23.2)</b>	<b>453.3</b>	<b>(8.3)</b>
Core EPS (sen)	21.0	27.3	(23.2)	22.9	(8.3)
Net DPS (sen)	16.0	16.0	0.0	32.0	(50.0)
Net cash/(debt)	176.9	(127.4)	N/A	335.3	(47.3)
Capex	(137.3)	(177.3)	(22.6)	(353.3)	(61.1)
<b>Segmental results</b>					
<b>Revenue</b>	<b>1Q22</b>	<b>1Q21</b>	<b>%YoY</b>	<b>4Q21</b>	<b>%QoQ</b>
Processing	433.6	428.9	1.1	433.4	0.0
Transportation	288.4	288.4	0.0	295.2	(2.3)
Utilities	392.1	275.2	42.5	412.3	(4.9)
Regasification	343.8	347.5	(1.1)	356.0	(3.4)
<b>Total</b>	<b>1,457.9</b>	<b>1,340.0</b>	<b>8.8</b>	<b>1,496.9</b>	<b>(2.6)</b>
<b>EBIT</b>	<b>1Q22</b>	<b>1Q21</b>	<b>%YoY</b>	<b>4Q21</b>	<b>%QoQ</b>
Processing	232.4	243.3	(4.5)	235.2	(1.2)
Transportation	183.2	197.6	(7.3)	117.5	55.9
Utilities	21.6	74.8	(71.2)	55.2	(60.9)
Regasification	175.0	196.6	(11.0)	207.1	(15.5)
Others	(34.5)	(62.7)	(45.0)	(19.4)	77.4
<b>Total</b>	<b>577.7</b>	<b>649.7</b>	<b>(11.1)</b>	<b>595.5</b>	<b>(3.0)</b>

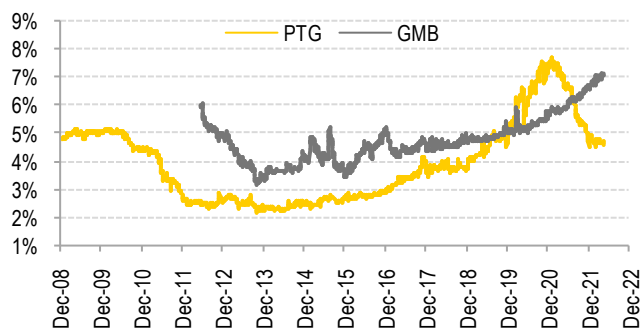
Source: Company

Trailing PER



Source: Company, Maybank IBG Research

Trailing net yield



Source: Company, Maybank IBG Research

Risk statement

There are several risk factors for our earnings estimates, target price and rating for PTG. Regulatory developments, such as the determination of regulated returns, have a direct impact on earnings. Unscheduled outages could also result in earnings losses for PTG.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	16.2	16.2	18.4	17.7	17.6
Core P/E (x)	17.0	17.6	18.4	17.7	17.6
P/BV (x)	2.7	2.7	2.5	2.4	2.4
P/NTA (x)	2.7	2.7	2.5	2.4	2.4
Net dividend yield (%)	7.4	4.6	4.1	4.1	4.1
FCF yield (%)	7.1	5.9	4.9	5.2	5.2
EV/EBITDA (x)	9.7	9.9	9.3	9.6	9.5
EV/EBIT (x)	13.6	13.6	12.7	13.5	13.4

**INCOME STATEMENT (MYR m)**

Revenue	5,592.1	5,648.6	5,641.5	5,437.4	5,437.4
EBITDA	3,543.5	3,602.7	3,675.6	3,509.7	3,524.4
Depreciation	(1,016.9)	(983.0)	(987.2)	(1,003.0)	(1,017.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	2,526.6	2,619.7	2,688.4	2,506.7	2,506.7
Net interest income / (exp)	(98.9)	(90.7)	(95.0)	(94.4)	(91.5)
Associates & JV	159.8	157.1	153.1	160.2	165.5
Exceptionals	22.7	(44.5)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	2,610.2	2,641.7	2,746.5	2,572.5	2,580.8
Income tax	(527.9)	(530.3)	(778.0)	(530.7)	(531.3)
Minorities	(72.7)	(122.5)	(103.2)	(103.2)	(103.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2,009.6	1,988.9	1,865.3	1,938.6	1,946.2
Core net profit	1,995.3	2,020.0	1,865.3	1,938.6	1,946.2

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	3,138.9	3,782.5	4,175.1	4,661.2	5,171.0
Accounts receivable	744.5	889.6	896.5	864.0	864.0
Inventory	44.9	46.0	47.4	45.6	45.6
Property, Plant & Equip (net)	13,216.2	13,272.4	13,485.2	13,682.2	13,864.5
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	773.7	856.8	899.4	945.2	993.9
Other assets	426.4	338.9	338.9	338.9	338.9
<b>Total assets</b>	<b>18,344.6</b>	<b>19,186.1</b>	<b>19,842.5</b>	<b>20,537.2</b>	<b>21,278.0</b>
ST interest bearing debt	145.2	168.2	252.1	335.9	419.8
Accounts payable	839.1	1,069.0	1,065.5	1,026.9	1,026.9
LT interest bearing debt	3,134.3	3,278.9	3,362.8	3,446.6	3,530.4
Other liabilities	1,258.0	1,330.0	1,330.0	1,330.0	1,330.0
<b>Total Liabilities</b>	<b>5,376.1</b>	<b>5,846.6</b>	<b>6,010.8</b>	<b>6,139.9</b>	<b>6,307.6</b>
Shareholders Equity	12,634.8	13,098.6	13,539.2	14,053.1	14,574.7
Minority Interest	333.8	240.9	292.5	344.1	395.7
<b>Total shareholder equity</b>	<b>12,968.5</b>	<b>13,339.5</b>	<b>13,831.7</b>	<b>14,397.2</b>	<b>14,970.4</b>
<b>Total liabilities and equity</b>	<b>18,344.6</b>	<b>19,186.1</b>	<b>19,842.5</b>	<b>20,537.2</b>	<b>21,278.0</b>

**CASH FLOW (MYR m)**

Pretax profit	2,610.2	2,641.7	2,746.5	2,572.5	2,580.8
Depreciation & amortisation	1,016.9	983.0	987.2	1,003.0	1,017.7
Adj net interest (income)/exp	98.9	90.7	95.0	94.4	91.5
Change in working capital	203.7	(27.0)	(11.8)	(4.4)	0.0
Cash taxes paid	(390.4)	(436.5)	(778.0)	(530.7)	(531.3)
Other operating cash flow	(168.3)	(116.0)	(153.1)	(160.2)	(165.5)
Cash flow from operations	3,371.0	3,135.9	2,885.8	2,974.6	2,993.0
Capex	(955.7)	(1,028.4)	(1,200.0)	(1,200.0)	(1,200.0)
Free cash flow	2,415.3	2,107.4	1,685.8	1,774.6	1,793.0
Dividends paid	(2,611.9)	(1,523.6)	(1,424.7)	(1,424.7)	(1,424.7)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(597.6)	261.6	167.7	167.7	167.7
Other invest/financing cash flow	(88.6)	(201.9)	(36.2)	(31.6)	(26.2)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(882.8)	643.6	392.7	486.0	509.9

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	2.5	1.0	(0.1)	(3.6)	0.0
EBITDA growth	1.6	1.7	2.0	(4.5)	0.4
EBIT growth	7.4	3.7	2.6	(6.8)	0.0
Pretax growth	6.0	1.2	4.0	(6.3)	0.3
Reported net profit growth	3.8	(1.0)	(6.2)	3.9	0.4
Core net profit growth	5.8	1.2	(7.7)	3.9	0.4
<b>Profitability ratios (%)</b>					
EBITDA margin	63.4	63.8	65.2	64.5	64.8
EBIT margin	45.2	46.4	47.7	46.1	46.1
Pretax profit margin	46.7	46.8	48.7	47.3	47.5
Payout ratio	125.1	81.6	76.4	73.5	73.2
<b>DuPont analysis</b>					
Net profit margin (%)	35.9	35.2	33.1	35.7	35.8
Revenue/Assets (x)	0.3	0.3	0.3	0.3	0.3
Assets/Equity (x)	1.5	1.5	1.5	1.5	1.5
ROAE (%)	15.5	15.5	14.0	14.1	13.6
ROAA (%)	10.5	10.8	9.6	9.6	9.3
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(42.6)	(61.3)	(70.6)	(71.3)	(70.0)
Days receivable outstanding	54.7	52.1	57.0	58.3	57.2
Days inventory outstanding	7.5	5.7	5.8	6.0	5.9
Days payables outstanding	104.8	119.1	133.4	135.7	133.2
Dividend cover (x)	0.8	1.2	1.3	1.4	1.4
Current ratio (x)	3.9	3.6	3.7	3.9	4.0
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	3.4	3.3	3.3	3.3	3.4
Net gearing (%) (incl perps)	1.1	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	1.1	net cash	net cash	net cash	net cash
Net interest cover (x)	25.6	28.9	28.3	26.5	27.4
Debt/EBITDA (x)	0.9	1.0	1.0	1.1	1.1
Capex/revenue (%)	17.1	18.2	21.3	22.1	22.1
Net debt/ (net cash)	140.5	(335.3)	(560.3)	(878.7)	(1,220.8)

Source: Company; Maybank IBG Research

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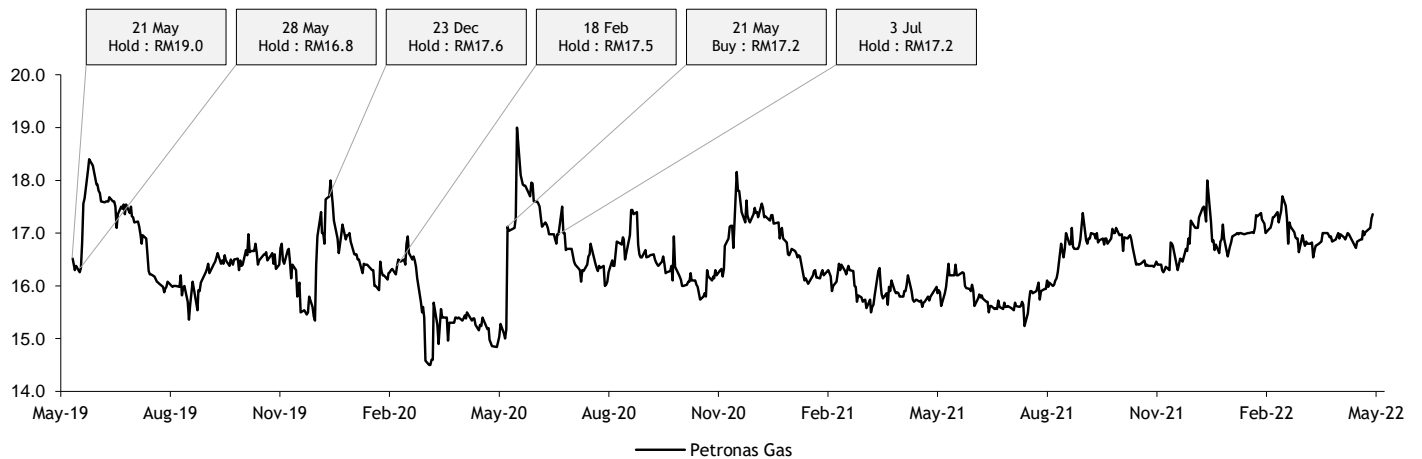
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