



Company report

PETRONAS GAS

(PTG MK EQUITY, PGAS.KL)

23 Feb 2021

New investment opportunities amid high dividend yields

BUY

(Maintained)

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Rationale for report: Company update

Price	RM16.08
Fair Value	RM21.30
52-week High/Low	RM18.45/RM12.97

Key Changes

Fair value	↕
EPS	↕

YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	5,592.1	5,624.0	5,673.3	5,547.3
Core net profit (RM mil)	1,985.7	2,042.5	2,048.9	1,908.6
FD Core EPS (sen)	100.4	103.2	103.5	96.5
FD Core EPS growth (%)	5.3	2.9	0.3	(6.8)
Consensus Net Profit (RM mil)	-	2,028	2,038	1,870
DPS (sen)	127.0	127.0	127.0	96.5
PE (x)	16.0	15.6	15.5	16.7
EV/EBITDA (x)	9.0	9.1	9.1	9.5
Div yield (%)	7.9	7.9	7.9	6.0
ROE (%)	15.5	16.5	17.2	16.3
Net Gearing (%)	1.1	3.2	7.3	7.1

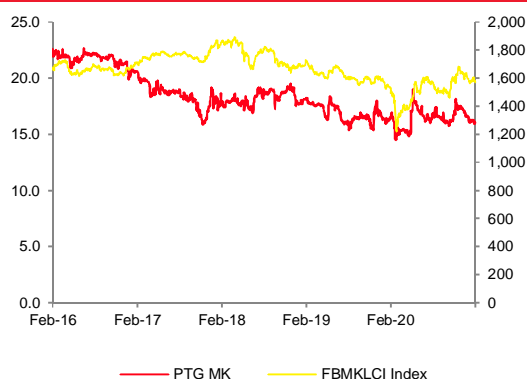
Stock and Financial Data

Shares Outstanding (million)	1,978.7
Market Cap (RM mil)	31,818.0
Book Value (RM/share)	6.39
P/BV (x)	2.5
ROE (%)	15.5
Net Gearing (%)	1.1

Major Shareholders	Petronas(60.7%) EPF(12.9%)
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Free Float	13.0
Avg Daily Value (RM mil)	10.7

Price performance	3mth	6mth	12mth
Absolute (%)	(4.1)	(1.7)	1.2
Relative (%)	(2.6)	(1.2)	(1.3)



Investment Highlights

- We maintain our BUY call on Petronas Gas (PGas) with an unchanged sum-of-parts-based (SOP) fair value of RM21.30/share, which implies an FY21F PE of 20x.
- We maintain our earnings forecasts following the analyst briefing this morning. These are the salient highlights:

- The group will be spending RM541mil to build a new 36-inch lateral gas pipeline over 42km from the existing Peninsular Gas Utilisation II to transport natural gas to the proposed Tadmax Indah combined cycle gas-fired power plant in Pulau Indah, Selangor. The power plant will have a capacity of 1,200MW.

This project is being developed by Worldwide Company (75%) and Korea Electric Power Corporation (25%). Expected to be completed and commissioned in 1Q2023 under the regulatory period (RP) 2, this pipeline will supply 137 million standard cubic feet of natural gas to the industrial area.

Given the group's huge fixed asset base of RM13bil, we estimate marginal impact to PGas' SOP and earnings assuming a project IRR of 7%. Hence, we maintain our FY23F gas transportation which assume a 15% drop under the incentive-based RP2.

- Notwithstanding the group's net cash position of RM141mil currently and FY20 net operating cash flow of RM3.5bil, PGas has raised a 3-year Islamic debt of RM1.3bil to fund this Pulau Indah pipeline and continue with its capital optimisation strategy, which management indicated will be progressively developed over 3–4 years.
- Assuming a straight-line DPS for FY21F–FY24F with a target to reach a debt-to-equity ratio of 55%, our forecasts could be raised by 22% to RM1.55/share vs. our earlier guesstimate of RM2.10/share, which assumed completion by FY22F. Even so, the implied yields of 10% remain highly compelling.

We highlight that these prospective yields could be changed by the group's capex and investment programmes, which can impact PGas' gearing levels. For FY21F, the group plans increase its capex by 30% YoY to RM1.3bil partly due to the Pulau Indah pipeline project.

- The group is open to investing in new power generation plants given its established track record in co-generation facilities in Terengganu as coal-fired plants with heavy carbon footprints in the country may be replaced by less environmentally damaging gas facilities at the end of their power purchase agreements.
- Additionally, the group is eyeing opportunities in the energy transition agenda by offering integrated utilities solutions and operation and maintenance services to renewable projects.

- The stock currently trades at an attractive FY21F PE of 16x, 18% below its 3-year average of 19x. This is unjustified as FY23F earnings decline of 7% from the continuation of the Energy Commission's incentive-based regulatory framework could still offer an attractive yields.

EXHIBIT 1: SUM-OF-PARTS BREAKDOWN

	Equity stake	Methodology	RMmil	%
Present value of PGas' operating cash flows	100	DCF at equity discount rate of 8%, terminal growth at 2% after FY26F	41,153.6	97.6
Gas Malaysia	15	Market price	541.2	1.3
300MW Kimanis power plant	60	Project IRR at 9%, equity discount rate of 9%, 80:20 Debt:equity	168.0	0.4
Net cash as at 31 Dec 2018			289.1	0.7
Total sum-of-parts (SOP)			42,151.9	100.0
No of shares			1,978.7	
SOP value (RM/share)			21.30	
Implied FY21F PE			20	

Source: AmInvestment Bank

EXHIBIT 2: PB BAND CHART

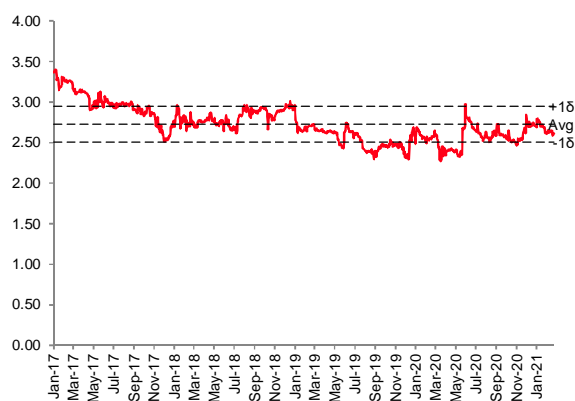


EXHIBIT 3: PE BAND CHART

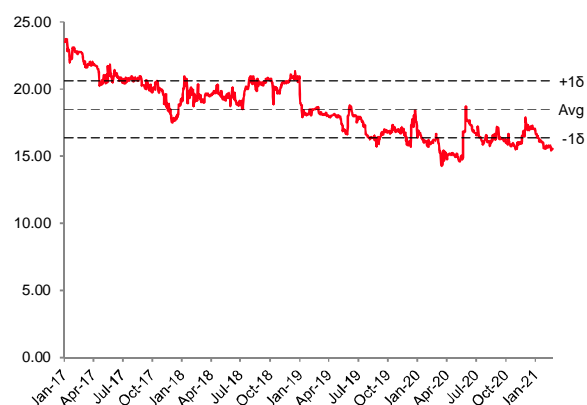


EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	5,458.3	5,592.1	5,624.0	5,673.3	5,547.3
EBITDA	3,470.2	3,542.3	3,557.5	3,586.1	3,439.3
Depreciation/Amortisation	(1,137.6)	(1,016.9)	(1,008.9)	(1,043.9)	(1,078.9)
Operating income (EBIT)	2,332.6	2,525.4	2,548.7	2,542.3	2,360.4
Other income & associates	156.7	159.8	175.1	185.5	196.8
Net interest	(75.4)	(98.9)	(100.9)	(96.2)	(100.3)
Exceptional items	49.1	23.8	-	-	-
Pretax profit	2,462.9	2,610.2	2,622.8	2,631.5	2,456.9
Taxation	(478.8)	(527.9)	(524.6)	(526.3)	(491.4)
Minorities/pref dividends	(48.8)	(72.7)	(55.8)	(56.4)	(56.9)
Net profit	1,935.3	2,009.6	2,042.5	2,048.9	1,908.6
Core net profit	1,886.2	1,985.7	2,042.5	2,048.9	1,908.6
Balance Sheet (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	13,246.5	13,216.2	13,207.3	13,163.4	13,084.5
Intangible assets	-	-	-	-	-
Other long-term assets	1,222.5	1,200.1	1,352.7	1,514.2	1,685.3
Total non-current assets	14,469.0	14,416.3	14,560.0	14,677.7	14,769.9
Cash & equivalent	4,021.7	3,138.9	2,429.4	1,588.3	1,292.6
Stock	78.2	44.9	55.6	56.0	54.8
Trade debtors	954.9	744.5	877.8	885.5	865.8
Other current assets	59.8	-	-	-	-
Total current assets	5,114.5	3,928.3	3,362.8	2,529.8	2,213.2
Trade creditors	882.9	839.1	1,240.4	1,251.3	1,223.5
Short-term borrowings	106.7	145.2	159.7	175.6	193.2
Other current liabilities	-	14.8	-	-	-
Total current liabilities	989.5	999.1	1,400.1	1,426.9	1,416.7
Long-term borrowings	3,792.3	3,134.3	2,664.1	2,264.5	1,924.8
Other long-term liabilities	1,236.6	1,242.7	1,304.8	1,370.1	1,438.6
Total long-term liabilities	5,028.8	4,377.0	3,969.0	3,634.6	3,363.4
Shareholders' funds	13,245.4	12,634.8	12,164.2	11,700.1	11,700.1
Minority interests	319.8	333.8	389.6	445.9	502.9
BV/share (RM)	6.69	6.39	6.15	5.91	5.91
Cash Flow (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	2,462.9	2,610.2	2,622.8	2,631.5	2,456.9
Depreciation/Amortisation	1,137.6	1,016.9	1,008.9	1,043.9	1,078.9
Net change in working capital	294.2	214.7	242.5	2.7	(6.9)
Others	(1,363.0)	(493.2)	(515.1)	(528.3)	(496.6)
Cash flow from operations	2,531.7	3,348.5	3,359.1	3,149.7	3,032.3
Capital expenditure	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	-	-	-	-	-
Cash flow from investing	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(1,622.6)	(2,513.0)	(2,513.0)	(2,513.0)	(1,908.6)
Others	-	-	-	-	-
Cash flow from financing	(1,622.6)	(2,513.0)	(2,513.0)	(2,513.0)	(1,908.6)
Net cash flow	(90.9)	(164.4)	(153.9)	(363.2)	123.7
Net cash/(debt) b/f	(583.9)	289.1	122.8	(140.5)	(394.4)
Net cash/(debt) c/f	122.8	(140.5)	(394.4)	(851.8)	(825.5)
Key Ratios (YE31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	(0.7)	2.5	0.6	0.9	(2.2)
EBITDA growth (%)	5.5	2.1	0.4	0.8	(4.1)
Pretax margin (%)	45.1	46.7	46.6	46.4	44.3
Net profit margin (%)	35.5	35.9	36.3	36.1	34.4
Interest cover (x)	30.9	25.5	25.3	26.4	23.5
Effective tax rate (%)	19.4	20.2	20.0	20.0	20.0
Dividend payout (%)	83.8	125.1	123.0	122.7	100.0
Debtors turnover (days)	63	55	53	57	58
Stock turnover (days)	5	4	3	4	4
Creditors turnover (days)	48	56	67	80	81

Source: Company, AmInvestment Bank Bhd estimates

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