

PP14767/09/2012(030761)

Market Access

Petronas Dagangan Berhad

“2016 Capex at RM400 million”

Petronas Dagangan Berhad (PetDag) has marked its strategic plan for 2016 by allocating RM400 million capex mainly to expand its retail operation domestically. Besides, PetDag will continue to implement the cost cutting measures to sustain earnings growth in 2016. Hence, we reiterate our HOLD call for PetDag with a target price of RM22.68.

- **Capex to grow retail operation.** According to *The EDGE MARKET*, PetDag is allocating RM400 million capex to finance the expansion of its operation in 2016 where bulk of it will be used to grow their retail network, targeting to add between 15-20 petrol stations in 2016. Based on our channel check, PetDag has operated 1,109 petrol stations as at 9M15 and planning to add 2 new petrol stations in 4Q15. However, we estimate that group’s retail sales volume to fall by 9% y-o-y in FY15 despite higher number of petrol stations due to weaker diesel sales, impacted by harsher enforcement by government authorities to curb illegal smuggling as well as the implementation of the managed float pricing mechanism in December 2014. However, we estimate its retail sales volume to improve by 3% y-o-y in FY16 after assuming the addition of 20 new petrol stations.
- **Cost cutting measures.** We note that PetDag will continue its optimal cost cutting measures in 2016 as a buffer against the challenging market condition in the low era of global oil prices. We believe similar cost cutting measures which have been adopted since 2015 including better control of manpower cost as well as lower marketing and promotional expenses will help to sustain the earnings momentum in FY16. To recap, PetDag has achieved higher EBIT margin of 5% as at 9M15 (9M14: 3%) thanks to the lower OPEX by RM124 million.

Thursday, January 07, 2016

HOLD (TP: RM22.68)

Current Price (RM)	RM24.50
New Target Price (RM)	RM22.68
Previous Fair Value (RM)	RM19.71
Previous Recommend.	HOLD
Upside To Target Price	-7%
Dividend Yield (FY16)	3%

Stock Code	
Bloomberg	PETD MK

Stock & Market Data	
Listing	MAIN MARKET
Sector	Oil and Gas
Shariah Compliance	Yes
Issued Shares (mn)	994
Market Cap (RM mn)	24,240
YTD Chg In Share Price	-2%
Beta (x)	0.92
52-week Hi/Low (RM)	25.60 16.02
3M Average Volume (shrs)	0.56mn
Estimated Free Float	12%

Major Shareholders	
Petronas	70%
Skim ASB	5%

- **Earnings outlook.** We maintain our earnings forecast for now. At this juncture, FY15 and FY16 earnings forecast are projected to grow by 66% y-o-y and 0.4% y-o-y respectively to be fuelled by i) rapid capacity expansion of 15 to 20 Petronas stations per year and ii) higher sales volume from commercial segment.
- **Valuation & recommendation.** PetDag is valued at RM22.68 based on 27x PER (1- SD below 3 years average PER of 32x) pegged to FY16 EPS of 84sen and the stock is a **HOLD**. Re-rating catalyst may come from 1) better inventory management and 2) higher-than-expected non-fuel segment revenue such as Mesra convenience stores.

Table 1: Peers Comparison (Calenderised)

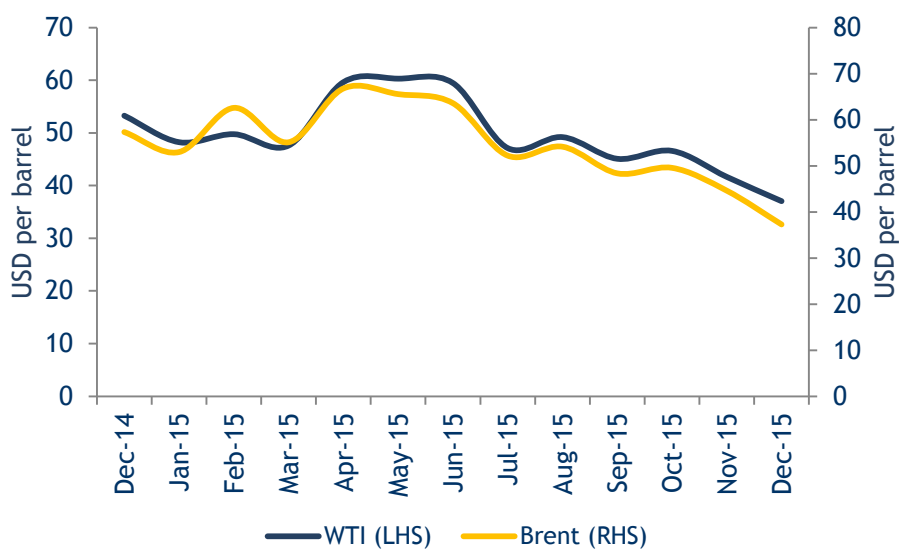
Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
SapuraKencana	Jan	1.92	18	19	12.5	11.3	1.0	0.9	7	2	2.55	Buy
Wah Seong	Dec	0.94	12	13	9.9	8.9	0.8	0.8	10	3	0.94	Hold
Bumi Armada	Dec	1.00	6	8	16.5	12.8	0.9	0.8	(3)	2	1.20	Buy
Dialog Group	Jun	1.61	6	6	28.3	25.8	4.1	3.9	16	1	1.60	Hold
MMHE	Dec	0.97	8	8	14.2	13.7	0.7	0.6	4	NA	1.04	Hold
PetDag	Dec	24.50	81	87	27.9	25.9	4.3	4.2	13	2	22.68	Hold
Dayang	Dec	1.38	18	21	9.6	8.2	1.6	1.4	18	2	1.71	Buy
UMW-OG	Dec	1.07	4	6	33.6	19.2	0.8	0.8	5	1	0.83	Sell
Perisai	Dec	0.28	1	2	40.6	13.5	0.4	0.4	2	NA	NR	NR
Perdana Petroleum	Dec	NA	(0)	8	NA	19.0	1.5	1.3	6	1	NR	NR
TH Heavy	Dec	0.16	(1)	2	NA	10.5	0.5	0.4	(25)	NA	NR	NR
Petra Energy	Dec	1.25	10	13	12.9	9.4	0.8	0.8	8	2	NR	NR
Deleum	Dec	1.06	15	18	9.1	7.5	1.7	1.5	22	5	NR	NR
Uzma	Dec	2.01	20	24	11.0	9.1	1.9	1.2	17	2	NR	NR
KNM	Dec	0.51	6	7	8.9	7.5	0.4	0.4	3	NA	NR	NR
Average					18.1	13.5	1.4	1.3	7	2		

Source: Bloomberg, M&A Securities

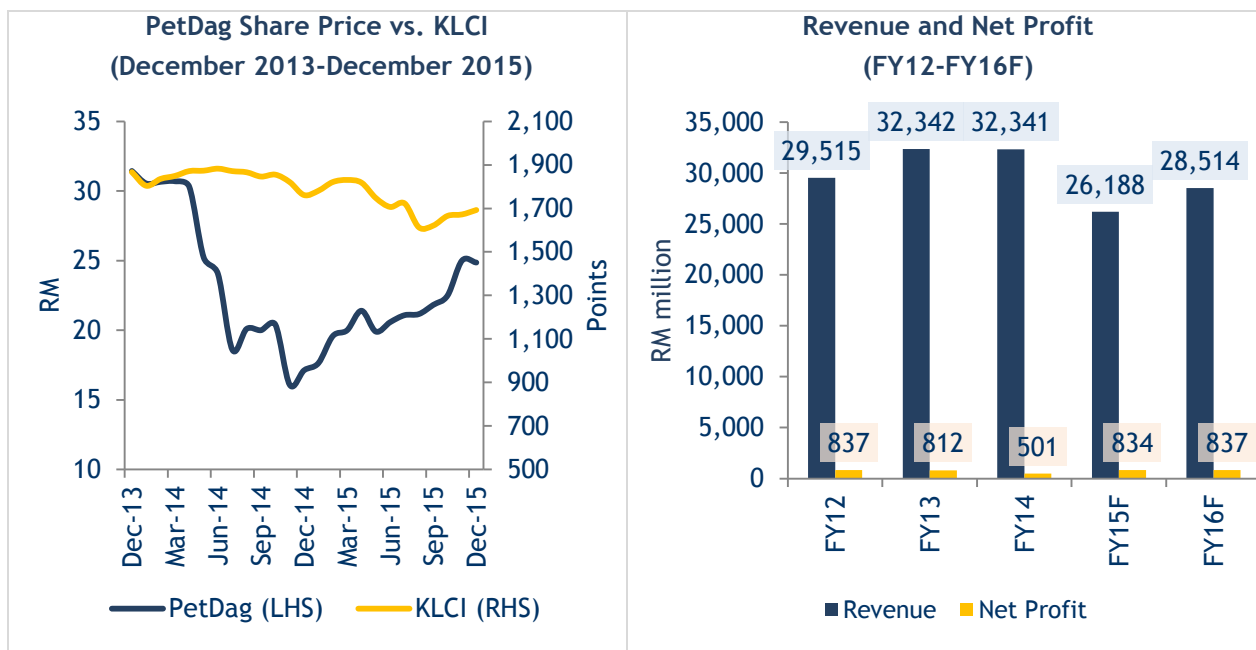
Table 2: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	29,515	32,342	32,341	26,188	28,514
EBITDA	1,468	1,442	1,069	1,459	1,477
EBIT	1,174	1,125	728	1,130	1,135
Net Finance cost	(11)	(19)	(21)	(13)	(13)
Share of JCE	2	4	2	2	2
PBT	1,165	1,109	709	1,118	1,124
Net profit	837	812	501	834	837
EPS (sen)	84	82	50	84	84
EBITDA margin	5%	4%	3%	6%	5%
EBIT margin	4%	3%	2%	4%	4%
PBT margin	4%	3%	2%	4%	4%
Net profit margin	3%	3%	2%	3%	3%
PER (x)	27.9	38.5	33.9	29.2	29.1
P/BV (x)	4.9	6.5	3.6	4.9	4.7
Dividend (sen)	105	70	60	63	63
Dividend yield	4%	2%	4%	3%	3%

Source: Bursa Malaysia, M&A Securities

WTI vs. Brent Crude Oil Price
(December 2014-December 2015)

Source: Bloomberg



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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