

PP14767/09/2012(030761)

Petronas Dagangan Berhad

“Proficient Cost Control”

Results Review

- Actual vs. expectations.** Petronas Dagangan Berhad (PetDag) 9M15 core net profit of RM624 million (+24% y-o-y), excluding exceptional item, came in above ours but in line with consensus estimates respectively, accounting 88% and 78% of ours and consensus full year net profit forecast. Improving 9M15 net profit was mainly pushed by better-than-expected EBIT contribution (+35% y-o-y) from both the retail and commercial segment which surged by 32% y-o-y and 41% y-o-y respectively, boosted by the decrease in operating expenditure during the period.
- Dividend.** Declared an interim dividend of 14.0sen/share for the quarter, bringing total dividend to 40.0sen/share for 9M15, translating into a dividend payout ratio of 57% (9M14: 75%), slightly higher than company’s dividend policy of 50%. PetDag dividend in FY15 is expected to touch 63.0sen/share equivalent to 3% yield.
- Top line.** PetDag posted a weaker revenue of RM19 billion (-23% y-o-y) in 9M15 due to the decrease in sales volume by 5% as well as the decline in average selling price by 19%. Retail segment posted a lower revenue contribution of RM10 billion (-14% y-o-y) due to the lower sales volume of diesel impacted by the implementation of managed float system since December 2014. Similarly, commercial segment recorded a lower revenue of RM9 billion that dipped by 31% y-o-y, hammered by the decline in average selling price and sales volume of aviation, fuel oil and diesel.
- Bottom line.** Meanwhile, PetDag achieved a higher EBIT of RM964 million (+35% y-o-y) in 9M15 as retail and commercial segment registered a lower operating expenditure by RM73 million and RM51 million respectively due to lower marketing and promotional

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HOLD (TP: RM22.68)

Current Price (RM)	RM22.50
New Target Price (RM)	RM22.68
Previous Fair Value (RM)	RM19.71
Previous Recommend.	HOLD
Upside To Target Price	1%
Dividend Yield (FY16)	3%

Stock Code	
Bloomberg	PETD MK

Stock & Market Data	
Listing	MAIN MARKET
Sector	Oil and Gas
Shariah Compliance	Yes
Issued Shares (mn)	994
Market Cap (RM mn)	22,273
YTD Chg In Share Price	32%
Beta (x)	0.91
52-week Hi/Lo (RM)	24.00 14.39
3M Average Volume (shrs)	0.49mn
Estimated Free Float	12%

Major Shareholders	
Petronas	70%
Skim ASB	5%

expenses coupled with the decrease in bonus payment attributable to lower manpower expenses. Overall, PetDag's EBIT margin in 9M15 stood at 5%, slightly higher against 9M14 margin of 3%.

- **Outlook.** Moving forward, PetDag is planning to allocate RM500 million of capex for FY15 to spur the growth in retail segment, targeting to add between 20-30 new petrol stations in FY15 versus 42-45 new stations for the past two years. 13 new stations have commenced operation in 1H15. We are positive on this aggressive expansion plan amid 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. The latter currently has about 36% market shares vs. PetDag's of 31%-32%.
- **Change to forecast.** We have done some housekeeping exercise and came out with new FY15 and FY16 earnings forecast of RM834 million (+66% y-o-y) and RM837 million (+0.4% y-o-y) respectively which to be fuelled 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 RM22.68 based on 27x PER (1- SD below 3 years average PER of 32x) pegged to FY16 EPS of 84sen and the stock is a **HOLD**. Re-rating catalyst may come from 1) aggressive regional expansion and 2) higher-than-expected non-fuel segment revenue 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	2.13	18	19	12.5	11.3	1.0	0.9	7	2	2.55	Buy
Wah Seong	Dec	1.19	12	13	9.9	8.9	0.8	0.8	10	3	1.15	Hold
Bumi Armada	Dec	0.98	6	8	16.5	12.8	0.9	0.8	(3)	2	1.06	Hold
Dialog Group	Jun	1.63	6	6	28.3	25.8	4.1	3.9	16	1	1.60	Hold
MMHE	Dec	1.11	8	8	14.2	13.7	0.7	0.6	4	NA	1.20	Hold
PetDag	Dec	22.50	81	87	27.9	25.9	4.3	4.2	13	2	22.68	Hold
Dayang	Dec	1.69	18	21	9.6	8.2	1.6	1.4	18	2	1.80	Hold
UMW-OG	Dec	1.20	4	6	33.6	19.2	0.8	0.8	5	1	0.90	Sell
Perisai	Dec	0.33	1	2	40.6	13.5	0.4	0.4	2	NA	NR	NR
Perdana Petroleum	Dec	1.54	(0)	8	NA	19.0	1.5	1.3	6	1	NR	NR
TH Heavy	Dec	0.20	(1)	2	NA	10.5	0.5	0.4	(25)	NA	NR	NR
Petra Energy	Dec	1.27	10	13	12.9	9.4	0.8	0.8	8	2	NR	NR
Deleum	Dec	1.31	15	18	9.1	7.5	1.7	1.5	22	5	NR	NR
Uzma	Dec	2.20	20	24	11.0	9.1	1.9	1.2	17	2	NR	NR
KNM	Dec	0.53	6	7	8.9	7.5	0.4	0.4	3	NA	NR	NR
Average					18.1	13.5	1.4	1.3	7	2		

Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	29,515	32,342	32,341	26,188	28,514
EBITDA	1,468	1,442	1,069	1,459	1,477
EBIT	1,174	1,125	728	1,130	1,135
Net Finance cost	(11)	(19)	(21)	(13)	(13)
Share of JCE	2	4	2	2	2
PBT	1,165	1,109	709	1,118	1,124
Net profit	837	812	501	834	837
EPS (sen)	84	82	50	84	84
EBITDA margin	5%	4%	3%	6%	5%
EBIT margin	4%	3%	2%	4%	4%
PBT margin	4%	3%	2%	4%	4%
Net profit margin	3%	3%	2%	3%	3%
PER (x)	27.9	38.5	33.9	26.8	26.7
P/BV (x)	4.9	6.5	3.6	4.5	4.3
Dividend (sen)	105	70	60	63	63
Dividend yield	4%	2%	4%	3%	3%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

YE: Dec (RM million)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
Revenue	8,227	6,493	6,529	1%	-21%	24,888	19,124	-23%
EBIT	231	376	301	-20%	30%	712	964	35%
Finance cost	(8)	(3)	(4)	53%	-48%	(16)	(11)	-30%
PBT	224	374	298	-20%	33%	698	956	37%
Taxation	(62)	(100)	(77)	-22%	25%	(190)	(253)	33%
Net profit	160	273	219	-20%	36%	501	698	39%
EPS (sen)	16	28	22	-20%	37%	50	70	39%
EBIT margin	3%	6%	5%			3%	5%	
PBT margin	3%	6%	5%			3%	5%	
Net profit margin	2%	4%	3%			2%	4%	
Effective tax rate	28%	27%	26%			27%	26%	

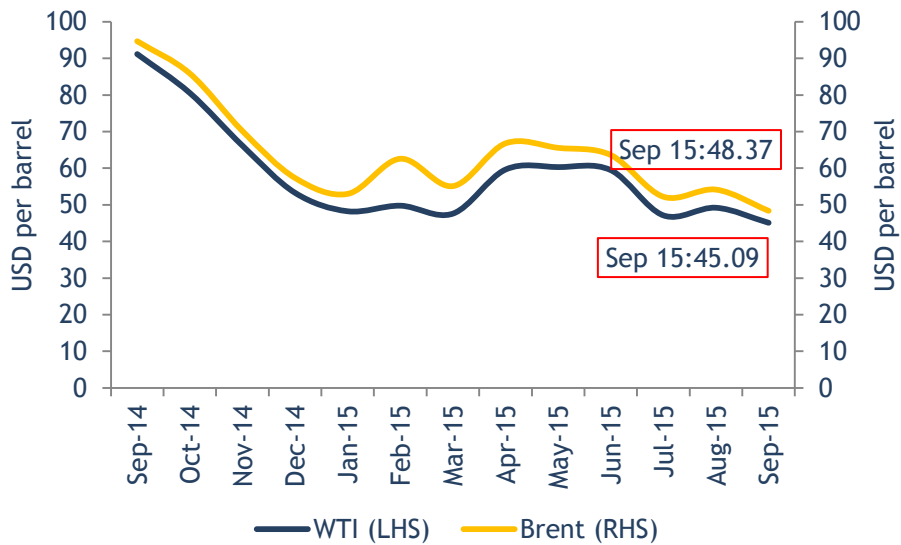
Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: Dec (RM million)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
Revenue								
Retail	3,940	3,450	3,499	1%	-11%	11,893	10,169	-14%
Commercial	4,283	3,037	3,024	0%	-29%	12,982	8,936	-31%
Segmental Results								
Retail	98	208	143	-31%	46%	370	489	32%
Commercial	133	160	150	-6%	13%	320	452	41%

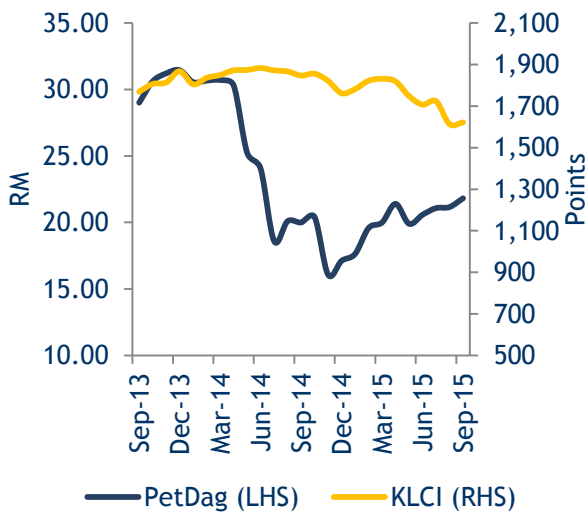
Source: Bursa Malaysia, M&A Securities

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



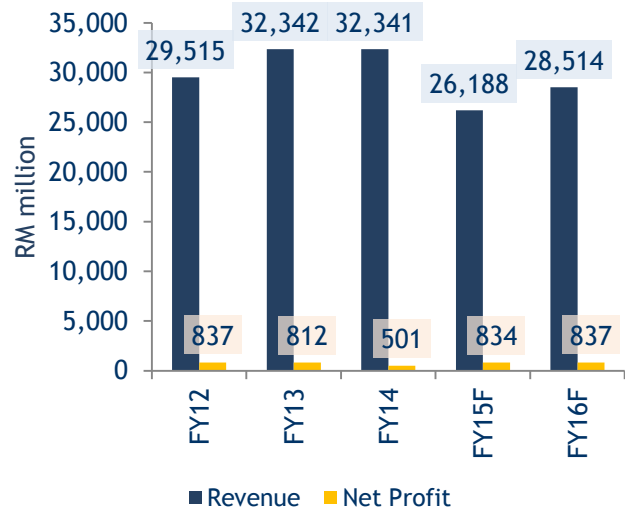
Source: Bloomberg

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



Source: Bloomberg, M&A Securities

Revenue and Net Profit
(FY12-FY16F)



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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