

Headline	EC's tariff clarity expected to allay Petronas Gas investor concerns		
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EC's tariff clarity expected to allay Petronas Gas investor concerns

Petronas Gas Bhd
(May 18, RM17.90)

Upgrade to buy with a higher target price (TP) of RM20.10: Petronas Gas Bhd (PetGas) recorded a decent set of first quarter of financial year 2018 (1QFY18) results, with core profit after tax and minority interest (Patmi) at RM476.3 million (+3.5% year-on-year [y-o-y]). This was within expectations, accounting for 25% of both our and the consensus FY18 forecasts. PetGas declared its first interim dividend per share of 16 sen, higher compared with 15 sen in 1QFY17. We did some house-keeping to our earlier earnings forecasts following the release of the 2017 annual report. We upgrade our call to "buy" as we roll forward our valuation and lift our TP to RM20.10.

PetGas' 1QFY18 revenue rose 15.5% y-o-y, mainly driven by stronger regasification revenue, which jumped 82% on the back of the new Pengerang regasification terminal contribution, which started from November 2017. In tandem with higher regasification revenue, operating profit increased 1.24 fold y-o-y. The utilities segment reported a 11% higher revenue as a result of the upward revision of the fuel gas price, which drove segmental profit higher by 5%. Gas processing/transportation revenue were

flat y-o-y at +1%/+3% respectively.

Sequential core Patmi declined 1.5%, impacted by lower joint-venture profits and higher tax expenses, which was off a low base in 4QFY17 on recognition of Refinery and Petrochemical Integrated Development tax incentives for the liquefied natural gas regasification terminal in Pengerang.

We lower our FY18 estimated (E) to FY20E earnings by 5% to 7% post housekeeping to some of our earlier assumptions, which include interest costs, revised capital expenditure assumptions of RM1.3 billion over three years, and minor operating margin tweaks.

We lift our sum-of-parts-based TP to RM20.10 (from RM19.22) and upgrade PetGas to "buy" as we roll forward our valuation to FY19. Recall that the Energy Commission (EC) decided to maintain the current tariff under third-party access until end-2018. As we move closer to that, we believe that the EC will provide better clarity on the revised tariff for the use of the Peninsular Gas Utilisation (PGU) system and regasification terminals, which should allay investors' earlier concerns. Downside risks include any negative outcome on the tariff for the PGU system and regasification terminals, and unforeseen operational disruptions to existing assets. — *Affin Hwang Capital, May 18*

Petronas Gas Bhd

FYE DEC (RM MIL)	2016A	2017A	2018E	2019E	2020E
Revenue	4,561.3	4,809.6	5,217.7	5,595.5	5,689.7
Ebitda	2,967.5	3,183.7	3,526.2	3,695.3	3,750.1
Pre-tax profit	2,106.8	2,252.7	2,468.6	2,597.5	2,667.9
Net profit	1,739.1	1,792.7	1,851.9	1,949.8	2,003.3
EPS (sen)	87.9	90.6	93.6	98.5	101.2
PER (x)	20.4	19.8	19.1	18.2	17.7
Core net profit	1,746.6	1,792.7	1,851.9	1,949.8	2,003.3
Core EPS (sen)	88.3	90.6	93.6	98.5	101.2
Core EPS growth (%)	(1.7)	2.6	3.3	5.3	2.7
Core PER (x)	20.3	19.8	19.1	18.2	17.7
Net DPS (sen)	62.0	47.0	66.7	70.3	72.2
Dividend yield (%)	3.5	2.6	3.7	3.9	4.0
EV/Ebitda (x)	11.9	11.1	9.9	9.3	9.1
Chg in EPS (%)			(4.6)	(7.0)	(6.0)
Affin/Consensus (%)			1.0	1.0	1.0

Sources: Company, Bloomberg, Affin Hwang forecasts