

▶ PETRONAS GAS BHD				
	2010	2011F	2012F	2013F
TURNOVER (RM mil)	3,221.8	3,512.1	3,524.8	3,538.1
NET PROFIT (RM mil)	940.5	1,443.1	1,448.0	1,455.5
EPS (sen)	47.5	72.9	73.2	73.6
PER (x)	20.8	13.5	13.5	13.4

Petronas Gas to post higher profit on new gas agreement

▶ **Recommendation: Buy**
TARGET Price: RM13.20
BY ECMLibra Investment Research (Aug 30)

Above Expectations

The inception of GPTA 4 (gas processing transmission agreement) clearly shows that the new agreement allows more profitability for Petronas Gas Bhd provided that-gas supplies are sufficient.

1Q results were strong, making up 37% of our full-year estimates and 33% of consensus numbers.

The group now divides their throughput fees earnings into two parts — transmission (41%) and processing (59%).

Given that fuel cost is ab-

sorbed by Petroliaam Nasional Bhd, the margins are strong while revenue remains flat.

Previous throughput margins were at some 40% but these have now increased to 66% (in 1Q) indicating that fuel costs took up some 25% of operating costs.

Transportation margins under this GPTA bode very well for Petronas Gas at 78% EBIT level.

To note, the group's centralised utilities and facilities also saw a marked improvement this quarter with revenue and EBIT growth of 10% and 63% QoQ.

Raising earnings

With more clarity on GPTA 4 and what fuel was costing

Petronas Gas post the 1Q results, we are raising our estimates for the company to capture the higher transmission margins and some improvement in the CUF segment this year.

Our earnings forecasts are increased by 42%, 42.3% and 42% for FY11, FY12 and FY13 respectively.

Upgrade to 'Buy'

Using FY11 EPS of 72.9 sen, we derived a revised target price of RM13.20 (RM10.30 previously), which is pegged to their historical average PE of 18x.

Based on this new estimate, we upgrade Petronas Gas from a 'Hold' to a 'Buy', citing a 28% upside.