

Headline	Petronas Gas expects rise in RGTP contribution to earnings		
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Petronas Gas expects rise in RGTP contribution to earnings

Petronas Gas Bhd
(Dec 4, RM19.30)

Downgrade to sell with an unchanged target price (TP) of RM18.90: Petronas Gas Bhd's (PetGas) actual capital expenditure spent for the regasification terminal Pengerang (RGTP), which started operations in November 2017, was lower than the quantum approved. Additionally, actual operational expenditure was also lower than expected.

As a result, there will be a tariff revision for RGTP to reflect the lower costs. It was likewise with the Sungai Udang RGT, whereby tariffs were revised after a full year in operations. The revised tariffs will be announced in conjunction with new third party access (TPA) tariffs for transmission assets. Despite this, earnings from RGTP are expected to be higher based on management's refreshed guidance.

PetGas now expects a ramping-up of RGTP contribution to 12% to 14% of the group's pre-tax profits (it was previously 8% to 10%). In our view, this alludes to higher margins after the tariff revision.

Management expects new TPA tariffs to be announced before end-2018. Although details are sketchy for now, management has alluded the net book valuation (NBV) methodology will be used to value PetGas' regulated asset base (RAB), in line with other regulated assets in Malaysia under the incentive-based regime (IBR).

Nevertheless, the migration from the depreciated replacement cost (DRC) to the NBV will be on a gradual and staggered basis.

To recap, PetGas' RAB comprises transmission pipelines and regasification terminals. Under the existing

Petronas Gas Bhd

FYE DEC (RM MIL)	2016	2017	2018E	2019F	2020F
Revenue	4,561.3	4,809.6	5,276.0	5,312.0	5,349.5
Ebitda	2,954.5	3,167.4	3,461.5	3,474.6	3,482.9
Depreciation	(877.1)	(990.1)	(1,007.9)	(1,007.3)	(999.8)
Net finance cost	(39.7)	(28.6)	(61.7)	(35.4)	(9.0)
Associates & JVs	63.6	87.8	71.7	99.0	99.8
Exceptionals	5.5	16.2	0.0	0.0	0.0
Pre-tax profit	2,106.8	2,252.7	2,463.6	2,530.8	2,573.8
Taxation	(370.5)	(435.8)	(475.5)	(506.2)	(514.8)
MI	(2.8)	(24.3)	(26.9)	(27.4)	(27.9)
Net profit	1,733.6	1,792.7	1,961.2	1,997.3	2,031.2
Core net profit	1,728.1	1,776.5	1,961.2	1,997.3	2,031.2
Per share data					
Core EPS (sen)	87.3	89.8	99.1	100.9	102.7
DPS (sen)	62	66	67	69	70
Book value (RM)	6.0	6.3	6.6	7.0	7.3
Net tang asset (RM)	6.0	6.3	6.6	7.0	7.3

Source: TA Securities

Management expects new TPA tariffs to be announced before end-2018. Details are sketchy, but management has alluded the net book valuation methodology will be used to value PetGas' regulated asset base.

gas transmission and regasification agreements, the assets were valued using DRC. Despite the NBV migration, management is optimistic that PetGas' asset returns will be higher

compared with its peers currently operating under the IBR. The latter includes Tenaga Nasional Bhd and Gas Malaysia Bhd.

This is due to PetGas' unique position, whereby replacing aged pipelines is urgently required. We are concerned that TPA tariffs will be materially lower versus the status quo, which would imply earnings erosion for PetGas. This is a material risk given the DRC translates into three times NBV. Hence, this may lead to a steep contraction in PetGas' RAB.

Given the uncertainty surrounding TPA tariffs, and their fast approaching implementation date, we downgraded PetGas to "sell" from the previous "hold" call, based on unchanged sum-of-parts TP of RM18.90. — *TA Securities, Dec 4*