Petronas Dagangan Berhad
Associated risks cap potential upside

INVESTMENT HIGHLIGHTS

• We initiate coverage of Petronas Dagangan Berhad (PDB) with a NEUTRAL recommendation. We do not expect the stock to maintain its current price, and would be more comfortable with a target valuation in the range of RM17.47 per share.

• PDB is the largest retail and commercial fuel supplier in Malaysia with the most petrol stations nationwide.

• Despite that, the risks associated with PDB outweighs the positives at this juncture.

• Valuation is based on PER16 of 24x pegged to EPS16 of 72.8sen.

Business overview. PDB is the largest retailer of retail and commercial fuel in Malaysia with over >1000 stations nationwide. The company has four core business segments namely: retail (mogas), commercial (diesel and aviation fuel), lubricants and liquefied petroleum gas (LPG).

Key Attributes:
- Largest number of petrol stations in Malaysia with greatest population reach;
- Outlook on automotive and aviation sector is still generally neutral with a positive bias;
- Dividend-play stock.

Risks:
- Susceptibility of stock price to global oil price fluctuations;
- Earnings shocks due to accelerated dip in crude oil prices;
- Regulatory restrictions for new station openings;
- Increase in public transportation efficiency;
- Threat from Energy Efficient Vehicles (EEV);
- Natural disasters causing closure of stations.

Valuation. We are initiating coverage of PDB with a Neutral recommendation on a TP of RM17.47 per share. Our TP is derived from PER16 of 24x pegged to EPS16 of 72.8sen. The target PER is based on PDB’s average four-quarter rolling PER from 1QFY09 to 1QFY15, which reflects the recovery in global crude oil prices post-2008 slump.

RETURN STATS

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Reference Price</td>
<td>RM20.50</td>
</tr>
<tr>
<td>Target Price</td>
<td>RM17.47</td>
</tr>
<tr>
<td>Expected Share Price</td>
<td>-14.8%</td>
</tr>
<tr>
<td>Expected Dividend</td>
<td>+2.7%</td>
</tr>
<tr>
<td>Expected Total Return</td>
<td>-12.1%</td>
</tr>
</tbody>
</table>

STOCK INFO

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>KLCI</td>
<td>1,842.94</td>
</tr>
<tr>
<td>Bursa / Bloomberg</td>
<td>5681/PETDAG</td>
</tr>
<tr>
<td>Board / Sector</td>
<td>Main/ Trading Services</td>
</tr>
<tr>
<td>Shariah Compliant</td>
<td>Yes</td>
</tr>
<tr>
<td>Issued shares (mil)</td>
<td>993.5</td>
</tr>
<tr>
<td>Par Value (RM)</td>
<td>1.00</td>
</tr>
<tr>
<td>Market cap. (RM’m)</td>
<td>20,365.8m</td>
</tr>
<tr>
<td>Price over NA</td>
<td>4.2x</td>
</tr>
<tr>
<td>52-wk price Range</td>
<td>RM14.64-RM30.76</td>
</tr>
<tr>
<td>Beta (against KLCI)</td>
<td>1.05</td>
</tr>
<tr>
<td>3-mth Avg Daily Vol</td>
<td>0.71m</td>
</tr>
<tr>
<td>3-mth Avg Daily Value</td>
<td>RM14.9m</td>
</tr>
</tbody>
</table>

Major Shareholders (%)

|                               |            |
|                               | 69.86      |
| Permodalan Nasional Bhd and its associated funds | 11.12 |
| Employees Provident Fund      | 4.11       |

Mogas – motor gasoline / automotive fuel
LPG – Liquefied petroleum gas
KEY ATTRIBUTES

Greatest reach within key populated areas. Apart from having the largest number of petrol stations in Malaysia (>1000), PDB has the greatest customer reach within the Klang Valley and Johor state. These two geographic areas have the highest population catchment in Malaysia, which naturally translates into the highest demand of fuel compared with other geographic locations. For Klang Valley, PDB has the highest number of petrol stations with 249 followed by Shell and Petron. It is the same for Johor. BHP and Caltex are seen to be the second liners in terms of geographic reach.

Moving forward, PDB’s growth strategy will be slightly different from its strategy of yesteryears. Previously, the bulk of the company’s capital expenditure is focused on the establishment of new stations across the country in a bid to enhance its physical presence. However, the company will now be more focused on increasing the throughput of its existing stations and to only establish new stations in niche areas where necessary. Despite the change in strategy, the amount of capital expenditure required is expected to be maintained at approximately RM500m per annum.

Mesra stores provides earnings enhancements. In addition to the bread and butter products, PDB’s topline and bottomline are further enhanced by its grocery store business – the Kedai Mesra. Proceeds from the sale of groceries, services and floor space rentals contribute approximately 15-17% of the company’s profit before tax (categorised under ‘Other Income’). For FY14, revenue from the Kedai Mesra exceeded the RM1b mark for the first time. As such, this is another potential growth area in every Petronas stations.

Table 1: Number of station is key populated areas

<table>
<thead>
<tr>
<th>Stations</th>
<th>Klang Valley</th>
<th>Penang</th>
<th>Johor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petronas</td>
<td>249</td>
<td>40</td>
<td>135</td>
</tr>
<tr>
<td>Shell</td>
<td>217</td>
<td>69</td>
<td>95</td>
</tr>
<tr>
<td>BHP</td>
<td>96</td>
<td>11</td>
<td>46</td>
</tr>
<tr>
<td>Petron</td>
<td>165</td>
<td>45</td>
<td>95</td>
</tr>
<tr>
<td>Caltex</td>
<td>32</td>
<td>15</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: Various petrol dealers website, Petronas Dagangan Bhd and MIDFR

Outlook on automotive sector. We are currently Neutral on the automotive sector amidst softer consumer demand which is dampened by uncertainty in the economic outlook. Overall, we are anticipating a total vehicle sale of 670k for 2015, representing a mediocre total industry volume (TIV) growth of only +0.5%. For the first two months of 2015 (latest available from Malaysian Automotive Association, MAA), both the total industry volume (TIV) and total industry production (TIP) figures were weaker year-over-year and on a monthly sequentially basis. TIV fell by -1.6%yoy and by -0.4%mom to 50,390 units while TIP figures contracted by -1.5%yoy and by -17.1%mom to 46,958 units. We believe that the decline was partly explained by the Chinese New Year break which fell on 19 Feb 2015 as well as cautious economic outlook dampening consumer sentiment. MAA also attributed the slower sales to consumers adopting the wait-and-see approach in anticipation of lower vehicle prices post-GST imposition in April.

Outlook on aviation sector. We are also currently Neutral on the aviation sector as we are of the opinion that international tourism has yet to recover fully from the multiple air accidents in FY14. In February 2015, passenger traffic recorded for Malaysian airports declined by -1.0%yoy. The domestic sector passenger growth was encouraging at +2.0%yoy mainly due to the CNY festive season in which average airlines’ load factor was 70-80% during the two weeks. Contrastingly, the international sector saw a -4.0%yoy decline in passenger traffic for February 2015, despite average load factors of 70-79% during the festive season break. We believe that the international passenger sector is still reeling from the unfortunate aviation incidents in FY14. However, we believe that the pro-active measures taken by the government to help boost tourism such as removing visa fees for tourists from various countries (e.g. China) as well as the Visit Malaysia campaign entitled “Year of Festivals 2015” could help in reviving the appeal of Malaysia as a preferred tourist destination moving forward. For 2015, we are anticipating a growth of +3.5% in passenger traffic.
supported by lower air fares translated from the decline in jet fuel prices and the higher presence of foreign airlines offsetting the impact of lower capacity growth from local carriers.

**High dividend yielding oil and gas counter.** PDB is one of the highest dividend yielding downstream oil and gas counter on Bursa Malaysia. For the past 10 years, the stock recorded an average dividend yield of 4.62%, exceeding the risk-free rate in Malaysia (based on 10-year Malaysian Government Securities yield) except for 2013. Despite having a dividend policy of 50%-payout from its PAT, the company has exceeded that minimum threshold for the past seven years.

**Table 2: Historical dividend pattern**

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend declared (sen)</td>
<td>45</td>
<td>45</td>
<td>60</td>
<td>100</td>
<td>105</td>
<td>70</td>
<td>60</td>
</tr>
<tr>
<td>Payout ratio (%)</td>
<td>67.6</td>
<td>77.3</td>
<td>79.2</td>
<td>114.3</td>
<td>124.7</td>
<td>85.7</td>
<td>118.8</td>
</tr>
<tr>
<td>Dividend yield* (%)</td>
<td>6.250</td>
<td>5.172</td>
<td>5.128</td>
<td>5.617</td>
<td>4.468</td>
<td>2.220</td>
<td>3.505</td>
</tr>
<tr>
<td>Risk free rate** (%)</td>
<td>4.147</td>
<td>4.128</td>
<td>3.503</td>
<td>3.799</td>
<td>4.038</td>
<td>4.286</td>
<td>3.218</td>
</tr>
</tbody>
</table>

- Source: Company, MIDFR
- *Based on year end price
- **Based on 10-year Malaysian Government Securities yield (end of year)

**RISKS**

**Stock price susceptible to global oil price fluctuations.** PDB’s business and profitability is closely tied to movements in global crude oil prices. Hence, fluctuations in the prices of global crude oil will affect PDB’s share price. The most recent example is seen in 2H14 when global crude oil prices nosedived - PDB’s share price also took a major plunge, as can be seen in Figure 1. The positive correlation between Brent crude oil price and PDB’s share price is a very strong +0.824.

**Figure 1: PDB share price versus Brent crude oil price**

![Brent Crude Oil vs PDB Share Price](source: Bloomberg, MIDFR)
Profitability adversely affected by sharp dips in global crude oil prices. The sharp dip in global crude oil prices in 4Q14 resulted in the decline of the Mean of Platts Singapore (MOPS) prices in the same quarter. Consequently, PDB’s profitability has been adversely affected as reflected in the bleak 4Q14 results, apart from the floods that affected petrol stations in the East Coast. PDB’s petrol prices were previously calculated using the fixed retail price Auto Pricing Mechanism (APM), giving oil companies a certain degree of predictability in their bottomline. For oil companies, cost of product is a variable, as it adjusts itself to shifts in MOPS prices (for motor gas and diesel). Under fixed retail price APM, the sales tax and subsidy for RON95 and diesel by the government has managed to offset the effect of these changes to PDB’s bottom line.

However, following the removal of the subsidies since 1 December 2014, petrol prices are now calculated under the managed float method. Through this method, pump prices will be based on the average of MOPS price in the previous month whereas the cost of fuel (purchased by PDB) will be based on the price at lifting which is approximately 10 days prior to the fuel being sent to the station. The final retail price will be indicated by the sum of the MOPS 10-day or 11-day average, fixed operational cost recovery factor, fixed margin for oil companies and fixed profit margin per unit for dealers. Since there is a time lag between the price of lifting and the price at which the fuel is sold, there is a possibility that the duty (which is calculated based on prices in the previous month) is too high, rendering a loss to the company as the net selling price (after duty is paid) is now lower than the cost of fuel. With oil prices showing little signs of a meaningful recovery, PDB should be anticipating slower earnings growth in the near future. Despite this, following the removal of subsidy component PDB would be able to raise their cash piles due to a reduction in subsidy receivables. Hence, PDB would still be able to continue to reward shareholders with dividends.

Regulatory restrictions for new station openings. Ministry of Domestic Trade, Cooperatives and Consumerism (KPDNKK) had imposed a six-month freeze on license issuance for wholesale diesel and petrol, and also the opening of new petrol stations of all brands from June to October 2014. That was part of an effort to combat abuse in the distribution network of subsidized diesel and petrol. The freeze caused PDB’s plan to begin operations for new stations to be put on hold, which affected their figures. Although this may be an isolated case, it is a regulatory risk moving forward.

Increase in public transportation efficiency. In the spirit of achieving developed country status, the government has addressed the need for an efficient and connected public transport system. There are numerous initiatives that have been undertaken, especially in the urban areas – the Klang Valley Mass Rapid Transit (MRT), for instance. The government aspires to take as much as 50% of the cars and motorcycles off the road by the time the MRT is up and running. With the announcements of the newer lines for MRT and LRT, it is expected that the number of vehicles on the road will decrease moving forward which will not augur well for volume of petrol sold.

Malaysia to be ASEAN Energy Efficient Vehicle (EEV) hub. Under National Automotive Policy (NAP) 2014, one of the policy’s key objectives is to make Malaysia the hub for EEV among ASEAN countries. According to the Malaysian Automotive Institute (MAI), EEV is defined as “vehicles that meet a defined specifications in terms of carbon emission level (g/km) and fuel consumption (l/100 km) – EEV includes fuel efficient vehicles, hybrids, EVs and alternatively-fuelled vehicles, e.g. CNG, LPG, Biodiesel, Ethanol, Hydrogen and Fuel Cell.” Therefore, not only does EEV mean hybrid cars and electric cars but it also includes cars with more internal combustion engines for both petrol and diesel. Since the introduction of NAP 2014, both local and foreign automakers, national automaker included have been focusing on investing into manufacturing of EEVs. Henceforth, we would expect more EEVs on the road considering the incentives being introduced to manufacturers, and effectively owners. This would have an impact in terms of sales volume for PDB, specifically in the retail segment - its petrol and diesel.
Natural disasters causing station closures. Natural disasters may be a contributing factor to a lower sales volume. This was evident in the 4Q14, when the East Coast experienced major flooding. Most of PDB’s station in the East Coast had to cease operations as they were submerged in flood waters. As there were a significant number of stations that were impacted, PDB recorded a much lower sales volume in total. In addition, working vehicles in the East Coast would have reduced post flood, which could also contribute to the lower volume.

KEY ASSUMPTIONS

Table 3: Volume growth for main segments

<table>
<thead>
<tr>
<th>Product volume (million liters)</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15E</th>
<th>FY16F</th>
<th>FY17F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>7,219.2</td>
<td>7,081.8</td>
<td>7,223.4</td>
<td>7,367.9</td>
<td>7,515.3</td>
</tr>
<tr>
<td>Commercial</td>
<td>7,242.1</td>
<td>6,761.8</td>
<td>7,099.9</td>
<td>7,454.9</td>
<td>7,827.6</td>
</tr>
<tr>
<td>Liquefied Petroleum Gas (LPG)</td>
<td>1,729.0</td>
<td>1,738.2</td>
<td>1,825.1</td>
<td>1,916.4</td>
<td>2,012.2</td>
</tr>
<tr>
<td>Lubricants</td>
<td>62.2</td>
<td>65.1</td>
<td>68.4</td>
<td>71.8</td>
<td>75.4</td>
</tr>
<tr>
<td>TOTAL</td>
<td>16,252.5</td>
<td>15,646.9</td>
<td>16,216.8</td>
<td>16,810.9</td>
<td>17,430.4</td>
</tr>
</tbody>
</table>

Source: Company, MIDFR

Modest product volume growth anticipated. In total, we are estimating PDB’s total product volume to grow by +3.6%yoy in FY15 and +3.7%yoy in FY16. The core revenue driver will still be from its retail (mogas) and commercial (diesel and aviation) segments. For the retail segment, we are assuming a year-over-year volume growth of +2%. This is in-line with the annual growth in total number of cars registered on the road (private registered cars, public vehicles, commercial vehicles and motorcycles) obtained from the Ministry of Transport Malaysia. On the other hand, our commercial segment blended product volume growth assumption is +5%. We are taking into consideration our house forecast for air passenger traffic of +3.5%yoy and also the historical growth in volume from this segment. As for the LPG and Lubrication segments, we are assuming a growth of +5%yoy respectively in-line with our Malaysian GDP growth assumption of between 4.5-5.0%. This brings our FY15 and FY16 total product volume assumption to 16.2b liters and 16.8b liters respectively.

Table 4: Dividend payouts

<table>
<thead>
<tr>
<th>Year</th>
<th>FY11*</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15F</th>
<th>FY16F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend per share (sen)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payout ratio (%)</td>
<td>114</td>
<td>124</td>
<td>85</td>
<td>118</td>
<td>79</td>
<td>75</td>
</tr>
</tbody>
</table>

Source: Company, MIDFR
*FYE March 2011

Image as a strong dividend stock to be maintained. PDB has an official dividend payout policy of 50% of profit after tax. However, for the past seven years the company had declared and paid over 75% of its profit. In FY11 and FY12, PDB distributed over 100% of its profit due to the tax credit available via Section 108 which expired in FY13. For FY14, the total payout was also over 100% due to the special dividend declared by the company. This special dividend is attributable to the steep rise in its cash pile in FY14 from the collection of receivables. However, excluding the special dividend, the payout would have been approximately 75% of the profit for the first three quarters of FY14. Moving forward, we are assuming a dividend payout ratio of approximately 75% of profit. As we believe that the company will strive to maintain the image of PDB as being a dividend-play stock, we do not discount the fact that there could be special dividends in FY15 and FY16 boosting the payout ratio in excess of >100%.
Shift in capex purpose. PDB’s capital expenditure is mainly directed towards the establishment of new petrol stations, maintenance of its depots and for its logistical requirements. For the past three years, the company spent approximately RM400-500m in capital expenditure a year. Moving forward, despite the volatile oil market, we are still expecting the company to maintain its capital expenditure. The bulk of the capex will not be utilized in establishing new stations across the country as before, but to now increase the throughput and efficiency of each station.

Global oil price to be key risk for company. Since the second half of 2014, the price of Brent crude oil has plummeted by >60%, from a high of USD115pb to a low of USD43pb. Subsequently, pump prices in Malaysia have also been reduced accordingly and the pricing mechanism changed from a fixed price system to a managed-float system. PDB’s revenue and cost are largely based on the price referred from the Mean of Platts Singapore, or more commonly known as MOPS. MOPS price is also based on global crude oil prices. As such, PDB’s cost of fuel will be based on the prevailing MOPS price during lifting (oil extraction) and the selling price (not to be mistaken for the pump price) will be based on the MOPS price after refining, which could take approximately 10 days. For FY15, we are expecting the price of Brent crude oil to average at around USD60pb and for FY16, we are anticipating oil to hover higher at approximately USD70pb. We believe that these levels are the new normal.

FINANCIAL PERFORMANCE OVERVIEW

Revenue. For the past five years, PDB’s revenue has grown at a cumulative annual growth rate (CAGR) of +7.7%. This has been mainly contributed by its sale of mogas (retail) and aviation fuel (commercial). These two segments make up approximately 92% of PDB’s total revenue. The remaining 8% is from the LPG and Lubricants (lube) segment. As for the segment growth, its retail and commercial segments have grown at a 4-year CAGR of +4.7% and +1.4% respectively. The higher growth from the retail segment is attributable to the increasing number of petrol stations and PDB’s continuous extension of coverage throughout Malaysia.

Figure 2: Revenue (RMm)

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (RMm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>22,302.5</td>
</tr>
<tr>
<td>2011</td>
<td>28,650.5</td>
</tr>
<tr>
<td>2012</td>
<td>29,515.0</td>
</tr>
<tr>
<td>2013</td>
<td>32,341.9</td>
</tr>
<tr>
<td>2014</td>
<td>32,341.0</td>
</tr>
</tbody>
</table>

Source: Company, MIDFR

Earnings. Despite the growth in revenue, PDB’s earnings could not retain its growth momentum in 2014. Due to the sudden drop in crude oil price from 3Q14 to end-2014, PDB’s retail segment operating profit incurred a loss of -RM78m in 4QFY14. The loss from this segment contributed to the overall decline in total earnings for FY14 which dropped by -38.2% compared to FY13. This is the lowest earnings PDB has achieved for the past 10 years.
Profit margin. Prior to FY14, PDB’s average PATAMI margin was 3.1%. The company’s profit margin reached a peak of 3.7% in 2011, when the yearly average price of Brent crude oil for 2011 was at USD110pb. However, in FY14 when oil prices slumped from a high of USD115pb to as low as USD43pb, PDB experienced a poor set of results in 4Q14 which subsequently contracted its 10-year average profit margin by -0.3ppts to 2.8%.

Dividends. PDB has a dividend policy of 50% payout from its PAT. However, its good track record has allowed it to pay dividend payout ratios higher than 75% of its PAT. In 2011 and 2012, the company declared and paid over >100% of its PAT as part of the section 108 tax regulation. The section 108 balance is a tax credit balance which allows the company to declare and pay dividend under the imputation system. In addition, PDB is also recognised for its consistent dividend payout, and was awarded with the Most Consistent Dividend Policy for Malaysia in the 3rd Annual Southeast Asia Institutional Investor Corporate Awards 2013. Moving forward however, we are assuming a normalised dividend payout ratio of 75%, in-line with its dividend policy and also in-line with the quarterly dividends declared throughout FY14 excluding the special dividend.
VALUATION

We are recommending **Neutral** on PDB with a target price of **RM17.47** per share. Despite its strong market position and its consistent dividend payouts, we are cautious on the upside potential of this stock as its share price is very closely related to global crude oil prices. We are expecting Brent crude price to trade sideways, averaging approximately USD60pb in 2015. As such, we are of the opinion that PDB’s share price would also be unexciting in the near term. At this point in time, the risks associated to PDB outweigh its positives.

Our target price is based on PER16 of 24x pegged to EPS16 of 72.8sen. Our target PER is derived from PDB’s average four-quarter rolling PER from 1QFY09 to 1QFY15. The first quarter of 2009 marks the period when global crude oil prices were on a recovery stage after the steep decline during the latter part of 2008. As is the case currently, global crude oil price is trending sideways after the steep dive experienced in the second-half of 2014.

**Figure 7: Price-to-earnings band**
### SUMMARY OF FINANCIAL STATEMENTS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>32,327.3</td>
<td>32,341.0</td>
<td>27,622.1</td>
<td>29,198.1</td>
<td>30,859.0</td>
</tr>
<tr>
<td>COGS</td>
<td>(30,106.3)</td>
<td>(31,612.6)</td>
<td>(24,972.5)</td>
<td>(26,374.9)</td>
<td>(27,931.0)</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>2,235.6</td>
<td>728.4</td>
<td>2,649.6</td>
<td>2,823.3</td>
<td>2,928.0</td>
</tr>
<tr>
<td>Other income</td>
<td>190.1</td>
<td>n.a</td>
<td>129.6</td>
<td>130.0</td>
<td>130.4</td>
</tr>
<tr>
<td>Operating profit</td>
<td>1,125.0</td>
<td>728.4</td>
<td>848.4</td>
<td>983.8</td>
<td>1,049.5</td>
</tr>
<tr>
<td>Pretax Income</td>
<td>1,090.4</td>
<td>709.3</td>
<td>838.8</td>
<td>974.4</td>
<td>1,045.4</td>
</tr>
<tr>
<td>Tax</td>
<td>(290.5)</td>
<td>(201.1)</td>
<td>(192.1)</td>
<td>(243.6)</td>
<td>(261.3)</td>
</tr>
<tr>
<td>PATANCI</td>
<td>811.8</td>
<td>501.6</td>
<td>619.1</td>
<td>723.5</td>
<td>776.2</td>
</tr>
<tr>
<td>EPS (sen)</td>
<td>81.7</td>
<td>50.5</td>
<td>62.3</td>
<td>72.8</td>
<td>78.1</td>
</tr>
<tr>
<td>PER (x)</td>
<td>24.6</td>
<td>39.8</td>
<td>32.3</td>
<td>27.6</td>
<td>25.7</td>
</tr>
<tr>
<td>Dividend (sen)</td>
<td>70.0</td>
<td>60.0</td>
<td>49.2</td>
<td>54.6</td>
<td>59.4</td>
</tr>
<tr>
<td>Dividend yield (%)</td>
<td>3.5</td>
<td>3.0</td>
<td>2.4</td>
<td>2.7</td>
<td>3.0</td>
</tr>
<tr>
<td>Cash flow</td>
<td>2013</td>
<td>2014</td>
<td>2015E</td>
<td>2016F</td>
<td>2017F</td>
</tr>
<tr>
<td>PBT</td>
<td>1,109.4</td>
<td>709.3</td>
<td>838.8</td>
<td>974.4</td>
<td>1,049.5</td>
</tr>
<tr>
<td>Amortisation</td>
<td>28.3</td>
<td>29.0</td>
<td>28.6</td>
<td>29.2</td>
<td>29.8</td>
</tr>
<tr>
<td>Depreciation</td>
<td>288.5</td>
<td>311.6</td>
<td>302.3</td>
<td>317.2</td>
<td>330.9</td>
</tr>
<tr>
<td>Finance cost</td>
<td>16.6</td>
<td>4.5</td>
<td>14.6</td>
<td>9.4</td>
<td>4.2</td>
</tr>
<tr>
<td>OP before Δ in WC</td>
<td>1,473.6</td>
<td>1,000.1</td>
<td>1,179.3</td>
<td>1,330.2</td>
<td>1,410.2</td>
</tr>
<tr>
<td>Δ in inventory</td>
<td>85.5</td>
<td>161.3</td>
<td>199.5</td>
<td>32.5</td>
<td>39.0</td>
</tr>
<tr>
<td>Δ in receivables</td>
<td>(39.6)</td>
<td>2,101.4</td>
<td>277.2</td>
<td>52.0</td>
<td>64.4</td>
</tr>
<tr>
<td>Δ in payables</td>
<td>231.1</td>
<td>(472.7)</td>
<td>203.1</td>
<td>116.2</td>
<td>318.2</td>
</tr>
<tr>
<td>Cash from Ops</td>
<td>1,750.5</td>
<td>2,790.1</td>
<td>1,809.1</td>
<td>1,530.9</td>
<td>1,831.8</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>(16.2)</td>
<td>(3.3)</td>
<td>(14.6)</td>
<td>(9.4)</td>
<td>(4.2)</td>
</tr>
<tr>
<td>Tax</td>
<td>(399.0)</td>
<td>(236.8)</td>
<td>(208.5)</td>
<td>(243.6)</td>
<td>(261.3)</td>
</tr>
<tr>
<td>Cash from Operations</td>
<td>1,335.3</td>
<td>2,550.0</td>
<td>1,586.1</td>
<td>1,277.9</td>
<td>1,566.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PPE</td>
<td>3,891.9</td>
<td>4,031.1</td>
<td>4,228.8</td>
<td>4,411.6</td>
<td>4,580.7</td>
</tr>
<tr>
<td>Others</td>
<td>502.9</td>
<td>518.7</td>
<td>530.1</td>
<td>540.9</td>
<td>551.1</td>
</tr>
<tr>
<td>Non-current Asset</td>
<td>4,394.9</td>
<td>4,549.7</td>
<td>4,758.9</td>
<td>4,952.5</td>
<td>5,131.8</td>
</tr>
<tr>
<td>Inventory</td>
<td>1,193.2</td>
<td>1,032.0</td>
<td>832.4</td>
<td>799.9</td>
<td>760.9</td>
</tr>
<tr>
<td>Receivables</td>
<td>4,220.6</td>
<td>2,119.1</td>
<td>1,891.9</td>
<td>1,839.9</td>
<td>1,775.4</td>
</tr>
<tr>
<td>Cash</td>
<td>358.6</td>
<td>1,839.7</td>
<td>2,266.7</td>
<td>2,331.9</td>
<td>2,638.4</td>
</tr>
<tr>
<td>Current Asset</td>
<td>5,772.4</td>
<td>4,990.8</td>
<td>4,991.0</td>
<td>4,979.4</td>
<td>5,174.7</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>10,167.3</td>
<td>9,540.5</td>
<td>9,749.9</td>
<td>9,924.3</td>
<td>10,306.5</td>
</tr>
<tr>
<td>Share capital</td>
<td>993.5</td>
<td>993.5</td>
<td>993.5</td>
<td>993.5</td>
<td>993.5</td>
</tr>
<tr>
<td>Reserves</td>
<td>3,796.7</td>
<td>3,758.7</td>
<td>3,888.7</td>
<td>4,069.6</td>
<td>4,255.9</td>
</tr>
<tr>
<td>Shareholder's Fund</td>
<td>4,790.1</td>
<td>4,752.2</td>
<td>4,882.2</td>
<td>5,063.1</td>
<td>5,249.4</td>
</tr>
<tr>
<td>NCI</td>
<td>39.4</td>
<td>39.6</td>
<td>45.9</td>
<td>53.2</td>
<td>61.0</td>
</tr>
<tr>
<td>TOTAL EQUITY</td>
<td>4,829.5</td>
<td>4,791.8</td>
<td>4,928.1</td>
<td>5,116.3</td>
<td>5,310.4</td>
</tr>
<tr>
<td>Borrowings</td>
<td>139.6</td>
<td>134.7</td>
<td>109.3</td>
<td>70.3</td>
<td>31.3</td>
</tr>
<tr>
<td>Others</td>
<td>180.0</td>
<td>169.3</td>
<td>169.3</td>
<td>169.3</td>
<td>169.3</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>319.6</td>
<td>304.0</td>
<td>276.8</td>
<td>239.6</td>
<td>200.6</td>
</tr>
<tr>
<td>TOTAL LIABILITIES</td>
<td>5,337.8</td>
<td>4,748.7</td>
<td>4,821.8</td>
<td>4,808.0</td>
<td>4,996.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ratios</th>
<th>2013</th>
<th>2014</th>
<th>2015E</th>
<th>2016F</th>
<th>2017F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability ratios (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on Equity</td>
<td>16.8</td>
<td>10.5</td>
<td>12.6</td>
<td>14.1</td>
<td>14.6</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>8.0</td>
<td>5.3</td>
<td>6.3</td>
<td>7.3</td>
<td>7.5</td>
</tr>
<tr>
<td>Liquidity ratios (x)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current ratio</td>
<td>1.2</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>0.9</td>
<td>0.9</td>
<td>0.9</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Net debt-to-equity</td>
<td>0.05</td>
<td>net cash</td>
<td>net cash</td>
<td>net cash</td>
<td>net cash</td>
</tr>
<tr>
<td>Profit margin (%)</td>
<td>6.9</td>
<td>2.3</td>
<td>9.6</td>
<td>9.7</td>
<td>9.5</td>
</tr>
<tr>
<td>Gross margin</td>
<td>3.4</td>
<td>2.2</td>
<td>3.0</td>
<td>3.3</td>
<td>3.4</td>
</tr>
<tr>
<td>PBT Margin</td>
<td>2.5</td>
<td>1.6</td>
<td>2.2</td>
<td>2.5</td>
<td>2.5</td>
</tr>
</tbody>
</table>

| Source: MIDFR |
APPENDICES

Company background. Petronas Dagangan Berhad ("PDB") was listed on the Main Board of Bursa Malaysia on 8 March 1994 after it went public the year before. PDB is a subsidiary of Petroliam Nasional Berhad, which owns 69.9% of the company. PDB mainly focuses on marketing and distribution of petroleum products. As at 2 April 2015, the market capitalization of PDB stands at RM20,365.8b.

Figure 8: PDG organizational structure
Company History

PDB’s operations were at first a Domestic Marketing Department of PETRONAS in 1975, mainly to undertake planning and market research activities. Subsequently, bunkering facilities were set at Pasir Gudang Depot, Johor and refuelling facilities for aviation at Bayan Lepas, Pulau Pinang and Senai Johor in 1977. Following the diesel crisis, operations of skid tank was set up in 1979.

PDB introduced its first ever PETRONAS station in 1981 which also marks their entry into the Liquefied Petroleum Gas market, mainly to stabilise the supply of LPG in the northern region. PETRONAS Dagangan Sdn Bhd (PDSB) was incorporated on 5 August 1982. PDSB was the first company in the region to introduce unleaded fuel, PRIMAS in 1987. Petronas Dagangan Berhad was listed on the Main Board of Bursa Malaysia on 8 March 1994 after it went public on 21 August 1993.

All PETRONAS stations went through reimaging and Kedai Mesra was established in the year 1996. The new millennium marked the launching of the new unleaded petrol, PETRONAS PRIMAX. This was followed by PETRONAS PRIMAX 3 in 2006; PETRONAS Urania, PRIMAX 95, Dynamic Diesel in 2009; PRIMAX 97, Syntium Moto, M-Plus and NGV Lube in 2010; and PETRONAS Nautimar FBO and PETRONAS PRIMAX 95 Xtra in 2011. PETRONAS Durance, which is a range of high quality car care products were also introduced. The products were developed by its Italy-based sister company, PETRONAS Lubricants International (PCI) which was introduced in 2012. This was also the year PDB focused on regional expansion.

Petronas Dagangan Berhad’s Main Businesses

PDB has four main businesses namely retail, commercial, liquefied petroleum gas (LPG) and lubricants (lube).

Retail

The retail segment comprises three divisions, namely, fuel, convenience store and cards. The revenue driver for the retail segment is the fuel division which takes up the bulk of the revenue. It consists of three types of motor gasoline or also known as mogas which are PRIMAX 95 XTRA, PRIMAX 97 and DYNAMIC DIESEL. PDB also supplies natural gas for vehicles or also known as NGV.

PRIMAX with Advanced Energy Formula is developed by PETRONAS as technical partner to the MERCEDES AMG PETRONAS Formula One™ Team for superior efficiency to maintain engine power output using 30% less fuel with hybrid energy recovery systems. PETRONAS PRIMAX 97 especially is PRIMAX 97 is developed by PETRONAS as technical partner to Mercedes in Formula One for superior protection in modern direct-injection vehicles. PETRONAS DYNAMIC DIESEL is designed by PETRONAS Fluid Technology Solutions experts and developed through The Dakar Rally experience. PETRONAS is the technical partner to IVECO in The Dakar Rally, the world’s most extraordinary challenge, which the team won as champion in 2012 and as runner-up in 2014. Whereas, NGV is an environmentally friendly fuel and has been proven to be lighter than air. It is specially developed to provide economic value to users without compromising on quality.
Commercial
The commercial segment comprises aviation fuel, bitumen, diesel (EURO 2M), industry and marine fuel oil as well as RON 95 (EURO 2M). The revenue driver for this segment is the aviation fuel which comprises of Avgas (Grade 100LL) and Jet A-1. Avgas is mainly used for aircraft spark ignition reciprocating engines meanwhile; the Jet A-1 is for turbine engine aircrafts. Its diesel (EURO 2M) is different with the mogas used for the retail segment. Diesel (EURO 2M) is a high cetane index fuel designed for use in low and high speed self-ignition compression engines to provide efficient, dependable and smooth operation. It has the proper viscosity suitable for critical fuel injection systems to provide maximum protection against wear and leakage. It is also suitable for industrial purposes especially for direct burning i.e. boiler, furnace, dryer, etc.

LPG
LPG is the acronym for Liquefied Petroleum Gas and is made up of hydrocarbon gases, comprising mainly of Propane (C3H8) and Butane (C4H10). In its natural state and under ambient temperature and pressure, LPG is in a gaseous form. For ease of storage and transportation, it is liquefied using a compression or refrigeration process. LPG is also colourless and odourless. However, for safety reasons, an odourant is added to LPG for easy detection of any gas leakage.

It is widely used in households for heating appliances such as ovens, stoves and water heaters. It is also used in industries such as iron and steel industry, aerosol propellant industry, glass and ceramic manufacture, copper tubing and cable manufacture. LPG is also an excellent alternative for automotive fuel.

Lubricants
PDB supplies lubricants for both retail and commercial consumption. For retail, the lubricants supplied are those mainly used for personal and small businesses vehicles, such as car motor oil, motorcycle oil, heavy duty engine oil and NGV lube. For commercial consumption, PDB provides heavy duty engine oil, industry engine oil and marine engine oil. Marine engine oil is the revenue driver for this segment.
Products and Services

**FUEL**
- PETRONAS PRIMAX 95 XTRA
- PETRONAS PRIMAX 97
- PETRONAS DYNAMIC DIESEL

**CARDS**
- Loyalty card - Kad Mesra
- Fleet card - PETRONAS SmartPay
- Co-Branded card - CIMB and Maybank Credit Cards
- Gift card - PETRONAS Gift Card

**CONVENIENCE STORE**
- Kedai Mesra
- Quick-Serve Restaurants
- Banking Facilities
- Terminal Services
- Courier Services
- Others

**COMMERCIAL**

**GASOLINE**
- Fuel for bulk transportation

**JET FUEL**
- Aviation fuel for turbine engine aircrafts

**KEROSENE**
- Fuel for heating, lighting, cooking, and small stationary internal combustion engines

**DIESEL**
- Suitable for industrial purposes esp. for direct burning, e.g. boiler, furnace, dryer, etc

**FUEL OIL**
- For boilers, furnaces, ovens and bunker-fired diesel engines

**ASPHALT**
- Widely used as construction material in road construction, water proofing and insulation
HOUSEHOLD/DOMESTIC
- 12kg Cylinders
- 14kg Cylinders

INDUSTRIAL/COMMERCIAL
- 50kg Cylinders
- Bulk LPG

LPG DISTRIBUTION CHANNEL

LPG Cylinders → LPG Bottling Plants → Premier Dealers → Customers

LPG Bulk → LPG Bottling Plants → Dealers → Direct Customers

LPG DIFFERENTIATED SERVICE
- Gas PETRONAS Home Delivery (GPHD)

LUBRICANTS

PAASSENGER VEHICLE LUBRICANTS & MOTORCYCLE OIL
- Premium Synthetic
- Fully and Semi Synthetic
- Mineral
- OEM

COMMERCIAL VEHICLE LUBRICANTS
- Heavy Duty Diesel Engine Oil
- Automotive Gear Oil
- Automatic Transmission Fluid
- Specialty (Coolant, Brake Fluid)

INDUSTRIAL & MARINE LUBRICANTS
- Hydraulic Oil
- Compressor Oil
- Turbine Oil
- Agricultural Oil
- Metal Working Fluid

FULLY BRANDED OUTLET
- PETRONAS LubExpo
Areas of Operation

**MALAYSIA**

- Botting Plant
- Aviation Depot
- Fuel Terminal
- Office
- Bunkering Facilities
- Multi Product Pipeline

**Joint-venture (JV) depots and facilities are:**

i. PS Pipeline Sdn Bhd
   - Klang Valley Distribution Terminal (KVDOT) Fuel Terminal and Multi-Product Pipeline

ii. PS Terminal Sdn Bhd
    - Bintulu Fuel Terminal
    - Tawau Fuel and LPG Terminal

iii. Kuala Lumpur Aviation Fuelling System Sdn Bhd
    - KLIA Aviation Terminal

iv. Integrated Oil Terminal (IOT) Management Sdn Bhd
    - IOT Senari Kuching, Fuel and LPG Terminal

v. Tanjung Manis Oil Terminal Management Sdn Bhd
    - Tanjung Manis Bulk and LPG Terminal

**Fuel:**
1. Langkawi
2. Prai
3. Lumut
4. Klang Valley Distribution Terminal
5. Melaka
6. Pasir Gudang
7. Kuantan
8. Kerteh
9. Kuching
10. Tanjung Manis
11. Sibu
12. Bintulu
13. Miri
14. Labuan
15. Sepangar Bay
16. Sandakan
17. Tawau
18. ASB Labuan

**Aviation:**
1. Langkawi
2. Bayan Lepas
3. Subang
4. KLIA
5. Senai
6. Kerteh
7. Kuala Terengganu
8. Kuching
9. Sibu
10. Bintulu
11. Miri
12. Kota Kinabalu
13. Sandakan

**LPG:**
1. Prai
2. Malaka
3. Pasir Gudang
4. Kerteh
5. Kuching
6. Bintulu
7. Sepangar Bay
8. Tawau

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES
LPG
i. Iloilo
ii. Iligan
iii. Naga
iv. Davao
v. Gensan
vi. Mekati

LPG
i. Dong Nai
ii. Hai Phong
iii. Hanoi
iv. Ho Chi Minh

LUBRICANTS
i. Bangkok

PHILIPPINES
VIETNAM
THAILAND

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES
DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

| BUY | Total return is expected to be >15% over the next 12 months. |
| TRADING BUY | Stock price is expected to rise by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow. |
| NEUTRAL | Total return is expected to be between -15% and +15% over the next 12 months. |
| SELL | Total return is expected to be <-15% over the next 12 months. |
| TRADING SELL | Stock price is expected to fall by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |

SECTOR RECOMMENDATIONS

| POSITIVE | The sector is expected to outperform the overall market over the next 12 months. |
| NEUTRAL | The sector is to perform in line with the overall market over the next 12 months. |
| NEGATIVE | The sector is expected to underperform the overall market over the next 12 months. |