PetGas’ future growth to stem from Pengerang LNG

Investment Highlights
WE MAINTAIN our Sell recommendation for Petronas Gas Bhd (PetGas) with an unchanged sum-of-parts-based fair value of RM16.60/share, which implies an FY17 PE of 18x, a 20% discount to the two-year average of 23x. This is due to the expected value erosion from the Energy Commission Malaysia’s plan to implement incentive-based regulation (IBR) tariffs on the group’s gas transportation segment’s depreciation. We are expecting improved earnings and dividends as we expect the group to fully utilise its newly acquired liquefied natural gas (LNG) regasification terminal in Pengerang independent terminals Sdn Bhd, as its 490mmscfd capacity recently started commercial operation progressively on Nov 1, 2017, which we have already incorporated RM107m annually to the group’s IBR from FY18 onwards.

We recommend a 1% QoQ to RM1.22 due to lower demand for utilities as some of its clients were undergoing turnaround activities. Together with a 7% increase in depreciation, PetGas’ EBIDTA net profit slid 2%. QoQ to RM1.25, partly cushioned by a 4% rebound in associates/joint-venture contribution as the previous quarter registered unrealised fair value adjustments to 40%-owned Kinaras Power Sdn Bhd’s hedged repair and maintenance costs. On a Y-o-Y comparison, the group’s FY17 revenue rose 3% to RM3.5bn from higher utilisation, mainly on Jul 1, 2016, and Jan 1, 2017, amid higher demand while regasification storage revenue rose stronger US dollar and throughput volumes.

Together with higher interest income and a one-off decrease in effective tax rate, this partly contributed to PetGas’ 9MFY17 net profit increase of 3%.

The group’s next phase of growth will stem from its liquefied natural gas (LNG) regasification terminal in Pengerang independent terminals Sdn Bhd, as its 490mmscfd capacity recently started commercial operation progressively on Nov 1, 2017, which we have already incorporated RM107m annually to the group’s IBR from FY18 onwards.

Recommendation:
Sell
Fair Value: RM16.60
by AxiInvestment Bank Bhd (Nov 13)