

PP 14767/09/2012(030761)

Wednesday, August 05, 2015

Petronas Gas Berhad

“Boosted by Tax Allowance”

Results Review

- Actual vs. expectations.** Petronas Gas Berhad (PetGas) 6M15 net profit of RM1.26 billion (+49% y-o-y) came above from ours and consensus forecast respectively, accounting 68.6% and 70.2% of ours and consensus full year estimates respectively. However, if we stripped off lower tax expense amounting to RM407.9 million, PetGas' net profit came in at RM860.1 million (+0.8% y-o-y), accounting 46% and 48% of ours and consensus estimates respectively. The higher earnings were aided by gas processing and gas transportation division revenue that jumped by 14.4% y-o-y and 3.8% y-o-y in 6M15 as a result of higher performance based structure and higher transportation capacity made by Petronas under the new Gas Transport Agreement (GTA).
- Dividend.** In line with higher earnings, PetGas announced higher dividend of 28 cent vs. 20 cent in 6M14, equivalent to 44% payout ratio.
- Topline vs. Bottomline.** 6M15 revenue rose to RM2.18 billion (1% y-o-y) fuelled by the implementation of the new Gas Processing Agreement (GPA) and GTA effective on 1st April 2014 which assisted revenue from gas processing and gas transportation. It surged by 4.3% y-o-y and 4.0% y-o-y respectively. Nevertheless, EBIT margin dropped by 1bps to 51% hampered by forex losses due to weakening of RM against USD. Excluding forex impact, PetGas' PBT reached RM1.16 billion (+3.6% y-o-y).
- Utilities segment to rebound.** We foresee that utilities segment to recover in 3Q15 given the full quarter impact of tariff electricity rebates from March-June 2015 given to Petronas' Kertih and Gebeng plants

HOLD (TP:RM23.20)

Current Price (RM)	RM22.46
New Fair Value (RM)	RM23.20
Previous Fair Value (RM)	RM23.20
Previous Recommend.	HOLD
Upside To Fair Value	3.2%
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)	44,442.3	
YTD Chg In Share Price	1.35%	
Beta (x)	1.18	
52-week Hi/Lo (RM)	RM23.98	RM20.60
3M Average Volume (shrs)	1.18mn	
Estimated Free Float	20.5%	

Major Shareholders

Petronas	60.66%
EPF	13.67%
KWAP	5.33%

that receives 5.8% electricity rebates from TNB. Additionally, the utilities segment will continue to enjoy tax exemption in FY15 to FY18 and thus PTG's blended tax rate will likely trend below 25%.

- **Outlook.** Despite PetGas cutting its capex recently, we foresee that PetGas major projects are not affected including Pengerang regasification terminal that slated to operate by 4Q17. Additionally, we reaffirmed our view on the implementation of GPA and GTA will provide sustainable and steady returns as it will no longer subject to external factors like feed gas supply and export volume of liquid products like ethane, butane and propane. Revenue from gas processing segment is expected to remain stable under the new GPA.
- **Change to forecast.** No change to our FY15 and FY16 forecast as 6M15 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 (%)	TP	Call
			FY15	FY16	FY15	FY16	FY16	FY16			
MMC Corp	Dec	2.10	0.1	0.2	18.9	16.1	1.0	0.9	3.2	3.00	Buy
TNB	Aug	11.94	1.2	1.2	12.7	12.2	1.8	1.6	14.1	15.20	Buy
Gas Malaysia	Dec	2.31	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Hold
Petronas Gas	Dec	22.46	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Hold
Petronas Chemical	Dec	6.43	0.3	0.4	15.1	13.4	1.7	1.6	15.0	5.80	Hold
Malakoff	Dec	1.68	NA	NA	NA	NA	NA	NA	8.68	2.30	Buy
YTL Power	Dec	1.56	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)	2Q15	1Q15	2Q15	y-o-y	q-o-q	6M15	6M14	y-o-y
Revenue	1,084	1,101	1,102	-2%	-2%	2,185	2,157	1%
Cost of Sales	-528	-506	-521	1%	4%	-1,033	-1,039	-1%
Gross Profit	556	596	582	-4%	-7%	1,151	1,118	3%
Expenses	-35	-70	-31	-13%	50%	-105	-46	128%
Other income	24	42	32	-25%	-43%	67	57	17%
Operating Profit	545	568	584	-7%	-4%	1,113	1,129	-1%
Financing costs	-21	-21	-19	11%	1%	-42	-38	11%
Associates/jointly controlled entity	3	24	14	-77%	-86%	27	31	-13%
PBT	527	571	579	-9%	-8%	1,098	1,122	-2%
PAT	818	450	435	88%	82%	1,268	853	49%
EPS (Sen)	41.3	22.0	21.1	96%	88%	64.1	42.2	52%
EBIT Margin	50%	52%	53%			51%	52%	
PBT Margin	49%	52%	53%			50%	52%	
PAT Margin	75%	41%	39%			58%	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		

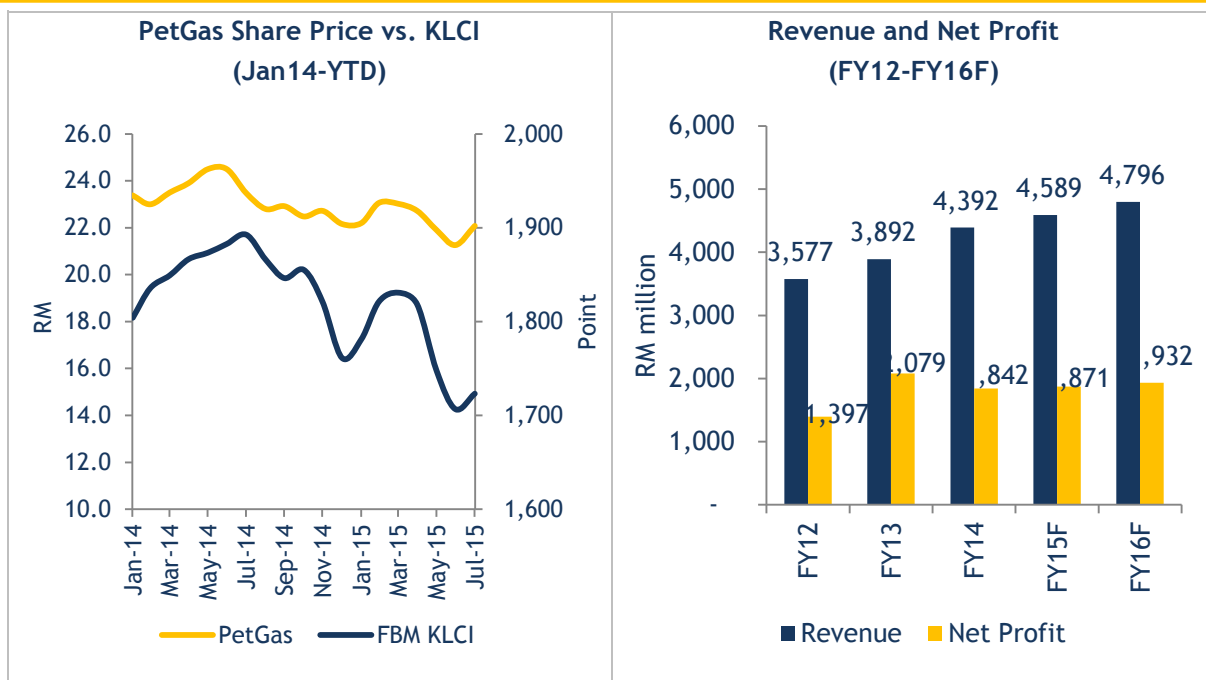
Source: Bursa Malaysia, M&A Securities

*FY13 PAT restated after minus exceptional items

Table 4: Segment Results

(RM million)	Gas Processing		Gas Transportation		Utilities		Regasification		Total	
	6M15	6M14	6M15	6M14	6M15	6M14	6M15	6M14	6M15	6M14
Revenue	726	758	625	650	491	467	313	309	2,184	2,156
Segment Results	352	403	502	521	103	77	159	149	1,267	853

Source: Bursa Malaysia, M&A Securities



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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