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Right timing for PETRONAS

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It will be a positive if listed on Bursa, say analysts

CORPORATE

By BHUPINDER SINGH
bhupinder@thestar.com.my

PETALING JAYA: The possible listing of national oil company Petroliam Nasional Bhd (PETRONAS) to overcome the bloated debt at the federal government level presents some challenges and merits.

Despite it being its golden goose and a listing would cause dilution, the government has said it would study the proposal, while investment advisers said a listing would offer many positives for the lacklustre local equity market.

The RM300bil figure bandied about from a 20% stake sale is a huge amount to raise from the local market and likely require a dual-listing due to the limited local liquidity.

"PETRONAS' primary listing will have to be on Bursa Malaysia. There is so much national pride involved. Bursa Malaysia may not be the ideal exchange for listing PETRONAS but PETRONAS will definitely be the ideal listing for Bursa Malaysia," said high net worth investor and former investment banker Ian Yoong Kah Yin.

He pointed out that the potential PETRONAS listing could be exempted from the minimum public shareholding spread of 25% upon listing which was granted to MR DIY Group (M) Bhd.

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Ian Yoong Kah Yin

The revised minimum public shareholding spread could be at 15%. The balance of 10% to meet the minimum 25% public shareholding spread (this will be a first) can be a secondary listing in a major stock exchange overseas, according to Yoong.

PETRONAS is expected to post earnings of about RM100bil for financial year 2022 (FY22) and RM100bil for FY23.

The country's oil and gas production is about 1.8 million barrels of oil equivalent per day, of which some two-thirds are gas.

Although fairly similar to Saudi Aramco in its range of businesses, the local energy company offers a wider geographical asset spread.

Its stock trades at about 12 times its price to earnings multiple (PER) as compared to five times and eight times for oil majors Shell and ExxonMobil respectively. The low PERs for the latter two are due to the volatility in oil prices while Aramco's free float, upon listing in 2019, was a mere 1.67%.

A PETRONAS listing is expected to be priced at nine times to 10 times earnings, giving it a market capitalisation of RM900bil to RM1 trillion provided it has a dividend payout policy of 50%, giving the stock an attractive dividend yield of 5% to 5.55%.

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Outlook for oil and gas remains good

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A RM1 trillion value is almost 60% of all Bursa listed securities market valuation of RM1.7 trillion.

Aramco, in comparison, has a market capitalisation of US$1.7 trillion (RM7.5 trillion) on Tadawul, the Saudi Arabian stock exchange, and accounts for 77% of the market capitalisation of the total stock exchange.

The PETRONAS listing on Bursa Malaysia would bring down the market PER of 17.2 times for the FBM KLCI (in January) to about 13 times, Yoong said.

In light of this, the listing on the local exchange will be positive but trigger changes in holdings by index-linked funds.

Fortress Capital Asset Management Sdn Bhd CEO Thomas Yong noted that the local benchmark is an index with free float adjusted component weight, so how index investment funds adjust to the national oil company's listing would depend on the free float of PETRONAS and its weight on the index.

"It should be sizable, and this will make passive funds/funds with FBM KLCI as benchmark to adjust accordingly, and other local index stocks would be reduced in their portfolios," he told *StarBiz*.

While environmental, social, and governance (ESG) and climate change issues have come to the fore and impact valuation of energy companies, Yong said there is no standardisation in ESG scoring despite many energy companies having clear goals.

Selling a piece of PETRONAS to foreign investors would also depend on shareholder returns as well as improvement in the ESG strategy, he said.

Managing Partner SPI Asset Management Stephen Innes, meanwhile, said the timing of a potential PETRONAS IPO couldn't be better.

"Asia-Pacific oil stocks delivered 36% returns relative to market indices and traders/investors continue to see more upside to the current price target for upstream oil and refining coverage driven by a tight supply backdrop and a sharp demand recovery from China reopening, Malaysia might want to set the wheels in motion when the market is still hot," he said.

Innes, however, noted many institutional funds are turning off fossil fuels exposure given the climate change narrative that has seen big sovereign wealth funds like Norway exit the space.

"I think a good portion of the local participants and even foreign buyers would welcome buying a piece of PETRONAS as the industry outlook remains good," Innes said.

It would be a politically difficult decision to take as a listed entity would require little intervention from the executive – something that might be hard to resist.

Hence, a professor of finance at INCEIF University Dr Obiyathulla Ismath Bacha said the government could explore sukuk based on risk sharing contracts of Islamic finance like mudarabah that could be structured to provide the fund raising capability of equity but without the perpetual loss of ownership.

"Being quasi equity, the sukuk pays dividends linked to the earnings of the underlying asset, has the flexibility of equity and avoids the leverage and fixed claims of debt.

"Such sukuk can meet the objective of paring down the national debt without the risk of perpetual ownership dilution of a strategic national asset like PETRONAS," he pointed out.