



Company report

PETRONAS GAS

(PTG MK EQUITY, PGAS.KL)

20 Nov 2020

Lower opex and internal gas usage offset IBR impact

BUY

(Maintained)

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Rationale for report: Company update

Price	RM16.32
Fair Value	RM21.30
52-week High/Low	RM18.45/RM12.97

Key Changes

Fair value	↕
EPS	↕

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	5,458.3	5,604.4	5,662.0	5,720.4
Core net profit (RM mil)	1,886.2	2,099.5	2,127.0	2,149.9
FD Core EPS (sen)	95.3	106.1	107.5	108.6
FD Core EPS growth (%)	4.3	11.3	1.3	1.1
Consensus Net Profit (RM mil)	-	1,965.8	1,938.9	1,969.1
DPS (sen)	82.0	118.0	107.5	108.6
PE (x)	17.1	15.4	15.2	15.0
EV/EBITDA (x)	9.9	9.2	9.1	9.0
Div yield (%)	5.1	7.3	6.6	6.7
ROE (%)	14.8	16.0	16.3	16.5
Net Gearing (%)	nm	nm	nm	nm

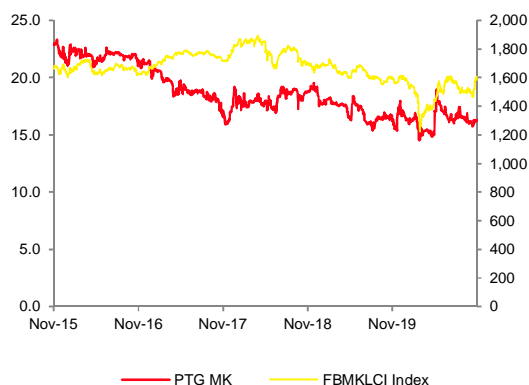
Stock and Financial Data

Shares Outstanding (million)	1,978.7
Market Cap (RM mil)	32,292.9
Book Value (RM/share)	6.69
P/BV (x)	2.4
ROE (%)	14.8
Net Gearing (%)	-

Major Shareholders	Petronas(60.7%) EPF(12.1%)
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Free Float	13.0
Avg Daily Value (RM mil)	12.7

Price performance	3mth	6mth	12mth
Absolute (%)	2.6	12.1	1.3
Relative (%)	2.1	0.8	2.6



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 gas transportation segment, which accounted for 31% of PGas' 9MFY20 operating profit, should have registered a declining operating profit from the transitioning of the regulatory base asset valuation from depreciated replacement cost to historical net book value under the incentive-based regulatory (IBR) regime. Instead, the segment posted a 12% YoY rise to RM226mil in 3QFY20.

This largely stemmed from lower YoY operational costs, including reduced repair and maintenance expenses. Also, the internal consumption of internal gas volume was lower than incorporated in the transportation tariff.

- Seasonally, PGas tends to incur higher operational costs such as repair and maintenance in 4QFY20. However, management indicated that the previous cyclical trends may not be repeated given that the ongoing conditional movement control order could slow down or defer some expenditure.
- Depreciation charges fell 6% QoQ to RM243mil in 3QFY20 due to some of the group's assets being fully depreciated while others had extended lives from rejuvenation programmes. This is within our FY20F–FY22F projection.
- One of the electricity generation blocks in the group's 60%-owned Kimanis Power plant was shut down for a month, which led to PGas' associate contribution halving QoQ to RM28mil.
- Utilities, which accounted for 6% of the group's 9MFY20 operating profit, recorded an 8% decline to RM46mil due to higher lumpy repair & maintenance charges.
- Management is unable to affirm whether PGas' elevated dividend payout ratio of 131% in 9MFY20 will be sustainable, given that the special dividend of 50 sen in 2QFY20 may not be recurring. However, if the group were to proceed with its optimal capital strategy to reach a comparable infrastructural peer's debt-to-equity ratio of 55%, we estimate that FY21F dividend yield of 7% currently could surge to an eye-watering 12%.

- The stock currently trades at an attractive FY21F PE of 15x, 21% below its 3-year average of 19x. This is unjustified as FY23F earnings decline of 5% from the continuation of the Energy Commission's IBR framework is unlikely to significantly reduce the group's dividend payout ratio.

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

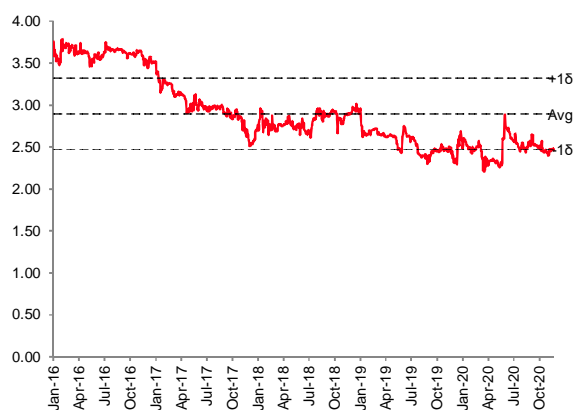


EXHIBIT 3: PE BAND CHART



EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	5,498.1	5,458.3	5,604.4	5,662.0	5,720.4
EBITDA	3,390.5	3,250.1	3,477.2	3,524.2	3,571.9
Depreciation/Amortisation	(903.9)	(938.9)	(973.9)	(1,008.9)	(1,043.9)
Operating income (EBIT)	2,486.6	2,311.2	2,503.3	2,515.3	2,528.0
Other income & associates	(49.3)	156.7	165.5	176.1	187.5
Net interest	(86.9)	(54.1)	(41.0)	(29.4)	(25.0)
Exceptional items	1.5	49.1	-	-	-
Pretax profit	2,351.9	2,462.9	2,627.8	2,661.9	2,690.5
Taxation	(443.7)	(478.8)	(473.0)	(479.1)	(484.3)
Minorities/pref dividends	(97.9)	(48.8)	(55.2)	(55.8)	(56.4)
Net profit	1,810.3	1,935.3	2,099.5	2,127.0	2,149.9
Core net profit	1,808.8	1,886.2	2,099.5	2,127.0	2,149.9
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	12,487.6	13,246.5	13,272.6	13,263.7	13,219.9
Intangible assets	-	-	-	-	-
Other long-term assets	1,149.7	1,222.5	1,373.5	1,533.0	1,701.8
Total non-current assets	13,637.3	14,469.0	14,646.1	14,796.8	14,921.7
Cash & equivalent	3,616.0	4,021.7	3,624.2	3,125.7	2,730.5
Stock	66.7	78.2	55.4	55.9	56.5
Trade debtors	942.2	954.9	874.7	883.7	892.8
Other current assets	13.5	59.8	59.8	59.8	59.8
Total current assets	4,638.3	5,114.5	4,614.1	4,125.1	3,739.6
Trade creditors	564.5	882.9	1,236.1	1,248.8	1,261.7
Short-term borrowings	94.2	106.7	117.3	129.0	142.0
Other current liabilities	-	-	-	-	-
Total current liabilities	658.6	989.5	1,353.4	1,377.8	1,403.6
Long-term borrowings	3,232.8	3,792.3	3,223.4	2,739.9	2,328.9
Other long-term liabilities	1,184.2	1,236.6	1,298.4	1,363.3	1,431.5
Total long-term liabilities	4,417.0	5,028.8	4,521.8	4,103.2	3,760.4
Shareholders' funds	12,823.5	13,245.4	13,010.0	13,010.0	13,010.0
Minority interests	376.5	319.8	375.1	430.9	487.2
BV/share (RM)	6.48	6.69	6.57	6.57	6.57
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	2,351.9	2,462.9	2,627.8	2,661.9	2,690.5
Depreciation/Amortisation	903.9	938.9	973.9	1,008.9	1,043.9
Net change in working capital	(153.9)	294.2	456.1	3.1	3.2
Others	282.8	(1,185.7)	(521.1)	(545.3)	(561.9)
Cash flow from operations	3,384.6	2,510.3	3,536.7	3,128.6	3,175.7
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	(1,424.7)	(1,622.6)	(2,334.9)	(2,127.0)	(2,149.9)
Others	-	-	-	-	-
Cash flow from financing	(1,424.7)	(1,622.6)	(2,334.9)	(2,127.0)	(2,149.9)
Net cash flow	959.9	(112.2)	201.8	1.6	25.9
Net cash/(debt) b/f	(486.3)	(583.9)	289.1	122.8	283.5
Net cash/(debt) c/f	289.1	122.8	283.5	256.7	259.6
Key Ratios (YE31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	12.3	(0.7)	2.7	1.0	1.0
EBITDA growth (%)	9.8	(4.1)	7.0	1.4	1.4
Pretax margin (%)	42.8	45.1	46.9	47.0	47.0
Net profit margin (%)	32.9	35.5	37.5	37.6	37.6
Interest cover (x)	28.6	42.7	61.0	85.5	101.1
Effective tax rate (%)	18.9	19.4	18.0	18.0	18.0
Dividend payout (%)	78.7	83.8	111.2	100.0	100.0
Debtors turnover (days)	59	63	60	57	57
Stock turnover (days)	4	5	4	4	4
Creditors turnover (days)	39	48	69	80	80

Source: Company, AmInvestment Bank Bhd estimates

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