

## KERATAN AKHBAR

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### **PetGas earnings to remain affected by high fuel gas price - research house**



In a note, Hong Leong Investment Bank Bhd (HLIB) Research said PetGas earnings for gas transportation and regasification are likely to be adjusted downward in the upcoming Regulatory Period 2 (RP2) 2023-2025 tariff structure.

**KUALA LUMPUR:** Petronas Gas Bhd's (PetGas) earnings are expected to remain affected by rising fuel gas price in the near-term in addition to the prosperity tax, research firms said.

In a note, Hong Leong Investment Bank Bhd (HLIB) Research said PetGas earnings for gas transportation and regasification are likely to be adjusted downward in the upcoming Regulatory Period 2 (RP2) 2023-2025 tariff structure.

"Demand for gas and utilities are expected to continue improving in tandem with the economic recovery. Gas processing earnings will largely sustain into subsequent quarters, protected under the existing long-term Petroliaam Nasional Bhd (Petronas) contract,"HLIB Research said.

While gas transportation and regasification long term projects are protected under the Regulatory Asset Base (RAB) structure, short term earnings remain affected by higher internal gas consumption and rising fuel gas price before it recovers in subsequent RP2 review period, it said.

For the utilities segment, the research house said the segment saw some improvement in the current quarter with better margins after renewing some long term contracts under more favourable terms, given that existing contracts have been affected by increasing fuel gas price while tariff pricing is matched to Tenaga Nasional Bhd's fixed tariff pricing.

As such, HLIB Research and another research firm, CGS-CIMB Securities Sdn Bhd, reiterate a "hold" call on the gas infrastructure and centralised utilities company with an unchanged target price of RM17.85 and RM16.70, respectively.

CGS-CIMB said it retains a "hold" call mainly due to weaker earnings in financial years 2022 to 2024 (FY22-24F) versus financial year 2021 (FY21), due to the prosperity tax and anticipated earnings step-down in financial year 2023 (FY23F) arising from incentive-based regulation (IBR) RP2.

"Dividend yields of more than 4 per cent for FY22-24F will likely provide support to its share price. A key downside risk to our 'hold' call is lower-than-expected earnings following the IBR tariff revision.

"Key upside risks include favourable incentive-based regulation parameters and potential flight to safety by investors due to growing market volatility," it said.

In contrast, Kenanga Investment Bank Bhd (Kenanga) Research has a "market perform" recommendation with a target price of RM17.00 for its earnings stability of which more than 90 per cent is safeguarded by the incentive-base regulation framework and this will remain so during the coming RP2.

Over the medium term, its earnings growth will be driven by a new RM541 million gas pipeline project to cater to an independent power producer in Pulau Indah and a RM460 million gas compressor station project in Kluang, said Kenanga Research.

At 10.34 am, PetGas fell six sen to RM16.88 with 22,000 shares traded.– BERNAMA