

PP 14767/09/2012(030761)

Wednesday, May 13, 2015

Petronas Gas Berhad

“Stable, but Lack of Catalyst”

Results Review

- Actual vs. expectations.** Petronas Gas Berhad (PetGas) 1Q15 net profit of RM450 million came in line with ours and consensus estimates respectively, accounting 24% and 25.1% of ours and consensus full year forecast. The energetic performance in 1Q15 was fuelled by higher contribution from gas processing division which registered a strong operating profit of RM176.9 million that gained by a hefty 15% y-o-y.
- Dividend.** Management reaffirmed its stance on quarterly dividends vs. semi-annual previously. For FY15, we have 60% of payout ratio target, equivalent to 2.5% yield.
- Topline vs. Bottomline.** 1Q15 revenue rose to RM1.1 billion (+4% y-o-y, -1% q-o-q) mainly driven by higher contribution from gas transportation division (+8.7% y-o-y) on higher transportation capacity booked by Petronas on the back of the new Gas Transportation & Processing Agreement (GPTA) effective on 1st April 2014. Similarly, gas processing division registered revenue of RM375 million (+6% y-o-y) underpinned by higher reservation charge booked. However, regasification division’s revenue dropped to RM153 million (-1.3% y-o-y), due to shorter working days in 1Q15. All in, PetGas’ 1Q15 EBIT margin surged to 52% vs. 41% in 4Q14 due to lower cost sales, and PBT margin was stable at 52% vs. 61% in 4Q14 due to one-off JV result incurred in 4Q14.
- Outlook.** The lower crude oil price had forced PetGas to trim its capex in FY15 to RM4.9 billion vs. RM6.3 billion initially. Without mentioning the areas that have been cut, we foresee the capital commitment

HOLD (TP:RM23.20)

Current Price (RM)	RM22.20
New Fair Value (RM)	RM23.20
Previous Fair Value (RM)	RM23.20
Previous Recommend.	HOLD
Upside To Fair Value	4.5%
Dividend Yield (FY15)	2.5%

Stock Code

Bloomberg	PTG MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Utilities	
Shariah Compliance	Yes	
Issued Shares (mn)	1,978.7	
Market Cap (RM mn)	43,927.8	
YTD Chg In Share Price	0.18%	
Beta (x)	1.23	
52-week Hi/Lo (RM)	RM24.96	RM20.60
3M Average Volume (shrs)	1.18mn	
Estimated Free Float	20.5%	

Major Shareholders

Petronas	60.66%
EPF	13.67%
KWAP	5.33%

will consist of RM2.7 billion Pengerang RGT. We are neutral on the lower capital commitment. Under the new GPTA PetGas will not able to book additional revenue from its efficiency in handling plants and operations and hence, the lower capital is needed to overcome the efficiency absence without neglecting the FY17's commitment date of Pengerang RGT that will have capacity of 530 mmscfd.

- **Change to forecast.** No change to our FY15 and FY16 forecast as 1Q15 results are within our expectation. Nonetheless, FY15 and FY16 earnings are projected to grow by 2% and 3% y-o-y driven by 1) regasification revenue from Malacca RGT 2) higher volume booked by Petronas 3) contribution from Kimanis RGT
- **Valuation.** We maintain our target price on Petronas Gas at RM23.20 and we reiterated our **HOLD** call on the stock underpinned by i) steadier gas volume from Malacca RGT ii) higher reservation booked iii) fixed fee structure under the new GPTA

Table 1: Peers Comparison

Company	Y/E Ended	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	FV	Call
			FY15	FY16	FY15	FY16	FY16	FY16			
MMC Corp	Dec	2.60	0.1	0.2	18.9	16.1	1.0	0.9	3.2	3.00	Buy
TNB	Aug	13.82	1.2	1.2	12.7	12.2	1.8	1.6	14.1	15.20	Hold
Gas Malaysia	Dec	2.67	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Hold
Petronas Gas	Dec	22.2	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Hold
Petronas Chemical	Dec	5.85	0.3	0.4	15.1	13.4	1.7	1.6	15.0	5.80	Hold
YTL Power	Dec	1.59	0.1	0.1	11.2	11.8	1.1	1.0	12.1	NA	NA
Average			0.5	0.6	19.4	17.3	2.3	2.2	13.8		

Table 2: Results Analysis

YE: Dec (RM million)	1Q15	4Q14	1Q14	y-o-y	q-o-q	3M15	3M14	y-o-y
Revenue	1,101	1,112	1,054	4%	-1%	1,101	1,054	4%
Cost of Sales	-506	-573	-518	-2%	-12%	-506	-518	-2%
Gross Profit	596	539	536	11%	11%	596	536	11%
Expenses	-70	-112	-15	-366	-38%	-70	-15	
Other income	42	34	24	74%	27%	42	24	74%
Operating Profit	568	460	546	4%	23%	568	546	4%
Financing costs	-21	-20	-19	10%	7%	-21	-19	10%
Associates/jointly controlled entity	24	242	17	42%	-90%	24	17	42%
PBT	-121	683	-125	-3%	7%	-121	-125	-3%
PAT	450	570	418	8%	-21%	450	418	8%
EPS (Sen)	22.7	28.9	21.1	8%	-21%	22.7	21.1	8%
EBIT Margin	52%	41%	52%			52%	52%	
PBT Margin	52%	61%	52%			52%	52%	
PAT Margin	41%	51%	40%			41%	40%	

Source: Bursa Malaysia, M&A Securities

Table 3: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	3,577	3,892	4,392	4,589	4,796
Cost of Sales	-1,807	-1,947	-2,179	-2,256	-2,357
Gross Profit	1,770	1,945	2,212	2,334	2,439
Expenses	-222	-212	-220	-180	-190
Other income	293	171	103	107	105
Operating Profit	1,841	1,904	2,142	2,260	2,354
Associates/jointly controlled entity	24	43	289	297	280
PBT	1,845	1,896	2,354	2,479	2,559
PAT	1,397	1,309*	1,842	1,871	1,932
EPS (Sen)	71	105.1	93.2	94	97
PBT Margin	52%	49%	54%	54%	53%
PAT Margin	39%	53%	42%	41%	40%
PER (x)	15.7	24.7	21.1		
P/BV (x)	2.6	4.2	4.2		

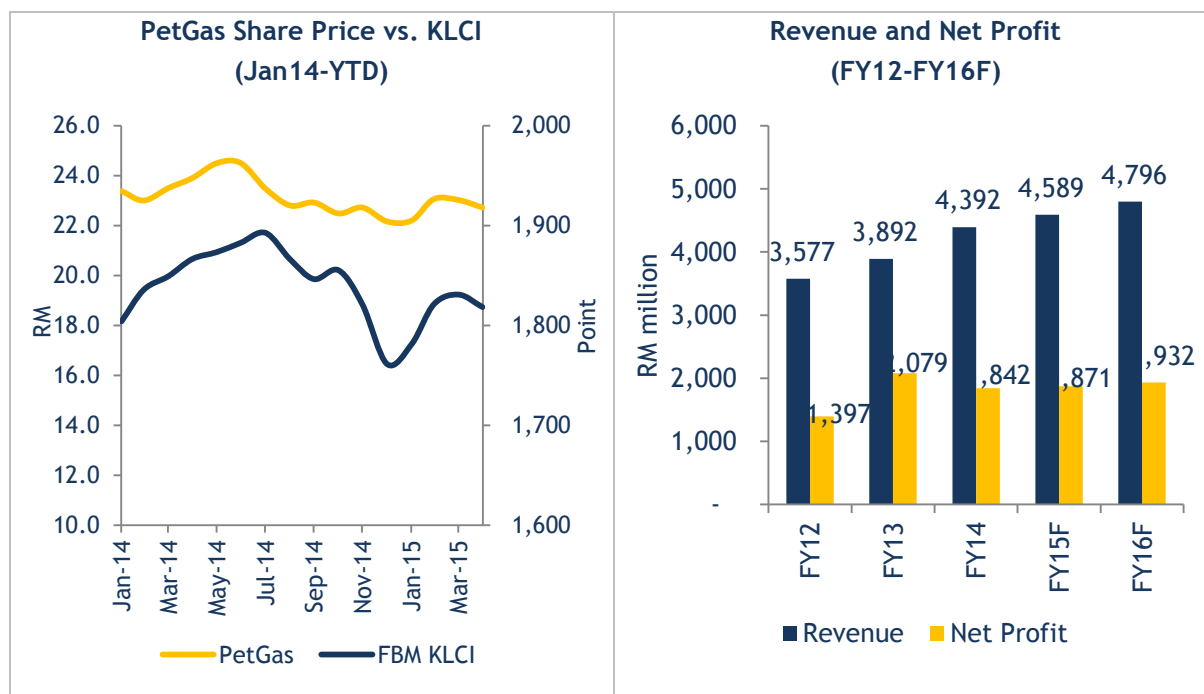
Source: Bursa Malaysia, M&A Securities

*FY13 PAT restated after minus exceptional items

Table 4: Segment Results

(RM million)	Gas Processing		Gas Transportation		Utilities		Regasification		Total	
	3M15	3M14	3M15	3M14	3M15	3M14	3M15	3M14	3M15	3M14
Revenue	375	353	323	297	249	248	153	155	1101	1054
Segment Results	203	176	259	236	56	48	76	75	595	536

Source: Bursa Malaysia, M&A Securities



Source: Bloomberg, 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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