

PP14767/09/2012(030761)

Market Access

Petronas Dagangan Berhad

“Share Price Has Run Ahead of Fundamentals”

Results Review

- Actual vs. expectations.** Petronas Dagangan Berhad (PetDag) 1Q15 net profit of RM206 million (+33% y-o-y) came in line with ours and consensus estimates respectively, accounting 30% and 29% of ours and consensus full year net profit forecast. Improving 1Q15 net profit was mainly pushed by better-than-expected EBIT contribution from both the retail and commercial segment which surged by 7% y-o-y and 59% y-o-y respectively, boosted by the decrease in operating expenditure.
- Dividend.** Declared an interim dividend of 12.0sen/share for the quarter, translating into a dividend payout ratio of 58% (1Q14: 77%), slightly higher than company’s dividend policy of 50%. PetDag dividend in FY15 is expected to touch 50.0sen/share equivalent to 2% yield.
- Top line.** PetDag posted a weaker revenue of RM6 billion (-26% y-o-y) in 1Q15 due to the decrease in sales volume by 4% as well as the decline in average selling price by 22%. Retail segment posted a lower revenue contribution of RM3 billion (-18% y-o-y) due to the lower sales volume of diesel impacted by harsher enforcement by Government authorities to control diesel leakages. Similarly, commercial segment recorded a lower revenue of RM3 billion that dipped by 34% y-o-y, hammered by weaker sales volume of fuel oil.
- Bottom line.** Meanwhile, PetDag achieved a higher EBIT of RM287 million (+25% y-o-y) in 1Q15 as retail and commercial segment registered a lower operating expenditure by RM32 million and RM33 million respectively due to lower marketing and promotional

Tuesday, May 12, 2015

SELL (TP: RM18.90)

Current Price (RM)	RM21.64
New Target Price (RM)	RM18.90
Previous Fair Value (RM)	RM14.40
Previous Recommend.	SELL
Upside To Target Price	-13%
Dividend Yield (FY16)	2%

Stock Code

Bloomberg	PETD MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Oil and Gas
Shariah Compliance	Yes
Issued Shares (mn)	994
Market Cap (RM mn)	21,637
YTD Chg In Share Price	29%
Beta (x)	1.08
52-week Hi/Lo (RM)	30.23 14.39
3M Average Volume (shrs)	0.73mn
Estimated Free Float	16%

Major Shareholders

Petronas	70%
EPF	5%

Results Review - Petronas Dagangan Berhad

expenses coupled with the variation in bonus payment which attributable to lower manpower expenses. Overall, PetDag's EBIT margin in 1Q15 stood at 5%, slightly higher against 1Q14 margin of 3%.

- Outlook.** Moving forward, PetDag has planned to allocate RM500 million of capex for FY15 to spur the growth in retail and commercial segment, targeting to add between 20-30 new petrol stations in FY15 versus 42-45 new stations for the past two years. Note that the group has set up 45 new stations in FY14 where 25 stations are operational and 20 stations still waiting the approval from the authority, bringing total Petronas' stations to approximately 1,114 (2013: 1,069 stations). We are positive on this aggressive expansion plan as the group aims to become a market leader in Malaysia's petroleum retailer in the next two to four years by taking over the retail leadership from Shell which currently has about 36% market shares. PetDag's market share now stands at approximately 31%-32%.
- Change to forecast.** We maintain our FY15 and FY16 earnings forecast as 1Q15 results are within our expectation. FY15 and FY16 earnings are projected to jump by 35% y-o-y and 17% y-o-y driven by i) rapid capacity expansion of 20 to 30 Petronas stations per year and ii) higher sales volume from commercial segment.
- Valuation & recommendation.** PetDag is valued at RM18.90 based on 24x PER (1- SD below 3 years average PER of 30x) pegged to FY16 EPS of 80sen and the stock is a **SELL** as its share price has run ahead of fundamentals in addition to challenging operating outlook. Re-rating catalyst may come from 1) aggressive regional expansion and 2) non-fuel segment such as Mesra convenience stores.

Table 1: Peers Comparison (Calenderised)

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
SapuraKencana	Jan	2.78	20	21	13.7	12.7	1.2	1.1	13	1	2.93	Hold
Wah Seong	Dec	1.28	14	15	9.2	8.6	0.8	0.8	12	4	1.38	Hold
Bumi Armada	Dec	1.25	8	10	15.7	11.7	1.0	1.0	4	2	1.28	Hold
Dialog Group	Jun	1.61	5	5	34.3	31.0	4.8	4.6	15	1	1.66	Hold
Alam Maritim	Dec	0.69	7	7	9.5	9.4	0.7	0.7	9	NA	0.72	Hold
MMHE	Dec	1.21	8	8	15.1	15.4	0.7	0.7	8	NA	1.33	Hold
PetDag	Dec	21.64	71	79	30.1	27.0	4.0	3.9	11	2	18.90	Sell
Dayang	Dec	2.65	24	28	10.8	9.3	2.4	2.1	22	3	2.95	Buy
UMW-OG	Dec	2.13	15	17	14.8	13.3	1.4	1.2	8	0.5	3.20	Buy
Perisai	Dec	0.54	6	9	10.0	5.9	0.6	0.5	1	NA	NR	NR
Perdana Petroleum	Dec	1.47	12	15	11.4	9.3	1.3	1.1	14	1	NR	NR
TH Heavy	Dec	0.31	3	4	12.1	9.0	0.8	0.7	(20)	NA	NR	NR
Petra Energy	Dec	1.53	15	16	9.3	9.0	0.8	0.8	7	1	NR	NR
Deleum	Dec	1.62	16	18	10.1	9.2	2.0	1.7	23	5	NR	NR
Uzma	Dec	2.31	21	23	11.3	10.0	1.6	1.2	19	2	NR	NR
KNM	Dec	0.64	7	8	8.9	7.8	0.5	0.4	2	NA	NR	NR
Average					14.1	12.4	1.5	1.4	9	2		

Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	29,499	32,342	32,341	33,922	34,601
EBIT	1,174	1,125	728	950	1,107
PBT	1,165	1,109	709	848	1,038
Net profit	837	812	502	678	796
EPS (sen)	84	82	51	68	80
PBT margin	4%	3%	2%	3%	3%
Net profit margin	3%	3%	2%	2%	2%
PER (x)	27.9	38.5	33.9	31.7	27.0
P/BV (x)	4.9	6.0	3.6	4.1	3.9
DPS (sen)	105	70	60	50	50
Dividend yield	4%	4%	4%	2%	2%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

YE: Dec (RM million)	1Q14	4Q14	1Q15	q-o-q	y-o-y	3M14	3M15	y-o-y
Revenue	8,294	7,453	6,101	-18%	-26%	8,294	6,101	-26%
EBIT	229	16	287	1673%	25%	229	287	25%
Finance cost	(6)	(5)	(4)	-9%	-27%	(6)	(4)	-27%
PBT	223	12	284	2326%	27%	223	284	27%
Taxation	(66)	(11)	(76)	587%	16%	(66)	(76)	16%
Net profit	155	0.4	206	51343%	33%	155	206	33%
EPS (sen)	16	0.04	21	51650%	33%	16	21	33%
EBIT margin	3%	0%	5%			3%	5%	
PBT margin	3%	0%	5%			3%	5%	
Net profit margin	2%	0%	3%			2%	3%	
Effective tax rate	30%	95%	27%			30%	27%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: Dec (RM million)	1Q14	4Q14	1Q15	q-o-q	y-o-y	3M14	3M15	y-o-y
<u>Revenue</u>								
Retail	3,929	3,814	3,220	-16%	-18%	3,929	3,220	-18%
Commercial	4,360	3,634	2,874	-21%	-34%	4,360	2,874	-34%
<u>Segmental Results</u>								
Retail	128	-79	137	-275%	7%	128	137	7%
Commercial	90	91	143	56%	59%	90	143	59%

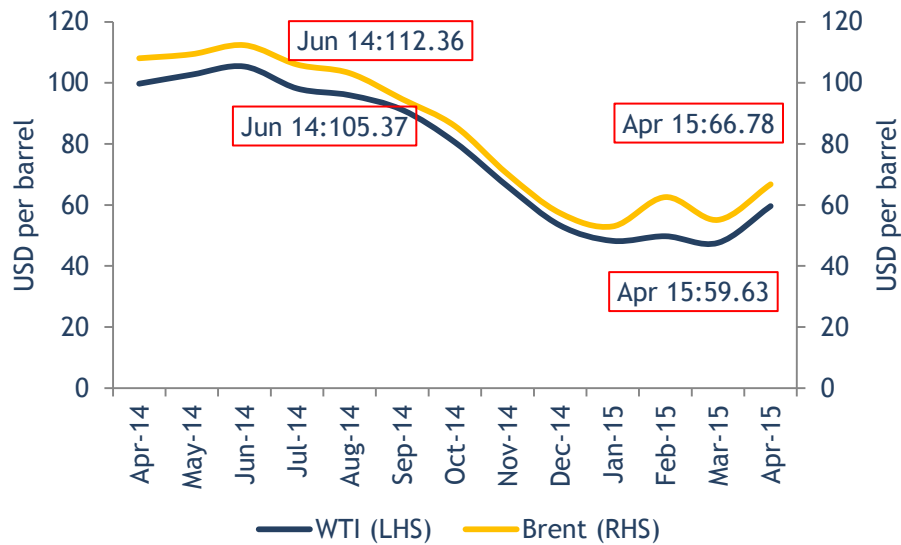
Source: Bursa Malaysia, M&A Securities

Table 5: Key Indicator

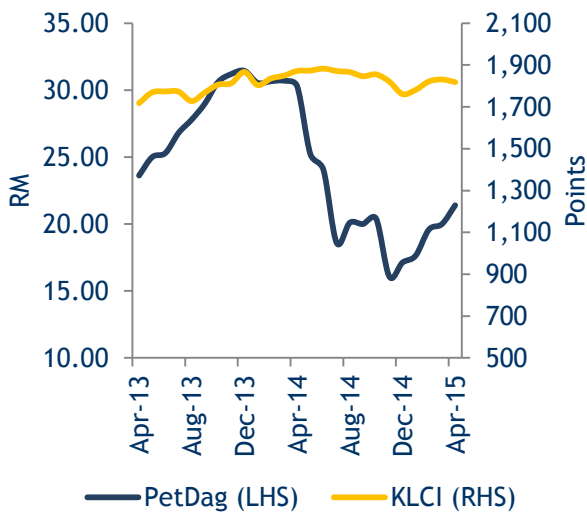
	FY12	FY13	FY14	FY15F	FY16F
Sales volume (mil litres)	14,887	16,252	15,647	16,152	16,675
Sales volume growth (%)	1%	9%	-4%	3%	3%
Petrol stations	1,027	1,069	1,114	1,144	1,174

Source: Company, M&A Securities

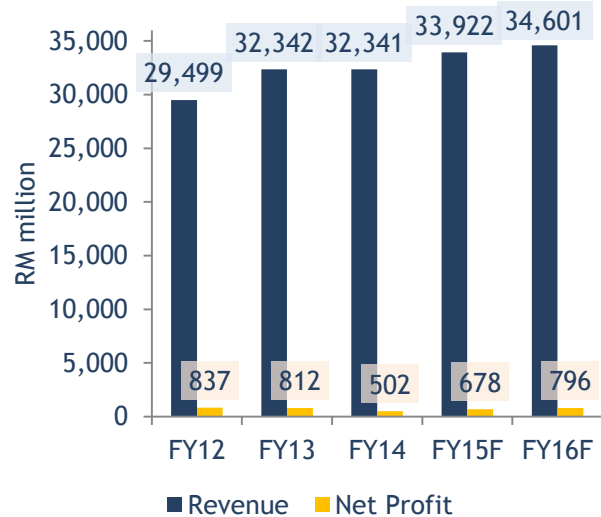
WTI vs. Brent Crude Oil Price
(April 2014-April 2015)



PetDag Share Price vs. KLCI
(April 2013-April 2015)



Revenue and Net Profit
(FY12-FY16F)



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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