KERATAN AKHBAR

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Consistent income streams aplenty for PetGas

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Hike in gas and utilities demand to spur growth

OIL AND GAS

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> MIDF Research

PETALING JAYA: PETRONAS Gas Bhd's (PetGas) defensive earnings capabilities remain an attractive investment theme with analysts, while the opportunity to supply gas to new clients offer growth moving into 2023.

MIDF Research expects PetGas to enjoy a hike in demand for gas and utilities in the near term as the domestic economy recovers and asset utilisation increases as well.

"Existing long-term contracts are also expected to support consistent income streams – notably for the gas processing, gas transportation, and regasification segments.

"The group renewed a number of long-term utilities contracts which helped offset the negative effects of rising fuel prices," MIDF Research said in a report yesterday after PetGas posted its third quarter of financial year 2022 (3Q22) results.

The research house expects the gas supplier's performance until year-end to continue to be impacted by the rising Malaysia Reference Price mechanism and volatility of the ringgit against the US dollar.

With PetGas 3Q22 numbers missing its expectations, MIDF Research has maintained its "neutral" call on the counter but cut its target price (TP) to RM17.27 from RM17.65 per share.

Kenanga Research noted over the medium term, PetGas's earnings growth will be driven by the new RM541mil gas pipeline project to cater to an independent power producer in Pulau Indah, Selangor, which is expected to commence commercial operation date in 1Q23 and a RM460mil gas compressor station project in Kluang, Johor, which is scheduled to commence operating by the 1Q24.

PetGas posted earnings of RM425.8mil for 3Q22 (ended Sept 30) which were down by 26.7% year-on-year (y-o-y) but up 7.4% quarter-on-quarter (q-o-q).

For the cumulative nine months, earnings fell 19.7% y-o-y to RM1.23bil. The profit recorded was primarily due to higher operating cost relating to gas and internal gas consumption costs, reduced impact of foreign exchange movement and impact of higher effective tax rate from the imposition of Prosperity Tax.

PetGas announced its second interim dividend of 18 sen per share (50 sen year-to-date), amounting to RM356.2mil, payable on Dec 12.

"We continue to like PetGas for its earnings stability of which over 90% is safeguarded by the incentive based regulation framework, and will remain so during the coming Regulatory Period 2 (RP2), anchoring decent dividend yields of 4% to 5%," Kenanga Research stated.

It, however, added PetGas' current valuation is already rich and thus maintained its sum-of-parts driven TP of RM17 a share.

Hong Leong Investment Bank (HLIB) Research, meanwhile, noted demand for PetGas' gas and utilities are expected to continue improving in tandem with the economic recovery.

The company's gas processing business' earnings will largely sustain into quarters ahead protected by existing long-term contracts with PETRONAS while the gas transportation and regasification segments long term prospects are protected under the regulated asset base structure.

HLIB Research, however warned PetGas' short term earnings remain affected by higher internal gas consumption and increasing fuel price before possibly recovering in the subsequent review period for RP2 (2023-2025).

The research house maintained its "hold" call on the counter with a TP of RM17.85.

"While we expect PetGas to continue maintaining its dividend payout given its high current net cash position of 89 sen per share, we expect earnings to remain affected by the increasing fuel costs in the near term, on top of the Prosperity Tax impact for the year as well as uncertainty on new tariff structure under RP2 2023-2025," it said.