



AmInvestment Bank

Company report

PETRONAS GAS

(PTG MK EQUITY, PGAS.KL)

23 Feb 2021

Higher-than-expected dividend payout

BUY

(Maintained)

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Rationale for report: Company results

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)	-	2,026.9	2,034.7	n/m
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

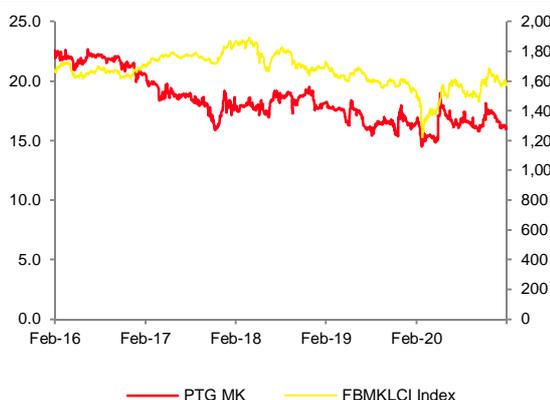
Stock and Financial Data

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(12.1%)
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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.
- Pending an analyst briefing later today, we have slightly tweaked our forecasts as the group's FY20 core net profit of RM1,986mil (excluding unrealised forex loss of RM24mil mainly from the Sungai Udang regasification terminal's [RGT] USD debt) was in line with our and consensus' expectations.
- However, the group declared a 4QFY20 dividend of 27 sen, bringing FY20 EPS to 127 sen (comprising special dividends of 55 sen). This translates to a payout ratio of 125%, which is 8% above our projection.
- Since our update on 21 August last year, we have highlighted the likelihood of higher-than-expected cash distribution given management's intention to proceed with an optimal capital strategy to be comparable with other infrastructure companies' debt-to-equity ratio of 55% over the next 2–3 years from its current net cash position of RM141mil.
- While our FY21F–FY22F dividends conservatively assume a payout ratio of 100%, we estimate that management's aims could substantively escalate DPS by up to 65% to RM1.20/share, implying an eye-watering yield of 13%.
- We have also introduced FY23F EPS, which assumes a 15% decline in the gas transportation revenue due to the Energy Commission's incentive-based regulatory tariff mechanism. This translates to a 7% decline in FY23F earnings, together with a corresponding contraction in DPS based on a payout assumption of 100%. Even so, yield remains attractive at 6%.
- YoY, FY20 revenue rose 2.5% from higher performance incentive from the gas processing plants and increased regasification tariffs under the new regulatory period 1. This was partly offset by the transportation segment as the optimised replacement cost valuation being employed currently will be phased out and replaced with historical cost over these transitional periods. Together with an 11% reduction in depreciation and 4% decrease in interest rate, this increased FY20 core net profit by 5% YoY.
- QoQ, the group's 4QFY20 core net profit dropped 12% to RM441mil (excluding unrealised forex gain of RM63mil) due to lower sale of excess electricity from the utilities division and increased operating costs at the gas transportation and RGT segments together with higher repair & maintenance charges, partly deferred in the earlier quarters due to the Covid-19 movement control orders.
- The stock currently trades at an attractive FY21F PE of 16x, 18% below its 3-year average of 19x together with highly compelling dividend yield prospects.

EXHIBIT 1: RESULTS SUMMARY

YE 31 Dec (RMmil)	FY19	FY20	%YoY	4QFY19	3QFY20	4QFY20	%QoQ	%YoY
Turnover	5,458.3	5,592.1	2.5	1,372.4	1,407.4	1,388.7	(1.3)	1.2
EBITDA	3,644.3	3,663.2	0.5	910.9	983.3	855.0	(13.0)	(6.1)
Depreciation	(1,137.6)	(1,016.9)	(10.6)	(293.4)	(243.2)	(248.0)	2.0	(15.5)
Interest expenses	(229.7)	(219.8)	(4.3)	(55.4)	(52.7)	(56.5)	7.2	1.9
Pre-exceptional Profit	2,277.1	2,426.6	6.6	562.1	687.4	550.4	(19.9)	(2.1)
Unrealised forex gain/(loss)	49.1	23.8		10.9	92.8	62.5		
Associates & JV	136.7	159.8	16.9	15.2	27.9	28.3	1.5	85.8
Pre-tax Profit	2,462.9	2,610.2	6.0	588.3	808.1	641.2	641.2	9.0
Taxation	(478.8)	(527.9)	10.3	(95.3)	(168.6)	(120.2)	(28.7)	26.1
Minorities	(48.8)	(72.7)	49.0	(7.7)	(48.5)	(17.7)	(63.6)	>100
Net Profit	1,935.3	2,009.6	3.8	485.3	591.0	503.4	(14.8)	3.7
Core net profit	1,886.2	1,985.7	5.3	474.3	498.2	440.9	(11.5)	(7.1)
EPS (sen)	97.8	101.6	3.8	24.5	29.9	25.4	(14.8)	3.8
Gross DPS (sen)	82.0	127.0	54.9	32.0	18.0	27.0	50.0	(15.6)
BV/Share (RM)	6.69	6.39	(4.5)	6.69	6.31	6.39	1.3	(4.5)
EBITDA margin (%)	66.8	65.5		66.4	69.9	61.6		
Pretax margin (%)	45.1	46.7		42.9	57.4	46.2		
Effective tax rate (%)	19.8	20.4		16.5	23.6	20.8		

Source: Bursa Malaysia

EXHIBIT 2: RESULTS BREAKDOWN

YE 31 Dec (RMmil)	FY19	FY20	%YoY	4QFY19	3QFY20	4QFY20	%QoQ	%YoY
- Gas processing	1,702.3	1,710.7	0.5	428.7	427.0	423.7	(0.8)	(1.2)
- Gas transportation	1,152.5	1,172.9	1.8	276.8	293.8	294.0	0.1	6.2
Throughput services	2,854.8	2,883.6	1.0	705.5	720.8	717.6	(0.4)	1.7
Utilities	1,365.6	1,308.6	(4.2)	353.1	336.0	316.7	(5.7)	(10.3)
Regasification	1,237.9	1,400.0	13.1	313.8	350.7	354.4	1.1	12.9
Revenue	5,458.3	5,592.1	2.5	1,372.4	1,407.4	1,388.7	(1.3)	1.2
- Gas processing	816.5	944.6	15.7	206.4	247.8	224.6	(9.4)	8.8
- Gas transportation	799.4	794.9	(0.6)	183.1	225.6	173.1	(23.3)	(5.5)
Throughput services	1,615.9	1,739.5	7.6	389.5	473.4	397.7	(16.0)	2.1
Utilities	160.1	203.8	27.3	44.3	46.4	74.3	60.2	67.8
Regasification	611.0	713.1	16.7	140.4	216.0	164.3	(23.9)	17.1
Unallocated income/exp	168.8	13.8	(91.8)	54.3	97.2	33.1	(66.0)	(39.1)
EBIT	2,555.8	2,670.2	4.5	628.4	832.9	669.4	(19.6)	6.5
EBIT margin (%)								
- Gas processing	48.0	55.2		48.1	58.0	53.0		
- Gas transportation	69.4	67.8		66.2	76.8	58.9		
Throughput services	56.6	60.3		55.2	65.7	55.4		
Utilities	11.7	15.6		12.5	13.8	23.5		
Regasification	49.4	50.9		44.7	61.6	46.4		
% of group EBIT								
Throughput services	67.7	65.5		67.8	64.3	62.5		
Regasification	6.7	7.7		7.7	6.3	11.7		
Utilities	25.6	26.8		24.4	29.4	25.8		

Source: Bursa Malaysia

EXHIBIT 3: 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	41,151.0	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 Debtequity	168.0	0.4
Net cash as at 31 Dec 2018			289.1	0.7
Total sum-of-parts (SOP)			42,149.3	100.0
No of shares			1,978.7	
SOP value (RM/share)			21.30	
Implied FY20F PE			20	

Source: AmInvestment Bank

EXHIBIT 4: PB BAND CHART

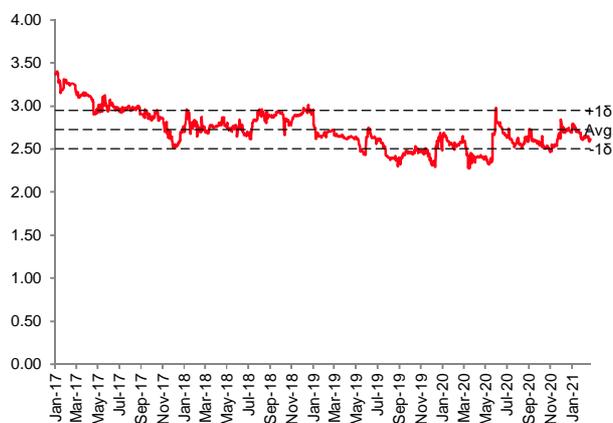


EXHIBIT 5: PE BAND CHART

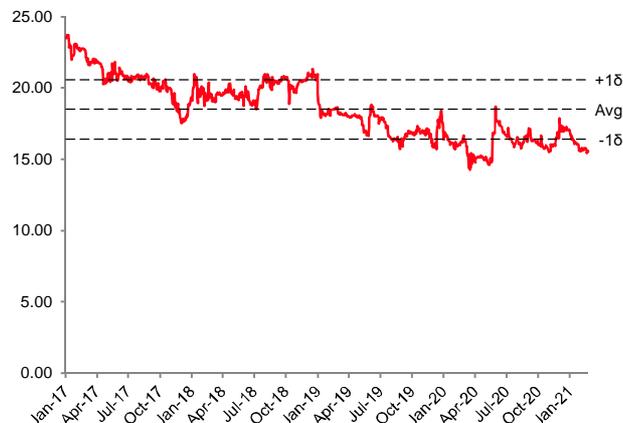


EXHIBIT 6: FINANCIAL DATA

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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