

26 August 2019

Petronas Dagangan Bhd

2Q19 Disappointing

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Hugely disappointing 2Q19 results with MOPS price volatility coming back to haunt PETDAG's earnings again just after the earnings shock in 4Q18. Crude oil price volatility in early Aug and normalised traffic volume after the Raya-led 2Q19 may not augur well for the upcoming 3Q19. That said, we believe all near-term negatives should have been priced in following the heavy sell-down in the past two weeks. Thus, keep MP at a revised TP of RM22.45.

2Q19 below expectations. 2Q19 results came below expectations with 1H19 core profit falling 14% to RM446m, making up only 40%/44% of house/street's FY19 estimates. This was due to the plunge in Mean of Platts Singapore (MOPS) prices, which was in-line with high volatility of crude oil price, especially in 2H of May that dampened profit margin. Meanwhile, it declared 2nd interim NDPS of 14.0 sen (ex-date: 10 Sep; payment date: 20 Sep) in 2Q19, totalling 1H19 NDPS to 29.0 sen which is the same as 1H18.

Hit by unfavourable MOPS price again... Despite revenue rising 7% to RM7.61b, 2Q19 core profit plummeted 37% sequentially to RM173.1m from RM273.3m in 1Q19 which was badly hit by MOPS price volatility during the quarter. This resulted in its Retail's operating earnings plunging 50% to RM114.9m from RM228.4m as profit margin deteriorated to 3.0% from 6.3% in 1Q19. Meanwhile, Commercial's operating profit fell 11% to RM130.6m from RM147.0m as profit margin slid to 3.5% from 4.3%. In addition, there was an increase in opex due to higher support service costs which crimped profit margin as well. Nonetheless, the higher revenue was driven by an overall 3% improvement in sales volume coupled with 4% hike in ASP.

...despite higher sales volume. Similarly, 2Q19 and 1H19 core earnings contracted YoY by 44% and 14% to RM173.1m and RM446.4m from RM308.0m and RM519.1m, owing largely to the abovementioned MOPS price volatility despite higher revenues by 5% and 2%, respectively. Segmental-wise, strong 2Q19 sales volume growth of 7% and 9% in Retail and Commercial, which was partly offset by lower ASP of 3% and 4%, respectively, led the group's top-line growth. For 1H19, Retail saw a 6% rise in sales volume and 4% dip in ASP while Commercial posted 5% hike in sales volume and 2% lower ASP.

MOPS price volatility remains a concern in 3Q19, especially in early-Aug, which may again put pressure on profit margin to create earnings shock. On the other hand, we are unlikely to see strong growth in 3Q19 given the heavy traffic volume for Raya festive in June. As such, we see little volume growth or worse still a trend downwards for its fuel segment given the change of commuting trend, especially in Klang Valley with the launch of MRT as well as the trend of electric vehicles. In all, MOPS' price movement and business volume remain the key deciding factors to the bottom-line.

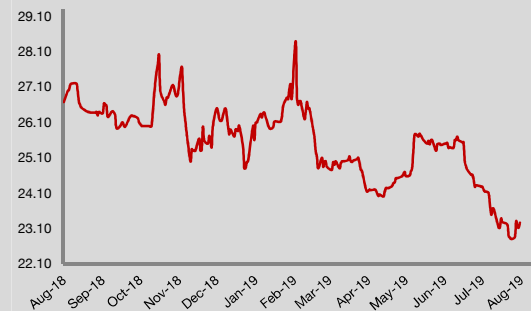
Sell-down reflected earnings woes; keep MARKET PERFORM. Post results, we cut FY19-FY20 earnings estimates by 15% and 11%, respectively, to account for lower profit margin given the MOPS price volatility in 2Q19. Accordingly, FY19-20E NDPS are also trimmed proportionally based on unchanged 70% earnings payout. The stock faced heavy sell down in the past two weeks with share price falling 12% YTD which we believe should have fully priced in the negatives by now. Thus, we maintain MARKET PERFORM with a lower target price of RM22.45 based on -1SD 3-year mean of FY20 21.9x PER from RM24.95 which was based on -1SD 3-year average of 21.8x. Our recommendation is supported by a decent yield of c.3%.

Risks to our recommendation include sudden plunge in MOPS prices and weaker-than-expected business volume.

MARKET PERFORM ↔

Price: RM23.26
Target Price: RM22.45 ↓

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,609.33 |
| YTD KLCI chg | -4.8% |
| YTD stock price chg | -12.2% |

Stock Information

| | |
|----------------------|----------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | PETD MK |
| Market Cap (RM m) | 23,107.7 |
| Shares outstanding | 993.5 |
| 52-week range (H) | 28.48 |
| 52-week range (L) | 22.50 |
| 3-mth avg daily vol: | 550,443 |
| Free Float | 22% |
| Beta | 0.8 |

Major Shareholders

| | |
|--------------------------|-------|
| Petroleum Nasional Bhd | 69.9% |
| Employees Provident Fund | 6.4% |
| Amanah Saham Bumiputera | 1.6% |

Summary Earnings Table

| FY Dec (RM m) | 2018A | 2019E | 2020E |
|------------------------|------------|------------|-------------|
| Turnover | 30069 | 28400 | 28971 |
| EBIT | 1178 | 1264 | 1354 |
| PBT | 1177 | 1253 | 1350 |
| Net Profit | 850 | 945 | 1018 |
| Core Net Profit | 837 | 945 | 1018 |
| Consensus | | 1025 | 1063 |
| Earnings Revision (%) | | -15.1 | -10.5 |
| Core EPS (sen) | 84.3 | 95.1 | 102.5 |
| Core EPS growth (%) | -24.7 | 12.8 | 7.7 |
| NDPS (sen) | 70.0 | 66.6 | 71.7 |
| BV/Share (RM) | 5.94 | 6.22 | 6.53 |
| NTA/Share (RM) | 5.94 | 6.22 | 6.53 |
| Core PER | 31.4 | 24.5 | 22.7 |
| PBV (x) | 4.46 | 3.74 | 3.56 |
| Price/NTA (x) | 4.46 | 3.74 | 3.56 |
| Net Gearing (x) | N Cash | N Cash | N Cash |
| Dividend Yield (%) | 2.6 | 2.9 | 3.1 |

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| Income Statement | | | | | | | | |
|--------------------|------------|------------|--------------|------------|--------------|------------|------------|--------------|
| FY Dec (RM m) | 2Q FY19 | 1Q FY19 | Q-o-Q Chg | 2Q FY18 | Y-o-Y Chg | 1H FY19 | 1H FY18 | Y-o-Y Chg |
| Turnover | 7,606.2 | 7,085.9 | 7% | 7,278.0 | 5% | 14,692.1 | 14,348.1 | 2% |
| EBITDA | 358.7 | 493.7 | -27% | 507.3 | -29% | 852.3 | 884.8 | -4% |
| Depreciation | (118.3) | (106.2) | 11% | (84.9) | 39% | (224.5) | (171.5) | 31% |
| EBIT | 240.4 | 387.5 | -38% | 422.3 | -43% | 627.9 | 713.2 | -12% |
| Interest expense | (5.0) | (5.5) | -8% | 1.1 | -551% | (10.5) | 0.7 | -1586% |
| Associates | 2.3 | 0.9 | 140% | 0.8 | 181% | 3.2 | 1.5 | 119% |
| Exceptional items | 0.0 | 0.0 | 0% | 0.0 | 0% | 0.0 | 0.0 | 0% |
| Pretax profit | 237.6 | 383.0 | -38% | 424.3 | -44% | 620.6 | 715.4 | -13% |
| Taxation | (63.2) | (89.4) | -29% | (101.7) | -38% | (152.7) | (172.6) | -12% |
| Profit after tax | 174.4 | 293.6 | -41% | 322.5 | -46% | 468.0 | 542.9 | -14% |
| Minority interest | (1.6) | (2.4) | -32% | (8.1) | -80% | (4.0) | (10.0) | -60% |
| Net profit | 172.8 | 291.2 | -41% | 314.4 | -45% | 463.9 | 532.9 | -13% |
| Core net profit | 173.1 | 273.3 | -37% | 308.0 | -44% | 446.4 | 519.1 | -14% |
| EPS (sen) | 17.4 | 27.5 | -37% | 31.0 | -44% | 44.9 | 52.2 | -14% |
| NDPS (sen) | 14.0 | 15.0 | -7% | 16.0 | -13% | 29.0 | 29.0 | 0% |
| NTA/share (RM) | 5.9 | 5.9 | 1% | 5.9 | 0% | 5.95 | 5.93 | 0% |
| EBITDA margin | 5% | 7% | | 7% | | 6% | 6% | |
| EBIT margin | 3% | 5% | | 6% | | 4% | 5% | |
| Pretax margin | 3% | 5% | | 6% | | 4% | 5% | |
| Effective tax rate | 27% | 23% | | 24% | | 25% | 24% | |

Source: Company

| Segmental Breakdown | | | | | | | | |
|--------------------------|----------------|----------------|--------------|----------------|--------------|-----------------|-----------------|--------------|
| FY Dec (RM m) | 2Q FY19 | 1Q FY19 | Q-o-Q Chg | 2Q FY18 | Y-o-Y Chg | 1H FY19 | 1H FY18 | Y-o-Y Chg |
| Turnover | | | | | | | | |
| Retail | 3,874.1 | 3,632.8 | 7% | 3,728.1 | 4% | 7,506.9 | 7,393.3 | 2% |
| Commercial | 3,726.1 | 3,446.5 | 8% | 3,545.1 | 5% | 7,172.5 | 6,945.0 | 3% |
| Others | 6.0 | 6.7 | -10% | 4.9 | 24% | 12.7 | 9.8 | 30% |
| Group Turnover | 7,606.2 | 7,085.9 | 7% | 7,278.0 | 5% | 14,692.1 | 14,348.1 | 2% |
| Segment Results | | | | | | | | |
| Retail | 114.9 | 228.4 | -50% | 236.1 | -51% | 343.3 | 401.9 | -15% |
| Commercial | 130.6 | 147.0 | -11% | 152.3 | -14% | 277.6 | 271.4 | 2% |
| Others | (5.1) | 12.1 | -142% | 33.9 | -115% | 7.0 | 39.9 | -83% |
| Group EBIT | 240.4 | 387.5 | -38% | 422.3 | -43% | 627.9 | 713.2 | -12% |
| EBIT Margin | | | | | | | | |
| Retail | 3% | 6% | | 6% | | 5% | 5% | |
| Commercial | 4% | 4% | | 4% | | 4% | 4% | |
| Others | -84% | 180% | | 699% | | 55% | 407% | |
| Group EBIT Margin | 3% | 5% | | 6% | | 4% | 5% | |

Source: Company

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Peer Comparison

| Name | Last Price | Market | Shariah | Current | Revenue Growth | | Core Earnings Growth | | PER (x) - Core Earnings | | | PBV (x) | | ROE (%) | Net Div. Yld. (%) | Target | Rating |
|------------------------------|------------|------------|-----------|---------|----------------|--------------|----------------------|--------------|-------------------------|-------------|-------------|------------|------------|-------------|-------------------|------------|--------|
| | (RM) | Cap (RM'm) | Compliant | FYE | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | Hist. | 1-Yr. Fwd. | 2-Yr. Fwd. | Hist. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | Price (RM) | |
| BUMI ARMADA BERHAD | 0.225 | 1,322.2 | N | 12/2019 | 14.3% | -19.8% | 38.4% | 2.2% | 5.9 | 4.2 | 4.1 | 0.4 | 0.4 | 9.3% | 0.0% | 0.180 | UP |
| DAYANG ENTERPRISE HLDGS BHD | 1.49 | 1,437.6 | Y | 12/2019 | 22.2% | 4.4% | -33.9% | 9.1% | 8.8 | 13.2 | 12.1 | 1.3 | 1.2 | 9.5% | 0.0% | 1.45 | MP |
| DIALOG GROUP BHD | 3.48 | 19,621.3 | Y | 06/2020 | 17.7% | 6.1% | 4.5% | 9.7% | 36.6 | 35.0 | 32.0 | 5.2 | 4.9 | 14.4% | 1.1% | 4.15 | OP |
| MALAYSIA MARINE AND HEAVY EN | 0.810 | 1,296.0 | Y | 12/2019 | -10.1% | 43.0% | 845.5% | 139.3% | N.A. | 89.4 | 37.3 | 0.5 | 0.5 | 0.6% | 0.0% | 1.05 | OP |
| MISC BHD | 7.29 | 32,540.7 | Y | 12/2019 | 3.1% | -2.9% | 30.2% | 5.3% | 24.6 | 18.9 | 18.0 | 0.9 | 0.9 | 4.9% | 4.1% | 7.60 | MP |
| PANTECH GROUP HOLDINGS BHD | 0.500 | 375.0 | Y | 02/2020 | 1.3% | 5.9% | 1.3% | 6.4% | 8.6 | 8.4 | 7.9 | 0.7 | 0.6 | 7.6% | 3.2% | 0.690 | OP |
| PETRONAS CHEMICALS GROUP BHD | 7.22 | 57,760.0 | Y | 12/2019 | -13.9% | 4.8% | -30.3% | 14.5% | 11.6 | 16.6 | 14.5 | 1.9 | 1.8 | 11.1% | 3.0% | 7.70 | MP |
| PETRONAS DAGANGAN BHD | 23.26 | 23,107.7 | Y | 12/2019 | -5.6% | 2.0% | 12.9% | 7.7% | 27.6 | 24.5 | 22.7 | 3.9 | 3.7 | 15.6% | 2.9% | 22.45 | MP |
| SAPURA ENERGY BHD | 0.275 | 4,383.3 | Y | 01/2020 | 5.9% | 20.7% | 1875.6% | 258.5% | N.A. | 90.8 | 25.3 | 0.3 | 0.3 | 0.4% | 0.0% | 0.430 | OP |
| SERBA DINAMIK HOLDINGS | 4.29 | 6,299.9 | Y | 12/2019 | 23.2% | 14.3% | 17.2% | 13.3% | 16.4 | 14.0 | 12.4 | 3.0 | 2.6 | 20.2% | 2.2% | 5.25 | OP |
| UZMA BHD | 0.650 | 208.0 | Y | 06/2019 | -24.3% | -0.1% | -86.0% | 193.1% | 4.0 | 28.9 | 9.9 | 0.5 | 0.4 | 1.5% | 0.0% | 0.760 | MP |
| VELESTO ENERGY BHD | 0.305 | 2,505.8 | Y | 12/2019 | 5.3% | 6.2% | 119.7% | 152.0% | N.A. | 164.9 | 65.4 | 0.9 | 0.9 | 0.5% | 0.0% | 0.350 | OP |
| WAH SEONG CORP BHD | 0.645 | 496.9 | Y | 12/2019 | -47.7% | -7.7% | -18.8% | -18.1% | 7.9 | 9.7 | 11.9 | 0.5 | 0.5 | 5.4% | 0.0% | 0.620 | UP |
| YINSON HOLDINGS BHD | 6.78 | 7,325.7 | Y | 01/2020 | 0.1% | 70.2% | -7.1% | 55.9% | 27.9 | 30.0 | 19.2 | 4.2 | 3.8 | 13.5% | 0.9% | 7.75 | OP |
| Simple Average | | | | | -0.6% | 10.5% | 197.8% | 60.6% | 16.3 | 39.2 | 20.9 | 1.7 | 1.6 | 8.2% | 1.2% | | |

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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