

Petronas (PET MK)

FUNDAMENTAL VIEW ¹

As of 21 Jun 2024

- Petronas' FY23 and 1Q24 credit metrics remained resilient even as EBITDA fell as we had expected.
- We expect credit metrics to improve slightly from hereon due to expectations of slightly stronger upstream price realizations that could offset growth slowdown concerns. We expect Petronas to maintain its net cash position.
- We take comfort in Petronas' strong support from the Government of Malaysia, given it is strategically vested with Malaysia's entire oil & gas resources and provides a substantial source of government income.
- Sizable O&G and renewable capex and high dividend payouts could restrain improvements in Petronas' credit metrics and free cash flows.

RISKS & CATALYSTS

As of 21 Jun 2024

- Broad growth slowdown concerns could hamper sales of Petronas' Downstream (petroleum products) and Gas & New Energy (LNG and natural gas) segments.
- Prolonged periods of low crude oil prices could harm upstream O&G EBITDA (which typically contributes 50%-70% of total profit after tax), albeit mitigated partly by stronger downstream O&G EBITDA.
- Sizable capex on domestic O&G and renewable energy ventures could restrain improvements in Petronas' credit metrics and free cash flows.
- Petronas is regularly required to pay dividends to the Government of Malaysia, which may weigh on its cash flows.

KEY METRICS

As of 21 Jun 2024

MYR MN	FY21	FY22	FY23	1Q23	1Q24
Debt to Book Cap	21.1%	18.4%	18.2%	19.1%	18.9%
Net Debt to Book Cap	n/m	n/m	n/m	n/m	n/m
Debt/Total Equity	26.7%	22.6%	22.2%	23.6%	23.2%
Debt/Total Assets	17.0%	14.7%	14.4%	14.7%	14.4%
Gross Leverage	1.1x	0.6x	0.8x	0.6x	0.9x
Net Leverage	n/m	n/m	n/m	n/m	n/m
Interest Coverage	20.9x	33.9x	24.9x	32.9x	25.3x
EBITDA Margin	45.2%	50.7%	44.8%	47.8%	45.2%

Petronas continues to be in a net cash position.

BUSINESS DESCRIPTION

As of 21 Jun 2024

- Petronas is an integrated oil and gas company, wholly owned and controlled by the Government of Malaysia.
- Its activities span the entire up/mid/downstream value chain both domestically and internationally. Key products and services provided include the sale and marketing of petroleum products, crude oil and condensates, LNG, natural and processed gas, petrochemicals, shipping services, property development and automotive engineering.
- Petronas carries out its exploration, development and production activities via production sharing contracts ("PSCs"), mostly with international O&G companies and Petronas' wholly-owned subsidiaries.
- Its Downstream segment is aimed at refining, supplying, trading, manufacturing and marketing of crude oil, petroleum products, and petrochemical products. Its key projects and factories include Pengerang Integrated Complex (PIC), Sabah Ammonia Urea in Sabah, and Integrated Aroma Ingredients Complex in Gebeng, Kuantan.
- Its Gas and New Energy division was set up in FY19 and groups all of Petronas' LNG, gas and renewable revenues into a single segment. Activities within this division include production of LNG, processing and transportation of gas and solar power production.
- Its 6 listed subsidiaries include MISC Berhad (57.56%), KLCC Property (75.46%), Petronas Chemicals Group Berhad (64.35%), Petronas Gas Berhad (51%), Petronas Dagangan Berhad (63.94%), and Bintulu Port Holdings Berhad (28.52%).

DISCLAIMER

Important Notice

This report ("Report") is for informational purposes only. Neither the information contained in this Report, nor any opinion expressed therein is intended as an offer or solicitation with respect to the purchase or sale of any security or as personalized investment advice. This Report is not intended to be distributed to anyone in any jurisdiction where the receipt of this Report by such person would be legally or regulatorily impermissible and any such distribution has not been authorized by CreditSights.

Except as expressly set forth herein, user shall not transfer, sell, license, sublicense, publish, transmit, redistribute or disseminate this Report or any other CreditSights research reports or any summary or portion thereof (collectively, the "Products") in any manner or in any media or release or otherwise provide access to the Products or any portion thereof to any other person without the prior written consent of CreditSights. Any such unauthorized distribution of such material is prohibited by law and can result in prosecution. In addition, user shall not alter, modify, adapt or create derivative works based on the Products or any portion thereof.

All proprietary rights in relation to the Products (including, without limitation, all copyrights, trademarks, trade secrets and other intellectual property rights) are and remain the sole and exclusive property of CreditSights and/or its third party licensors and nothing herein shall transfer any right to or interest in the Products, in any data included therein or component thereof, or in any proprietary rights pertaining thereto.

The Products contain information and data which are compiled from sources believed by CreditSights to be accurate and reliable and are presented for general information use only. However, CreditSights disclaims any and all liability with respect to the truth, accuracy or completeness of the information and data conveyed. Accordingly, the products are being provided to user on an "as is" basis, exclusive of any express or implied warranty or representation of any kind, including as to the accuracy, timeliness, completeness, or merchantability or fitness for any particular purpose of the Products and of any such information or data. Furthermore, CreditSights does not warrant that the Products will meet any user's requirements.

Investing in fixed income securities may involve certain risks, including the credit quality of individual issuers, possible prepayments, market or economic developments, inflation, and yield and price changes due to fluctuations in interest rates. When interest rates go up, bond prices typically drop, and vice versa; this effect can be more pronounced with longer term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a loss.

Neither CreditSights nor its affiliates ("CreditSights Parties") will be responsible for or have any liability for any injuries or damages, including injuries or damages that may result from (i) the reliance of any person upon any information or opinion provided or (ii) any errors, inaccuracies, omissions in, or any other failure of, the Products, from whatever cause. To the fullest extent provided by law, CreditSights shall not be liable for direct, indirect or incidental, special or consequential damages resulting from the information in the Report and/or from decisions taken or not taken by an investor on the basis of such information, regardless of whether such damages were foreseeable or unforeseeable.

Any statements that are not factual in nature constitute only current opinions, which are subject to change without notice. CreditSights does not recommend the purchase or sale of financial products or securities, and does not give investment advice and does not provide any legal, auditing, accounting, appraisal, valuation or actuarial services. Recommendations made in a report may not be suitable for all investors and do not take into account any individual user's investment risk tolerance, return objectives, asset allocation, investment horizon, or any other factors or constraints. The Products are created for use by CreditSights clients and any other recipient who receives this report will be receiving it after it has been distributed to such clients, who may have traded based on information contained in the report; however, the Products are intended only to provide general and preliminary information to investors and shall not be construed as the basis for any investment decision. CreditSights may issue or may have issued other reports that are inconsistent with or may reach different conclusions than those represented in this Report, and all opinions are reflective of judgments made on the original date of publication. CreditSights is under no obligation to ensure that other reports are brought to the attention of any recipient of the Products.

Information included in any report that includes analysis of documents, agreements, controversies, or proceedings is for informational purposes only and does not constitute legal advice. To the extent the Products contain summaries of other documents, such as indentures, reference is made to such other documents for a complete statement of the terms thereof. No attorney client relationship is created between any reader and CreditSights as a result of the publication of any research report, or any response provided by CreditSights (including, but not limited to, the ask an analyst feature or any other analyst interaction) or as the result of the payment to CreditSights of subscription fees. The material included in a report may not reflect the most current legal developments.

Certain data appearing in this Report is owned by, and used under license from, certain third parties. Please see "Legal Notices" at www.creditsights.com for such information. Terms and conditions are also available at Terms & Conditions.

CreditSights, Inc. is an independent investment research provider whose affiliate, CreditSights Ltd, is authorized and regulated by the Financial Conduct Authority ("FCA"). CreditSights Products are not intended for use in the UK by Retail Customers, as defined by the FCA. CreditSights Risk Products, including its Credit Quality Scores and related information, to the extent incorporated in any Products, are provided by CreditSights Analytics, LLC, an affiliate of CreditSights.

If you have any questions regarding the contents of this Report, please contact CreditSights at legal@creditsights.com.