



Company report

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PETRONAS GAS

(PTG MK EQUITY, PGAS.KL)

23 Nov 2021

Hopeful for higher dividend payouts

BUY

(Maintained)

Rationale for report: Company update

Price	RM16.40
Fair Value	RM20.20
52-week High/Low	RM18.10/RM15.24

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	1,993.3	1,799.4	1,841.7
FD Core EPS (sen)	100.4	100.7	90.9	93.1
FD Core EPS growth (%)	5.3	0.4	(9.7)	2.3
Consensus Net Profit (RM mil)	-	1,998.9	2,004.7	1,889.9
DPS (sen)	127.0	127.0	127.0	93.1
PE (x)	16.3	16.3	18.0	17.6
EV/EBITDA (x)	9.2	9.3	9.4	9.7
Div yield (%)	-	-	-	-
ROE (%)	15.5	16.1	15.3	16.2
Net Gearing (%)	1.1	5.6	11.5	10.7

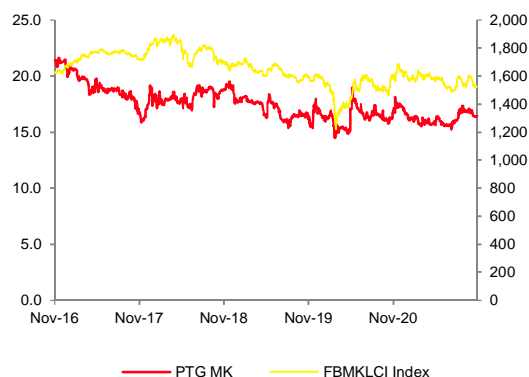
Stock and Financial Data

Shares Outstanding (million)	1,978.7
Market Cap (RM mil)	32,451.2
Book Value (RM/share)	6.39
P/BV (x)	2.6
ROE (%)	15.5
Net Gearing (%)	1.1

Major Shareholders	Petronas(60.7%) EPF(13.1%)
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Free Float	13.0
Avg Daily Value (RM mil)	13.7

Price performance	3mth	6mth	12mth
Absolute (%)	2.1	5.0	(1.8)
Relative (%)	1.6	7.5	2.5



Investment Highlights

- We maintain our BUY call on Petronas Gas (PGas) with an unchanged sum-of-parts-based (SOP) fair value of RM20.20, which reflects a premium of 3% from our ESG rating of 4 stars. This also implies an FY22F PE of 22x.
- We maintain our earnings forecasts following an analyst briefing yesterday. These are the salient highlights:
 - While management aims to maximise shareholders' returns via sustainable dividend payments, we note that 9MFY21 DPS of 50 sen translates to a payout of only 72% vs. 127% in FY20, including special distributions of 55 sen.
 - Hence, we retain PGas' FY21–FY22F DPS of RM1.27/share, which could potentially be raised further if the group proceeds with its capital optimisation strategy at a debt-to-equity ratio of 55%, comparable with other utility companies, over the next 3 years.
 - Management indicated that the regasification facilities in Sg Udang, Melaka and Pengerang, Johor are unlikely to bear additional tax from the 2022 prosperity tax of 33% for income above RM100mil given that they currently enjoy tax exemptions. For now, we maintain an effective group tax rate assumption of 27% for FY22F vs. 20% in FY21F.
 - Management expects escalating re-export volumes for liquefied natural gas (LNG) to support its plan to build a new storage tank in Pengerang. Recall that PGas' 65%-owned Pengerang LNG (Two) (PLNG2) has invited prospective contractors to submit non-binding expressions of interest to utilise a proposed new tank with a preferred capacity of 160K cubic metres on a 20-year commercial lease agreement. Dialog has a 25% equity stake in PLNG2 while the Johor state government holds 10%.

The new storage tank, which can be upsized to 260K cubic metres, is expected to be completed by 4Q2025 at the earliest. Based on PLNG2's preferred tank size and contract term of 20 years, the indicative annual fee would be US\$24.1mil for third-party usage.

- PLNG2's existing facilities include 2 LNG storage tanks, which commenced operations on Nov 2017 with a capacity of 400K cubic metres, regasification throughput of 490mil cubic feet per day and other ancillary services such as reloading, gassing up and cooling down.

Based on the PLNG2's capex of RM2.7bil for its current facilities, we estimate that an additional 160K LNG tank could cost RM1bil given the high current raw material costs albeit without a regasification component. Assuming operating costs at 10% of revenue, the project IRR translates to a minimal 5.5%, a negligible NPV accretion to the group. Pending further details, we are neutral on this potential capacity expansion.

- PGas' RM100mil project to relocate 2 compressors for the debottlenecking Southern pipeline project remains on track for completion by June 2022. This development will lead to an incremental capacity increase of 150mmscf for the gas transportation segment, enabling third parties to supply gas to the industrial areas in Johor under RP2.
Likewise, the RM541mil project to build a new 42km lateral gas pipeline from the existing Peninsular Gas Utilisation II to the proposed Tadmax Indah combined cycle gas-fired power plant in Pulau Indah, Selangor is also on track with completion by March 2023. Recall that the pipeline will supply 137 million standard cubic feet of natural gas to the 1,200MW Pulau Indah power plant and industrial area under RP2.
- Given the group's huge fixed asset base of RM13bil, we estimate marginal impact to PGas' SOP and earnings from its 2 major projects currently – Southern debottlenecking project and Pulau Indah pipeline – assuming a project IRR of 7%. Hence, we maintain our FY23F gas transportation revenue which assumes a 15% drop under the incentive-based RP2. The next transport tariff submission will be due in 1QFY22 followed by discussions with the Energy Commission until December 2022.
- With a 9MFY21 capex of RM678mil, the group still expects FY21F spending to reach RM1.2bil–RM1.3bil. Management now expects a flat YoY FY22F for now excluding new investment prospects. Assuming that the group achieves its debt-to-equity target of 55% by FY23F, we estimate that the group has the financial capability to undertake projects worth up to RM6bil, half of FY21F shareholders' funds, without impacting our current dividend forecasts.
- The stock currently trades at an attractive FY22F PE of 18x, below its 5-year peak of 23x, and offers compelling dividend yields of 9%. This is unjustified as FY23F earnings decline of 7% from the continuation of the Energy Commission's incentive-based regulatory framework could still offer decent 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	38,274.3	98.6
Gas Malaysia	15	Market price	506.5	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 debt as at 31 Dec 2020			(140.5)	(0.4)
Total sum-of-parts (SOP)			38,808.3	100.0
No of shares			1,978.7	
SOP value (RM/share)			19.61	
ESG premium (%)			3.0	
ESG-adjusted SOP value (RM/share)			20.20	
Implied FY21F PE			20	

Source: AmInvestment Bank

EXHIBIT 2: PB BAND CHART

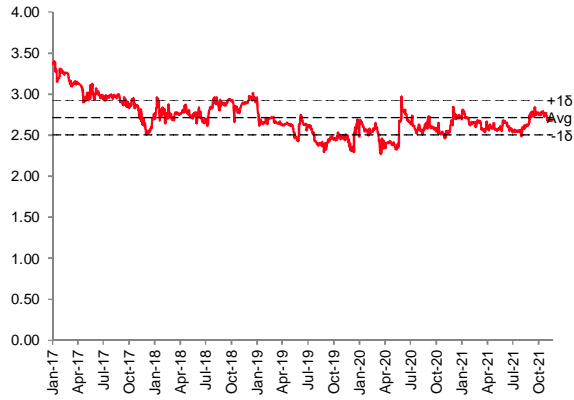


EXHIBIT 3: PE BAND CHART

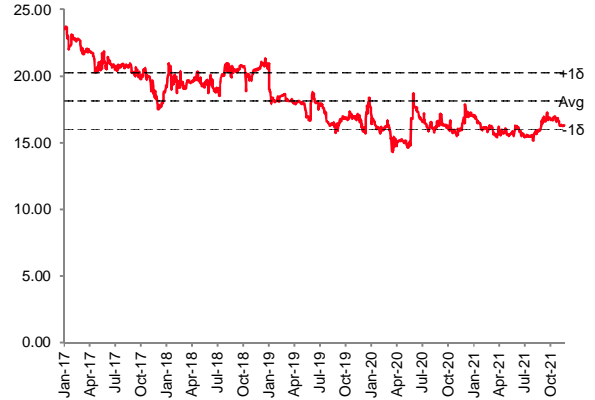


EXHIBIT 4: ESG RATING

Overall	★	★	★	★	
Zero-carbon initiatives	★	★	★	★	
Health & safety compliance	★	★	★	★	★
Shareholder accountability	★	★	★	★	
Social responsibility	★	★	★	★	
Pollution control	★	★	★	★	
Supply chain auditing	★	★	★	★	
Corruption-free pledge	★	★	★	★	
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

Source: AmInvestment Bank

EXHIBIT 5: 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	3,577.8	3,606.6	3,460.0
Depreciation/Amortisation	(1,137.6)	(1,016.9)	(1,014.1)	(1,054.4)	(1,089.4)
Operating income (EBIT)	2,332.6	2,525.4	2,563.7	2,552.2	2,370.6
Other income & associates	156.7	159.8	148.4	158.3	169.1
Net interest	(75.4)	(98.9)	(100.9)	(105.6)	(115.6)
Exceptional items	49.1	23.8	-	-	-
Pretax profit	2,462.9	2,610.2	2,611.2	2,604.9	2,424.1
Taxation	(478.8)	(527.9)	(522.2)	(708.9)	(484.8)
Minorities/pref dividends	(48.8)	(72.7)	(95.7)	(96.6)	(97.6)
Net profit	1,935.3	2,009.6	1,993.3	1,799.4	1,841.7
Core net profit	1,886.2	1,985.7	1,993.3	1,799.4	1,841.7
Balance Sheet (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	13,246.5	13,216.2	13,502.1	13,447.7	13,358.3
Intangible assets	-	-	-	-	-
Other long-term assets	1,222.5	1,200.1	1,332.7	1,473.9	1,624.2
Total non-current assets	14,469.0	14,416.3	14,834.8	14,921.5	14,982.5
Cash & equivalent	4,021.7	3,138.9	2,145.4	1,126.0	902.1
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	3,078.7	2,067.5	1,822.8
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	12,115.0	11,401.5	11,401.5
Minority interests	319.8	333.8	429.4	526.0	623.6
BV/share (RM)	6.69	6.39	6.12	5.76	5.76
Cash Flow (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	2,462.9	2,610.2	2,611.2	2,604.9	2,424.1
Depreciation/Amortisation	1,137.6	1,016.9	1,014.1	1,054.4	1,089.4
Net change in working capital	294.2	214.7	242.5	2.7	(6.9)
Others	(1,363.0)	(493.2)	(486.2)	(674.4)	(447.1)
Cash flow from operations	2,531.7	3,348.5	3,381.7	2,987.6	3,059.5
Capital expenditure	(1,000.0)	(1,000.0)	(1,300.0)	(1,000.0)	(1,000.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	-	-	-	-	-
Cash flow from investing	(1,000.0)	(1,000.0)	(1,300.0)	(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)	(1,841.7)
Others	-	-	-	-	-
Cash flow from financing	(1,622.6)	(2,513.0)	(2,513.0)	(2,513.0)	(1,841.7)
Net cash flow	(90.9)	(164.4)	(431.3)	(525.4)	217.8
Net cash/(debt) b/f	(583.9)	289.1	122.8	(140.5)	(678.4)
Net cash/(debt) c/f	122.8	(140.5)	(671.8)	(1,300.7)	(1,195.5)
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	1.0	0.8	(4.1)
Pretax margin (%)	45.1	46.7	46.4	45.9	43.7
Net profit margin (%)	35.5	35.9	35.4	31.7	33.2
Interest cover (x)	30.9	25.5	25.4	24.2	20.5
Effective tax rate (%)	19.4	20.2	20.0	27.2	20.0
Dividend payout (%)	83.8	125.1	126.1	139.7	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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