

May 29, 2024 / 5.00 PM (GMT +8), Q1 2024 PETRONAS Gas Bhd Earnings Call

PETRONAS Gas Berhad

Q1 2024 Analyst Briefing



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Corporate Participants

Abdul Aziz bin Othman, PETRONAS Gas Berhad - MD, CEO & Director

Shahrul Azham bin Sukaiman, PETRONAS Gas Berhad – Chief Financial Officer

Hisham bin Maaulot, PETRONAS Gas Berhad – Head Business Development & Commercial

Suriyanti binti Nordin - Head of IR

PRESENTATION

Suriyanti Nordin, PETRONAS Gas Berhad - Head of IR

Assalamualaikum and good day everyone. Thank you for joining today's session.

Welcome to PETRONAS Gas Berhad's Analyst Briefing for quarter ended 31st March 2024. We are organizing this session through the Microsoft Teams platform.

My name is Suri, Head of Investor Relations, PETRONAS Gas Berhad, and together with me we have Encik Abdul Aziz Othman, Managing Director and CEO; Encik Shahrul Azham Sukaiman, Chief Financial Officer; and Encik Hisham Maaulot, Head of Business Development and Commercial.

PETRONAS Gas Berhad's Analyst Briefing for Quarter Ended 31st March 2024 is divided into four segments, firstly, En. Aziz will present the Key Highlights for PETRONAS Gas Berhad for the Quarter; secondly, the Business Updates and Financial Performance will be shared by En. Shahrul Azham; next, En. Aziz will return to share PGB's focus Moving Forward; and finally, we will open the session for Q&A.

All participants are reminded to obey the session's rule where everyone should be on mute throughout the presentation.

The presentation was also shared with you prior to the session through this Microsoft Teams Channel for your reference.

You are allowed to ask questions during Q&A. Please be reminded to press the "raise hand" button and we will open the microphone for the selected participant. You may also post your questions in the chat box, and we will select any question to be answered.

For reference, our financial results is now available at both Bursa Malaysia and PGB websites.

Without further ado, I will hand over to Encik Aziz for the key highlights. Encik Aziz...

Abdul Aziz bin Othman, PETRONAS Gas Berhad - MD, CEO & Director

Thank you, Suri.

Assalamualaikum and good day everyone. Thank you for joining us.

I am pleased to be with you our Q1 2024 performance results. First, let's take a look at some of the key developments impacting PGB's business operating environment in the past quarter.

As been highlighted to you in previous few analyst briefings, continuing from the second half of 2022, the key external developments that may have impacted our business operating environment comprise of first, still not much change is the ongoing Geopolitical tension in the Middle East. As mentioned previously the risks of supply chain and cost escalation for projects delivery and operations remain, for example longer alternative shipping route and increase in insurance risk premium. And as you aware, we did Final Investment Decision (FID) the project for new compressor station as highlighted in previous analyst briefing.

We have also previously assessed the impact on Brent oil price. In Q1 2024, Brent averaged at about USD 81.80/barrel as compared to average of USD 82.90/barrel in Q3 2023. And in April 2024 it rose to more than USD90/barrel. This was attributable to tighter supply from Organisation of the Petroleum Exporting Countries (OPEC), and coupled with ongoing Middle East tension Russia-Ukraine war. For 2024, we expect Brent Crude price will remain elevated.

The other external development is on Forex, or rather most specific, what really impacted us is prolonged volatility of MYR against USD where it is expected to remain in the range of 4.70 to 4.80. The potential impact on us would be on cost escalation especially for execution of projects with high exposure to USD. We are closely monitoring these projects, and we do have mitigation plans in place, such as hedging and etc.. and when necessary we will implement these mitigations.

With these key external developments, PGB is impacted by the continuing high-cost business environment.

The average Malaysia Reference Price (MRP) in Q1 was at RM41.5/MMBtu. This is based on the lagging factor, and with this, we see potential increase of MRP in Q2 2024, and would remain high throughout the year.

The Services Producer Price Index (SPPI) will also continue to be on the rise, in line with its year-on-year increase.

Cost of energy for Peninsular Malaysia remains high. ICPT, which is regulated through Suruhanjaya Tenaga, was published at 17 sen/kWh for H1 2024. And the dynamics of both the MRP and ICPT will impact our revenue and margin in the Utilities segment, specifically the electricity that we supply to customers.

With these external developments, the overall cost of doing business was higher during the period and it is expected to remain high this year. Nevertheless, we will continue to monitor

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the situation closely, and implement the relevant mitigation action, wherever and whenever necessary.

Ladies and gentlemen, despite the challenges I've explained in the previous slides, I am pleased to share that during Q1 2024, PGB has delivered a commendable performance, hence, successfully maintaining a sustainable dividend to our shareholders.

Our achievements was a result of our continued and consistent world-class operational excellence, which is close to 100%.

On the business highlights for the quarter, as I mentioned just now, we had announced in March the Final Investment Decision (FID) for a new compressor station installation in Jeram, Selangor, which is near the border of Perak, to improve the Peninsular Gas Utilities (PGU) III capacity in the Northern region to meet future gas demand increase that has been forecasted for Northern sector from 2026 onwards. The project is under way and progressing accordingly.

We have also announced on 3rd May 2024 through Bursa Malaysia, that the Government through Suruhanjaya Tenaga has approved the adjusted Incentive-Based Regulation (IBR) tariffs for financial year 2024 under the Regulatory Period 2 (RP2) for the three regulated segments that we have, Peninsular Gas Utilisation (PGU); Regasification Terminal Sg Udang, (RGTSU); and Regasification Terminal of Pengerang (RGTP).

The IBR Tariff adjustment is an annual process under the IBR Framework, to account for changes in relation to reserved firm capacity and the internal gas consumption as allowed by ST. With upward tariff adjustment for Gas Transportation and Regasification, we expect the overall businesses to continue to contribute positively to the Group's revenue in 2024 under the revenue-cap mechanism of IBR.

As updated to you during the previous Analyst Briefing session, the 3rd Term Gas Processing Agreement (GPA) has been executed starting January 2024. With a better incentive system, we should be motivated to focus more on efficiency, especially on the internal gas consumption.

And finally, with the current competitive System Marginal Price (SMP) in the electricity grid, we have also increased our power export to the grid during the quarter through the arrangement that we have under the New Enhanced Dispatch Arrangement (NEDA).

With all that, leading to our financial performance, Group revenue stood at RM1,618.8 million, decreased by 3.4% or RM56.1 million, due to lower revenue from Utilities segment in line with lower product prices. However, that was offset by higher revenue from Gas Processing and Gas Transportation segments, both from the new term agreement that we have in place and also with the adjusted tariff.

Nevertheless, the group gross profit was higher by 9.9% at RM601 million on the back of lower fuel gas price and lower internal gas consumption, compared to same period in the year before.

Correspondingly, PGB PAT was at RM472 million, higher by 5.4% compared to the same period last year, in line with higher gross profit, but partially negated by unfavorable foreign exchange movement and lower contribution from joint venture companies.

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Similarly, EBITDA was also higher by 8.0% or at RM849 million in tandem with higher PBT.

Our Earning Per Share (EPS) was higher by 7.6%, reflecting higher profit attributable to shareholders of the Company.

With that, the Board has approved dividend per share for the quarter at 16 sen, similar to the corresponding quarter last year. And again, I would like to highlight that this demonstrates the Group's commitment, despite the challenges highlighted, to ensure a sustained level of returns to the shareholders.

Ladies and gentlemen, this is something new that we would also like to highlight, on the Sustainability journey, and again I would like to highlight that we will continue with the efforts to reduce our CO² emission and I am happy to report that we have made good progress so far.

In terms of CO² abatement, through our operational excellence, focusing on operation control initiatives, fuel switching, and CO² monetization efforts, we were able to reduce significant amount of CO² equivalent, a reduction of almost 10% against our baseline emission in 2019.

We benchmarked ourselves in terms of sustainability, and FTSE4Good Sustainability Rating. I am happy to report that we achieved a score of 4.1 out of 5, where we received the highest score for our ESG practices surpassing not only our own target but also surpassing our peers, within and outside of Malaysia.

These achievements will surely motivate us to do better in 2024. So, do follow us for more updates on our sustainability journey.

Now, we come to the details of our business and financial performance. This section will be presented by En. Shahrul. Over to you, Shahrul...

Shahrul Azham bin Sukaiman, PETRONAS Gas Berhad – Chief Financial Officer

Thank you, En. Aziz. Good day everyone.

I shall take you through the business performance for Q1 2024.

Starting with Gas Processing segment, as mentioned by En. Aziz earlier, this year the new 3rd Term GPA has been executed with the new reservation charge tariff and the performance-based structure, which motivate us to focus on efficiency while sustaining PGB's world class performance.

As you can see, the segment continued to fulfill its commitment to customers by sustaining world class operational performance, achieving reliability close to 100% for all products with lower plant shutdown and zero interruption to customers, therefore, these has enabled us to secure 100% reservation charge and tariff with maximum PBS incentives achieved during the quarter.

For Gas Transportation segment, our pipeline network performance registered close to 100% reliability during the quarter. The average sales gas delivered was more than 2,300

million standard cubic feet per day.

As mentioned earlier, Suruhanjaya Tenaga has approved the adjusted Incentive-Based Regulation (IBR) Tariffs for financial year 2024 under the Regulatory Period 2 (RP2) for our three assets, namely Peninsular Gas Utilisation (PGU); Regasification Terminal Sg Udang, (RGTSU); and Regasification Terminal Pengerang (RGTP).

The upward tariff adjustment will have impact on Gas Transportation and Regasification business revenue. We expect the businesses will continue to contribute positively to the Group's revenue under this IBR arrangement.

On project updates, as mentioned by En. Aziz earlier, the new compressor station installation at Jeram is progressing as planned.

Moving on to the regasification business segment, both our Regasification Terminals in Sungai Udang and Pengerang sustained strong reliability and OEE performance at 100% in Q1 2024, and successfully receiving a total of 13 cargoes, as well as providing ancillary services of 251 LNG truck loading service deliveries, and two GUCD and 12 reloading services in Q1 2024.

On the new floating storage unit project at Regasification Terminal in Pengerang, as mentioned earlier, currently the project is progressing as planned, where the project is expected to be in operation by mid 2025.

For Utilities segment, during the quarter, Utilities plants achieved 100% Product Delivery Reliability for steam and electricity while close to 100% for industrial gases.

For electricity, higher product sales volume was recorded due to higher power offtake and higher consumption from our customers. As mentioned by En. Aziz, there was also higher export to the grid recorded during the quarter due to the attractive System Marginal Price (SMP).

For Industrial gases, higher product sales volume was recorded due to higher consumption from one of the customers during plant stabilization period post shutdown in January and February this year.

Lower product sales for steam, however, was recorded during the quarter. This was mainly due to lower offtake by customers during plant slowdown and unplanned shutdown.

The ICPT surcharge is currently at 17sen/kWh for the first half of 2024. Very soon, the surcharge rate for second half of 2024 will be reviewed and declared by the government.

With the current tariff of ICPT and gas price, we continue to strengthen our efforts to ensure plant safety and efficiency as top priority, in order to meet captive customers' offtake whilst taking opportunities of power export to the grid.

Moving on to financial performance of PGB Group. As explained earlier, the Group sustained its commendable performance across all of its plants and facilities.

Against the corresponding quarter, Q1 2023, group revenue declined by 3% at RM1,619 million mainly attributable to lower revenue from Utilities segment, and this is in line with lower product prices. This was however offset by higher revenue from Gas Processing

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following higher reservation charges income under the new term as well as higher revenue from Gas Transportation due to upward tariff adjustment effective 1 January 2024.

Nevertheless, gross profit improved by 10% at RM601 million on the back of lower fuel gas and internal gas consumption, as well as supported by lower fuel gas price recorded during the quarter. As we can see, the higher fuel gas price in the corresponding period was reflected in the tariff adjustment for the regulated business this year.

Profit for the quarter was correspondingly higher by 5% at RM472 million in tandem with higher gross profit, negated by unfavourable foreign exchange movement and lower contribution from joint venture companies.

Comparing against preceding quarter, Q4 2023, group revenue was slightly higher by 2% mainly driven by higher revenue from Gas Processing segment following the higher reservation charges as well as the higher revenue from Gas Transportation due to upward tariff adjustment, as mentioned earlier.

Gross profit was also higher by 19% in tandem with higher revenue coupled with lower operating expenses, mainly maintenance expenses following lower maintenance activities performed during the quarter.

Correspondingly, profit for the quarter was higher by 1.4% at RM472 million in line with higher gross profit. However, this was negated by lower share of profit from joint venture companies and lower interest income from fund investments. In the preceding quarter, one of the joint venture companies benefited from once-off tax optimisation impact.

For segmental performance, against the corresponding quarter, Q1 last year, Gas Processing and Regasification segments recorded slightly lower gross profit due to higher operating expenditure, particularly on depreciation expense following the completion of several capital projects, as well as higher level of maintenance activities performed during the quarter.

Meanwhile for Gas Transportation, the gross profit was higher on the back of lower operating expenditure due to lower fuel gas price coupled with higher revenue as a result of upward tariff adjustment.

For Utilities segment, the gross profit was also higher due to favourable impact of lower fuel gas cost.

Against the preceding quarter, Q4 2023, all segments recorded higher gross profit in tandem with higher revenue coupled with lower operating expenses, mainly due to lower maintenance activities performed during the quarter.

Moving on to the statement of financial position, as of 31 March 2024, the Group's total assets was at RM18.2 billion, lower by 6.0% mainly due to bullet repayment of Islamic financing facility made during the quarter, which amounted to RM1.2 billion.

Correspondingly, total liabilities has also reduced by the same amount of RM1.2 billion, as a result of the said transaction.

Even though there was reduction in cash and cash equivalents to RM2.3 billion during the quarter, the cash balances remain healthy, with some head room to play with, for existing

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and also the upcoming growth projects.

As for the dividend, the Board has approved a first interim dividend of 16 sen per share, payable on 27 June 2024.

As mentioned by En. Aziz, this has demonstrated our commitment to ensure a sustained level of returns to the shareholders, despite the ongoing economic conditions.

We are still giving a healthy level of payout, more than what we have committed under our dividend policy.

So, to summarize our performance for Q1 2024, we again sustained World class operational performance. Our excellent operations in Q1 continue to be the basis of our strong business performance, again achieving close to 100% reliability in delivering products and services in all our operating segments.

Higher gross profit during the quarter on the back of lower fuel gas and internal gas consumption as well as due to lower fuel gas price.

Our cash balance also remains healthy to support growth projects.

Interim dividend for the quarter is 16 sen per share, similar to the corresponding quarter last year.

That is all from me. I will now pass the line over to Encik Aziz to share on company outlook.

Abdul Aziz bin Othman, PETRONAS Gas Berhad - MD, CEO & Director

Thank you Shahrul.

Ladies and gentlemen, I've mentioned about our Sustainability Blueprint, so, along the four lenses of our Blueprint, first, we will continue to focus on safety, reliability and efficiency of our operations. During Q1 2024, one of the key initiatives to ensure enhanced safety control is the successfully operationalization of the new Electronic Permit to Work system, that will strengthen safety, and address all the key pain points from the traditional paper-based process. This system, with the control that we put in place, we hoped would reduce human error and increase productivity.

Secondly, as part of our strategy in ensuring flawless project delivery in-line with our tagline "OTOBOS" - On time, On Budget and On safety, timely execution within budget and quality, we are enhancing our project management approach and greater involvement of the leadership team.

And as mentioned to you in previous quarter, under sustained value creations, we managed to grab few growth opportunities. Currently we are focusing in working towards Final Investment Decision (FID) for two (2) projects, which we have secured the Letter of Intent (LOI) from the government, first the Labuan new power plant; and the other is the New 100MW Gas Peaking Power Plant at the same site of our existing Kimanis Power.

We hope that we could achieve Final Investment Decision for all these projects soon.

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At the same time, with the GPA 3rd Term has been agreed and revised, and now is under implementation with a new incentive system. This will give benefit to us if we continue to focus on better efficiency of our operations to secure the reward from the incentive system.

With that, thank you for joining us. And now we move to Q&A. Over to you Suri...

Suriyanti binti Nordin - Head of IR

Thank you, En. Hisham, En. Aziz and En. Shahrul.

We have now come to the Q & A session. Please be reminded to continue to obey the session rule where everyone should be on mute to ask a question.

Please press the "raise hand" button and we will open the microphone for the selected participant.

You may also type your question in the chat box and we will read it out loud for you.

Let's start, shall we..

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QUESTIONS AND ANSWERS

Abdul Aziz bin Othman, PETRONAS Gas Berhad – MD/CEO & Director

Yes Daniel.

Daniel Wong Ka Kah, Hong Leong Investment Bank – Research Analyst

Good afternoon guys, can you guys hear me?

Abdul Aziz bin Othman, PETRONAS Gas Berhad – MD/CEO & Director

Yes.

Daniel Wong Ka Kah, Hong Leong Investment Bank – Research Analyst

My first question is, for Gas Processing, how much is the performance incentive has been recognized in the first quarter, as compared to fourth quarter last year?

On second question, you've mentioned that there is higher export of power to NEDA/grid during the quarter, can I check, how much has it contributed in terms of revenue or bottom line during this quarter and based on what tariff do you actually export to the grid, what tariff break is it?

On the third question, on the Labuan new power plant, how much is the capacity that you are looking at?

Shahrul Azham bin Sukaiman, PETRONAS Gas Berhad – Chief Financial Officer

Ok, for the incentive as asked just now, we registered around RM40 million for Q1 2024, and that was actually higher than Q1 last year by about RM2-3 million higher compared to the corresponding period.

We will need to get back to you on NEDA margin, we'll continue on Labuan first En. Aziz..

Abdul Aziz bin Othman, PETRONAS Gas Berhad – MD/CEO & Director

Ok Daniel, for the Labuan Power Plant, we are still in discussions with the Government. Based on the LOI, the size will be between 100 – 130 MW. So, the final configuration and size are still under discussion with the Government. I am sure, once we reach FID, we will announce the exact size and capacity accordingly.

Daniel Wong Ka Kah, Hong Leong Investment Bank – Research Analyst

Ok. Getting back to the incentive, first quarter this year is RM40 million, then the other numbers for the fourth quarter last year, how much was it?

Shahrul Azham bin Sukaiman, PETRONAS Gas Berhad – Chief Financial Officer

It's lower by about RM2 million compared to this quarter.

Daniel Wong Ka Kah, Hong Leong Investment Bank – Research Analyst

RM38 million in the fourth quarter roughly?

Shahrul Azham bin Sukaiman, PETRONAS Gas Berhad – Chief Financial Officer

Roughly around that.

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Daniel Wong Ka Kah, Hong Leong Investment Bank – Research Analyst

My last question, on the sales gas delivery volume, how much was it this quarter?

Shahrul Azham bin Sukaiman, PETRONAS Gas Berhad – Chief Financial Officer

We delivered 2,300 mmscfd.

Daniel Wong Ka Kah, Hong Leong Investment Bank – Research Analyst

Ok, that's all from me, thank you.

Abdul Aziz bin Othman, PETRONAS Gas Berhad – MD/CEO & Director

Thank you.

Suriyanti Nordin, PETRONAS Gas Berhad – Head of IR

Thank you, Daniel. Can we have another question?

Anshool Singhi, JP Morgan Chase & Co. – Analyst

Hello, can you hear me?

Abdul Aziz bin Othman, PETRONAS Gas Berhad – MD/CEO & Director

Yes, Anshool.

Anshool Singhi, JP Morgan Chase & Co. – Analyst

Hi, good evening. I just have a couple of questions. To start with, can you write some more details about the JV contribution, was there some of expense involved in this quarter? Comparing to the previous year, is it underperforming?

Shahrul Azham bin Sukaiman, PETRONAS Gas Berhad – Chief Financial Officer

Sorry Anshool, your voice is breaking up. Could you repeat the question again Anshool?

Anshool Singhi, JP Morgan Chase & Co. – Analyst

I am so sorry. Can you hear me clearly now?

Shahrul Azham bin Sukaiman, PETRONAS Gas Berhad – Chief Financial Officer

Better.

Anshool Singhi, JP Morgan Chase & Co. – Analyst

Yes. I was talking about the JV performance, the contribution from the associates. Are there any one of losses or expenses that took place this quarter.

Shahrul Azham bin Sukaiman, PETRONAS Gas Berhad – Chief Financial Officer

Ok. On the lower contribution from JV, I think what happened during the quarter, I think all the JVs actually registered healthy margins contributing positively to the group. What

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happened during the quarter is we are taking a prudent approach on the provision for the ageing receivables. I think it is the normal thing that an accountant will do based on the ageing of your receivables.

Anshool Singhi, JP Morgan Chase & Co. – Analyst

So, these are the receivables of the JV level.

Shahrul Azham bin Sukaiman, PETRONAS Gas Berhad – Chief Financial Officer

Yes. We are taking the prudent approach to do provision based on ageing.

Anshool Singhi, JP Morgan Chase & Co. – Analyst

Understood. My next question is regarding the tariff reset. I am just trying to get clear understanding how does the reset works. Is my assumption correct, that those tariffs specifically for internal gas consumption has been reset at the MRP end of the previous year? Is that correct?

Shahrul Azham bin Sukaiman, PETRONAS Gas Berhad – Chief Financial Officer

Sorry Anshool, the question was not very clear to us. You are asking about the revised tariff because of the IGC price? Is that your question?

Anshool Singhi, JP Morgan Chase & Co. – Analyst

Yes.

Shahrul Azham bin Sukaiman, PETRONAS Gas Berhad – Chief Financial Officer

Ok. What happened, in 2023, we saw the gas price was at unprecedented high level last year. So, obviously, the actual gas price was a lot higher compared to what was assumed in the RP submission. So, under the IBR framework, we were allowed to recover the price differential, hence, for this year, there's adjustment in terms of tariff under what we called Revenue Adjustment to reflect the price differential of internal gas consumption last year. So hence, that why there was upward adjustment to tariff for 2024.

Basically, we do not take risk on the gas market price, it is a pass-through thing to shipper.

Abdul Aziz bin Othman, PETRONAS Gas Berhad – MD/CEO & Director

If you can recall Anshool, during our briefing on RP, this is enhancement that the government has allowed us from the previous RP where we take the risk of price of the gas. So, it is a good enhancement for infrastructure owner like us, where we do not take the risk on the market price of the gas.

Anshool Singhi, JP Morgan Chase & Co. – Analyst

Understood. I just have a question from a near term prospect, like if I want to see how the performance for the next quarter if the MRP exceeds the level at the end of previous quarter, will you see some loses to IGC in the next quarter? Is that like a correct understanding, if the MRP is lower compared to MRP in the end of previous quarter, then you'll see some cost benefit?

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Abdul Aziz bin Othman, PETRONAS Gas Berhad – MD/CEO & Director

There would be some fluctuation in the number because how it works is that, for the year, they have approved a certain price as part of what they will reimburse you. So, if the price goes higher than what is budgeted, then it will impact on your bottom line. If it goes lower, you'll have a positive benefit. But what happened is, the next year, either positive or negative, it will be adjusted in the next year's business.

You'll see the bottom line impact for that year, depending what is the actual MRP, versus whatever the budget that has been approved by the government.

Shahrul Azham bin Sukaiman, PETRONAS Gas Berhad – Chief Financial Officer

The over or under recovery will be reflected in the following year.

Abdul Aziz bin Othman, PETRONAS Gas Berhad – MD/CEO & Director

So, you are in different, it is just a time lag in term of account.

Anshool Singhi, JP Morgan Chase & Co. – Analyst

Understood. So, the budgeted applies is that an average of the previous year of that the end of the previous year?

Abdul Aziz bin Othman, PETRONAS Gas Berhad – MD/CEO & Director

Typically, we will agree with them based on the forecast, the guidance of the oil price for the next three years, and then based on that corresponding MRP, and they allow you that numbers in the budget.

Anshool Singhi, JP Morgan Chase & Co. – Analyst

Understood. This my last question regarding the electricity export under NEDA, could you share how much volume was it? and is this going to be an on-going process or you are going to export under that scheme based on the SMP?

Abdul Aziz bin Othman, PETRONAS Gas Berhad – MD/CEO & Director

Yes, we will continue, because we know what is our cost to produce. If it is above SMP, definitely we'll have an automatic control system that will trigger the export. If our cost is lower, definitely we will export to take advantage of the capacity that we have. In as far as the volume...

Shahrul Azham bin Sukaiman, PETRONAS Gas Berhad – Chief Financial Officer

For Q1 this year, we exported to the grid around 30MW. In corresponding period last year, it was very minimal, because SMP was on the high side and it was not favorable to us.

Abdul Aziz bin Othman, PETRONAS Gas Berhad – MD/CEO & Director

How the regime work is, every site can only export up to 30MW into the grid. That's the limit. And we always check our capacity against that, if the cost is better than SMP, it will be injected automatically.

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Anshool Singhi, JP Morgan Chase & Co. – Analyst

Understood. Thank you so much.

Shahrul Azham bin Sukaiman, PETRONAS Gas Berhad – Chief Financial Officer

On that note, maybe I can answer Daniel's question on how much is the margin on the NEDA export. I think, in the corresponding period, Q1 last year, there's not much margin because the fuel gas was on the high side, and we did not export that much to the grid. For this year, we registered margins around RM4 million, for that 30MW we exported to the grid for the full three months.

Suriyanti Nordin, PETRONAS Gas Berhad – Head of IR

Thank you Anshool. I think we have another one from Sean.

Sean Lim, RHB – Analyst

Hi, thanks for the call. I have two questions.

My first question is, if you were to compare the overall maintenance activity levels as well as the maintenance expenses to last year, are we expecting year-on-year higher or year-on-year lower? And if it's higher or lower, how much are we expecting to be, what's the amount?

And my second question is regarding your Capex, is there any change in terms of your Capex allocation over the next three years? And what's the split between the regulated and also non-regulated capex?

Shahrul Azham bin Sukaiman, PETRONAS Gas Berhad – Chief Financial Officer

On the maintenance, year-on-year basis, 12 months compared to 12 months, we expect about the same level, but of course the timing and the phasing will vary from one quarter to another depending on when we have the plant major maintenance activities like plant turnaround and plant shutdown. However, we expect the cost slightly higher this year because as you aware, the Government has announced the new regime of service tax, of which now include the repair and maintenance activities. As such, we anticipate the cost of maintenance activities for 2024 to be higher resulting from the implementation of service tax of 8% for 2024.

Abdul Aziz bin Othman, PETRONAS Gas Berhad – MD/CEO & Director

Sean, can you repeat the second question?

Sean Lim, RHB – Analyst

Regarding the Capex, Capex guidance, and what's the split between regulated and non-regulated Capex? How much you plan to spend this year and for next three years?

Shahrul Azham bin Sukaiman, PETRONAS Gas Berhad – Chief Financial Officer

For Capex, we anticipate it to be higher than last year given there couple of our major projects are currently progressing. So, how much we incur will depend on the milestones achieved for those projects. In terms of the Capex, I would say around 60/40, 60% for non-regulated, and 40% for regulated business.

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Sean Lim, RHB – Analyst

Alright Thanks. If it is higher, how much higher would u expecting year-on-year.

Shahrul Azham bin Sukaiman, PETRONAS Gas Berhad – Chief Financial Officer

It would be higher, but as I said it depends on the progress and milestones of the major projects that we have started.

Sean Lim, RHB – Analyst

Ok. Alright. Thanks.

Suriyanti Nordin, PETRONAS Gas Berhad – Head of IR

Daniel, you have a question?

Daniel Wong Ka Kah, Hong Leong Investment Bank – Research Analyst

Yes, I have a question here. Over to understand more about this NEDA. How does this NEDA works? When you said 30MW export to the grid, so basically u will tell Tenaga (TNB) or the single buyer that u want to contribute 30 MW to the grid. So, that 30MW will be available throughout the full three quarter or what?

Abdul Aziz bin Othman, PETRONAS Gas Berhad – MD/CEO & Director

As u know, the SMP doesn't stay flat for the whole three months, even in a day it varies depending on the grid. If there is a lot of demand, higher merit order come into the requirement then the SMP will go higher. It can be for two hours; it can be for four hours. So, we will always check in real time, and we will trigger the injection to the grid and there's no need to actually inform TNB. It will be just calculated based on whatever injection that goes into the grid. But it is depend on the time of the day, it is not like the whole three months SMP will be flat at some number. Within a day, that could be a few instances only. May be three or four hours or maybe 12 hours. So, we don't know because the grid work in such a way, but we have a system on track and make sure that we don't miss the opportunity and those are done almost full automatic today up to 30MW.

Daniel Wong Ka Kah, Hong Leong Investment Bank – Research Analyst

I see. So, basically you already let Tenaga know that you are readily available for this 30/M, but during the day when it has a peak demand then suddenly you guys will be triggered to contribute to the system. It can be 2 hours; it can be 4 hours; it can be 12 hours depending on the system demand. And then, based on what tariff?

Abdul Aziz bin Othman, PETRONAS Gas Berhad – MD/CEO & Director

The SMP. System Marginal Price.

Daniel Wong Ka Kah, Hong Leong Investment Bank – Research Analyst

So, System Marginal Price is not fixed, is it?

Abdul Aziz bin Othman, PETRONAS Gas Berhad – MD/CEO & Director

It's not fixed. As I said just now, normally at 12pm is the highest demand for the day and at that time the highest cost power plant in the grid will have to come in. That become the new system marginal price. So, if that power plant is more expensive than us, we will inject into the grid.

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Daniel Wong Ka Kah, Hong Leong Investment Bank – Research Analyst

I see. So, you guys will also get paid at the higher pricing.

Abdul Aziz bin Othman, PETRONAS Gas Berhad – MD/CEO & Director

Correct.

Daniel Wong Ka Kah, Hong Leong Investment Bank – Research Analyst

So, the margin here just now you refer to the four million for the four who are full quarter basis, full quarter basis 4 million margin. That is a gross profit is it that we are briefing to.

Abdul Aziz bin Othman, PETRONAS Gas Berhad – MD/CEO & Director

Yes, gross profit.

Daniel Wong Ka Kah, Hong Leong Investment Bank – Research Analyst

So, this NEDA started only this quarter or already started previously.

Abdul Aziz bin Othman, PETRONAS Gas Berhad – MD/CEO & Director

I think it has been two years as Shahrul mentioned last year because the gas price as you aware reach almost RM60. So, we become more expensive than SMP, that's why you don't see injection from us. But this year, the gas price has dropped to RM40, or there about, at certain time we actually cheaper than SMP.

Daniel Wong Ka Kah, Hong Leong Investment Bank – Research Analyst

I see. Ok. Another thing wants to check now, u guys are looking at a higher gas price in subsequent second quarter. So, we are going to look at a lower profit for the group segment in the second quarter due to the higher gas price?

Abdul Aziz bin Othman, PETRONAS Gas Berhad – MD/CEO & Director

Depend also, you know there is coal price into the equation, and also other fuel.. All that is being added into the mix. Sometime, even though we are expensive. It might still be cheaper than SMP than we still can make the gain. So, the dynamic is not as straightforward as just gas price.

Daniel Wong Ka Kah, Hong Leong Investment Bank – Research Analyst

Ok. Understood. What I mean is for your utilities segment, for your other gas processing segment with this higher gas prices MRP prices does it actually indicate in your margin could be affected could be lower in a subsequent quarter?

Shahrul Azham bin Sukaiman, PETRONAS Gas Berhad – Chief Financial Officer

You mean for gas processing?

Daniel Wong Ka Kah, Hong Leong Investment Bank – Research Analyst

For all the segment, gas processing, regasl which you guys will incur IGC and also for the utilities segment you guys would have a higher input cost compared to this first quarter?

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Shahrul Azham bin Sukaiman, PETRONAS Gas Berhad – Chief Financial Officer

I think the movement of gas price will have impact to the regulated business as well as to utilities business segment. But as mentioned earlier, for regulated, it's just a matter of timing. We can recover the price differential in the following year. But for utilities, we straight to our bottom line.

Daniel Wong Ka Kah, Hong Leong Investment Bank – Research Analyst

You guys doesn't do accrual account is it, provisions on whether it's an over or below expectations then u guys accrued during the quarter?

Shahrul Azham bin Sukaiman, PETRONAS Gas Berhad – Chief Financial Officer

That is exposure draft was such accrual accounting, but yet to be effective. Once that has been effective then we can do the accrual accounting. We are also waiting for that Daniel.

Daniel Wong Ka Kah, Hong Leong Investment Bank – Research Analyst

Ok. Thank you. That's all for me.

Abdul Aziz bin Othman, PETRONAS Gas Berhad – MD/CEO & Director

Thank you.

Suriyanti Nordin, PETRONAS Gas Berhad – Head of IR

Anyone else.. I think you will have a last round.

Ok. If there are no other question, thank you for your participation in our analysis briefing for quarter ended 31 March 2024.

Thay's the end of the session. Thank you.