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KEY HIGHLIGHTS

Company Results

RHB Bank (RHBANK MK/HOLD/RM5.62/Target: RM6.00) Page 2
2Q19: Results in line with the group reporting intense NIM slippage. Maintain HOLD.

Malaysian Resources Corporation (MRC MK/BUY/RM0.74/Target: RM1.03) Page 5
1H19: Earnings miss expectations due to timing recognition for progress billings; expect a stronger 2H19 on accelerated billings.

Company Update

Petronas Dagangan (PETD MK/HOLD/RM22.30/Target: RM23.25) Page 8
Ramping up non-fuel income, including new retail partnerships, digital initiatives (ie SETEL e-payment), while conserving cash for more investments.

TRADERS' CORNER

Page 11

MKH Bhd (MKH MK): Technical BUY

Notion VTEC (NVB MK): Technical BUY

KEY INDICES

	Index	pt chg	% chg
FBMKLCI	1,600.53	(8.8)	(0.5)
Bursa Emas	11,302.85	(83.3)	(0.7)
Ind Product	147.17	(3.4)	(2.3)
Finance	15,625.90	(29.4)	(0.2)
Consumer	647.99	(7.8)	(1.2)
Construction	212.78	(2.5)	(1.1)
Properties	804.73	(8.1)	(1.0)
Plantations	6,798.08	(43.6)	(0.6)

BURSA MALAYSIA TRADING & PARTICIPATION

Malaysia Turnover	26-Aug-19	% chg
Volume (m units)	2,211	10.0
Value (RMm)	1,814	4.1

By Investor type	(%)	ppt chg
Foreign investors	25.7	2.6
Local retail	26.3	(0.8)
Local institution	47.9	(1.8)

TOP VOLUME / GAINERS / LOSERS

Top Volume	Price (RM)	Chg (%)	Volume ('000)
DRB-Hicom	2.60	(11.9)	100,542
SapuraEnergy	0.27	(3.6)	49,465
AirAsia X	0.20	5.4	34,469
Dayang Enterprise	1.43	(4.0)	28,614
MY EG Services	1.39	(4.1)	21,766

Top Gainers	Price	Chg (%)	Volume
AirAsia X	0.20	5.4	34,469
Parkson Holdings	0.22	2.3	476
Maxis Bhd	5.49	1.7	1,493
Axiata Group Bhd	5.08	1.6	4,764
KLCC Property	8.25	1.2	1,430

Top Losers	Price	Chg (%)	Volume
DRB-Hicom	2.60	(11.9)	100,542
Cahaya Mata Sarawak	2.28	(8.8)	3,057
YTL Power	0.69	(5.5)	6,407
PETRONAS Chemicals	6.80	(4.3)	4,821
MY EG Services	1.39	(4.1)	21,766

OTHER STATISTICS

	26-Aug-19	chg	% chg
RM/US\$	4.20	0.01	0.2
CPO Jul 19 (RM/mt)	2,269	7.0	0.3

Top volume, gainers and losers are based on FBM100 component stocks

COMPANY RESULTS

RHB Bank (RHBBANK MK)

2Q19: Intense NIM Pressure

RHBBank's 2Q19 results were in line, driven largely by investment securities gains. We expect earnings growth to start moderating for the rest of 2019 on the back of NIM slippage while management had also alluded that meeting its full-year 2019 ROE target of 10.5% could be a challenge given the pressure on NIM and modest loans growth environment. Maintain HOLD and target price of RM6.00 (9.1% ROE, 0.92x FY20 PBV). Entry level: RM5.30.

RESULTS

- 2Q19 in line.** RHBBank's reported 2Q19 net profit of RM615.4m (+7.9% yoy, -2.9% qoq) was broadly in line, with 1H19 earnings representing 53.8% of our full-year estimates. We expect a weaker 2H19 as NIM is expected to continue trending down as the full impact of the 2Q19 rate cut takes effect, especially in 3Q19. 2Q19 pre-provision operating profit expanded 11.8% yoy. However, we note this was largely driven by sharply higher gains on investment securities which can be volatile in nature, and to a smaller extent, higher insurance income. Net interest income and net fee income contracted 3.1% and 6.1% yoy respectively on the back of NIM compression and lower brokerage and investment banking fee income. On a qoq comparison, earnings declined 2.9% on higher effective tax rate and opex, but this was partially offset by 9% qoq increase in gains on investment securities from lower bond yields. Cost-to-income ratio was relatively stable at 48.5% as management was able to sustain a neutral operating JAW.
- Intense NIM slippage.** 2Q19 NIM declined 7bp qoq to 2.09% (-20bp yoy) bringing 1H19 NIM down to 2.11% vs 2018's 2.24% (-13bp) due to the impact of the recent OPR cut and higher funding cost. As such, 2019 NIM could face a slightly larger-than-expected NIM slippage of 12bp vs our full-year forecast of -11bp. Every 2bp slippage in NIM is expected to impact our full-year earnings forecast by 2%. To partly manage the NIM pressure, management is looking to reduce its hybrid funding by redeeming some of its sub-debts without replenishing them given their solid capital ratios. We expect NIM to only stabilise towards 4Q19 when the fixed deposits start to re-price upwards.
- Capital management in line with expectation.** The group declared an interim DPS of 12.5sen, representing a dividend payout ratio of 40%, which is broadly in line with our expectation. We were initially expecting a higher dividend payout ratio given its industry leading CET1 ratio of 16.3% (group level) and 14.1% (bank level).

KEY FINANCIALS

Year to 31 Dec (RMm)	2017	2018	2019F	2020F	2021F
Net interest income	3,522	3,655	3,487	3,395	3,304
Non-interest income	1,786	1,722	1,811	1,913	2,000
Net profit (rep./act.)	1,950	2,305	2,314	2,386	2,487
Net profit (adj.)	1,950	2,305	2,314	2,386	2,487
EPS (sen)	48.6	57.5	57.7	59.5	62.0
PE (x)	11.6	9.8	9.7	9.4	9.1
P/B (x)	1.0	1.0	0.9	0.9	0.8
Dividend yield (%)	2.7	3.6	4.1	4.2	4.4
Net int margin (%)	2.0	2.2	2.1	2.0	2.0
Cost/income (%)	49.9	49.3	50.0	49.8	49.5
Loan loss cover (%)	51.2	93.3	55.7	63.4	70.5
Consensus net profit	-	-	2,401	2,549	2,706
UOBKH/Consensus (x)	-	-	0.96	0.94	0.92

Source: RHB Bank, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM5.62
Target Price	RM6.00
Upside	+6.8%

COMPANY DESCRIPTION

Fifth largest fully integrated financial services groups in Malaysia by total assets size. Provides universal banking services to customers.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	RHBBANK MK
Shares issued (m):	4,010.0
Market cap (RMm):	22,536.2
Market cap (US\$m):	5,365.8
3-mth avg daily t'over (US\$m):	8.3

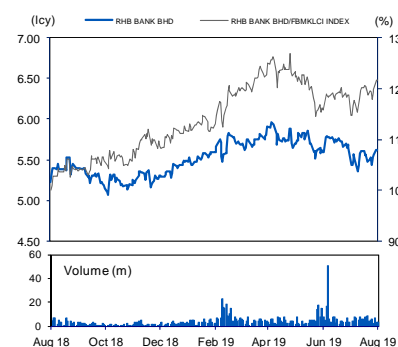
Price Performance (%)

52-week high/low	RM5.96/RM5.07			
1mth	3mth	6mth	1yr	YTD
(0.5)	(0.5)	0.5	7.0	6.2

Major Shareholders

EPS	41.3
OSK Holdings Bhd	10.1
FY18 NAV/Share (RM)	6.12
FY18 CAR Tier-1 (%)	14.05

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Gross impaired loans facing slight pressure.** GIL ratio saw a slight uptick to 2.15% in 2Q19 from 2.12% in 1Q19, largely driven by a lumpy corporate GIL in Singapore and agriculture related lumpy GIL in Malaysia which underwent pro-active restructuring. The group has made the adequate provisions relating to both these accounts and remains hopeful for a resolution by end-19. Net credit cost came in at 17bp in 2Q19, bringing 1H19 net credit cost to 20bp, which is broadly in line with our full-year estimates of 19bp.

- **Loans growth momentum gathers pace but remains marginally below our forecast.** The group registered an annualised 1H19 loans growth of 4.2% vs our full-year forecast of 4.9%. Growth was driven mainly by domestic mortgages (+10.8% yoy), SME (+6.6% yoy) and loans growth recovery from its Singapore operations (+8.2% yoy).

EARNINGS REVISION/RISK

- No changes

VALUATION/RECOMMENDATION

- **Maintain HOLD and target price of RM6.00 (9.1% ROE, 0.92x 2020 P/B).** We expect earnings growth to start moderating for the rest of 2019 on the back of NIM slippage. Management had also alluded that meeting its full-year 2019 ROE target of 10.5% could be a challenge given the pressure on NIM and modest loans growth environment. This suggests a potentially weaker 2H19 ROE outlook vs 1H19's 10.4%.

2019 TARGET & 1H19 ACHIEVEMENT

(%)	2019 Target	1H19
ROE	10.5%	10.4%
Loans Growth	5.0%	6.9%
CASA Growth	5.0%	2.2%
	(Group)	
GIL Ratio	<2.0%	2.15%
Cost-to-income ratio	49.0%	48.5%

Source: RHB Bank

KEY ASSUMPTIONS

(%)	2019F	2020F	2021F
Loan Growth	4.9	5.2	5.3
NIM	2.10	2.04	2.00
Credit Cost (bps)	19.0	21.0	22.0
ROE	9.7	9.4	9.2
LD Ratio	93.2	93.7	94.3

Source: UOB Kay Hian

2Q19 RESULTS

Profit & Loss (RMm)	2Q19	2Q18	yoy % chg	1H19	yoy % chg	Remarks
Net Interest Income	880.9	936.9	(6.0)	1,761.1	(5.7)	NIM slipped 7bp qoq on the back of OPR cut and higher funding cost
Islamic Banking	431.3	371.0	16.2	812.3	26.0	
Fees & Commissions	223.9	238.6	(6.2)	470.6	(5.6)	Lower brokerage and investment banking income
Net Trading Income	115.4	1.3	8,757.9	207.9	60.2	Strong recovery in qoq trading income on the back of lower bond yields
Other Operating Income	125.1	70.2	78.3	267.1	8.2	Higher forex income
Total Income	1,776.6	1,618.1	9.8	3,519.0	3.9	
Operating Expenses	(861.2)	(800.0)	7.7	(1,707.6)	2.7	Opex driven largely by higher staff cost
PPOP	915.4	818.1	11.9	1,811.5	5.0	
Provision on loans	(73.9)	(45.2)	63.7	(166.1)	11.6	Upward normalisation on provisioning on selective lumpy accounts
Writeback on investments	0.0	0.0	n.a.	19.3	(278.2)	
PBT	841.5	773.0	8.9	1,664.7	6.4	
Net Profit	615.4	570.3	7.9	1,245.6	7.3	In line
EPS (sen)	15.3	14.2	7.9	31.1	7.3	
DPS (sen)	12.5	7.5	66.7	12.5	66.7	
BVPS (RM)	6.20	5.61	10.4	6.20	10.4	
Financial Ratios (%)	2Q19	2Q18	yoy chg (ppt)	1Q19	qoq chg (ppt)	
NIM	2.09	2.29	(0.20)	2.16	(0.07)	Qoq impacted by OPR cut
Loan Growth, yoy	1.4	0.1	1.26	0.7	0.65	The group registered 4.2% yoy annualised loans growth driven largely by mortgages
Deposit Growth, yoy	(1.0)	(2.3)	1.27	4.5	(5.49)	
Loan/Deposit Ratio	91.5	95.3	(3.85)	89.3	2.20	
Cost/Income Ratio	48.5	49.4	(0.96)	48.6	(0.10)	
ROE	10.0	10.2	(0.17)	10.6	(0.56)	
NPL Ratio	2.1	2.3	(0.18)	2.1	0.02	
Credit Costs (bp)	17.1	11.2	5.96	21.7	(4.52)	
Loan Loss Coverage	85.0	84.2	0.89	89.9	(4.90)	106% inclusive of regulatory reserves
CET-1 CAR	16.3	14.5	1.81	15.7	0.65	Strong CET1 ratio

Source: RHB Bank, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Interest income	8,015	8,585	9,028	9,520
Interest expense	(4,360)	(5,097)	(5,633)	(6,215)
Net interest income	3,655	3,487	3,395	3,304
Fees & commissions	960	1,017	1,099	1,164
Other income	762	794	815	836
Non-interest income	1,722	1,811	1,913	2,000
Income from islamic banking	1,428	1,643	1,905	2,210
Total income	6,806	6,941	7,213	7,515
Staff costs	(2,005)	(2,086)	(2,169)	(2,256)
Other operating expense	(1,352)	(1,388)	(1,425)	(1,462)
Pre-provision profit	3,448	3,468	3,620	3,797
Loan loss provision	(306)	(337)	(391)	(432)
Other provisions	(23)	0	0	0
Associated companies	0	0	0	0
Other non-operating income	0	0	0	0
Pre-tax profit	3,119	3,131	3,228	3,365
Tax	(810)	(813)	(839)	(874)
Minorities	(4)	(4)	(4)	(4)
Net profit	2,305	2,314	2,386	2,487
Net profit (adj.)	2,305	2,314	2,386	2,487

OPERATING RATIOS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Capital Adequacy				
Tier-1 CAR	15.5	14.1	14.3	14.5
Total CAR	18.8	18.1	18.0	18.0
Total assets/equity (x)	10.4	10.6	10.6	10.5
Tangible assets/tangible common equity (x)	11.9	12.1	11.9	11.8
Asset Quality				
NPL ratio	2.1	2.1	2.1	2.0
Loan loss coverage	93.3	55.7	63.4	70.5
Loan loss reserve/gross loans	0.9	1.2	1.3	1.4
Increase in NPLs	(2.4)	8.4	2.3	3.5
Credit cost (bp)	18.1	19.0	21.0	22.0
Liquidity				
Loan/deposit ratio	92.6	93.2	93.7	94.3
Liquid assets/short-term liabilities	28.4	29.0	30.0	31.1
Liquid assets/total assets	23.1	23.1	23.7	24.3

BALANCE SHEET

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Cash with central bank	4,795	4,435	4,697	4,977
Govt treasury bills & securities	50,469	54,864	59,647	64,852
Interbank loans	898	988	1,087	1,195
Customer loans	165,630	175,052	183,919	193,430
Investment securities	0	0	0	0
Derivative receivables	1,131	1,022	914	805
Associates & JVs	25	14	8	9
Fixed assets (incl. prop.)	1,000	1,010	1,021	1,032
Other assets	19,217	24,021	25,164	26,398
Total assets	243,166	261,407	276,457	292,699
Interbank deposits	18,291	19,900	21,493	23,212
Customer deposits	178,856	187,799	196,250	205,081
Derivative payables	1,117	1,117	1,117	1,117
Debt equivalents	3,927	3,927	3,927	3,927
Other liabilities	17,579	24,063	27,457	31,467
Total liabilities	219,770	236,806	250,243	264,804
Shareholders' funds	23,358	24,559	26,167	27,844
Minority interest - accumulated	38	42	47	51
Total equity & liabilities	243,166	261,407	276,457	292,699

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Growth				
Net interest income, yoy chg	3.8	(4.6)	(2.7)	(2.7)
Fees & commissions, yoy chg	(7.9)	6.0	8.0	6.0
Pre-provision profit, yoy chg	7.7	0.6	4.4	4.9
Net profit, yoy chg	18.2	0.4	3.1	4.2
Net profit (adj.), yoy chg	18.2	0.4	3.1	4.2
Customer loans, yoy chg	4.6	5.7	5.1	5.2
Customer deposits, yoy chg	7.6	5.0	4.5	4.5
Profitability				
Net interest margin	2.2	2.1	2.0	2.0
Cost/income ratio	49.3	50.0	49.8	49.5
Adjusted ROA	1.0	0.9	0.9	0.9
Reported ROE	9.9	9.7	9.4	9.2
Adjusted ROE	9.9	9.7	9.4	9.2
Valuation				
P/BV (x)	1.0	0.9	0.9	0.8
P/NTA (x)	1.1	1.1	1.0	0.9
Adjusted P/E (x)	9.8	9.7	9.4	9.1
Dividend Yield	3.6	4.1	4.2	4.4
Payout ratio	35.7	40.0	40.0	40.0

COMPANY RESULTS

Malaysian Resources Corporation (MRC MK)

2Q19: Earnings Miss Expectations Arising From Timing Recognition Of Billings

The timing mismatch of billings recognition was the cause for the 1H19 earnings disappointment compounded by weaker margins. 1H19 core net profit accounted for 21% and 26% of our and consensus full-year estimates. Earnings are expected to gradually improve from 3Q19, driven by accelerated billings from the construction orderbook (ie LRT3) and property projects. Maintain BUY with a lower target price of RM1.03.

1H19 RESULTS

Year to 31 Dec (RMm)	2Q19	1Q19	qoq % chg	yoy % chg	1H19	yoy % chg
Revenue	241.0	234.1	3.0	(43.6)	475.0	(43.0)
Construction	150.8	132.7	13.6	(21.1)	283.5	(26.1)
Property Development	71.2	85.1	(16.3)	(67.7)	156.4	(62.2)
Others	19.0	16.2	16.9	23.4	35.2	4.4
EBIT	26.9	20.7	29.9	(2.0)	47.6	(44.1)
Engineering & Construction	(15.2)	16.7	(190.9)	(195.0)	1.5	(96.3)
Property Development	44.0	3.0	1,366.1	82.1	47.0	(14.7)
Associates & JV	1.3	1.9	34.3	(88.1)	3.2	(80.5)
PBT	9.8	8.4	16.8	(67.8)	18.2	(75.2)
Net Profit	11.1	4.1	167.4	(48.6)	15.2	(72.4)
Core Net Profit	21.1	4.1	409.2	(2.2)	25.2	(54.2)

EBIT Margin	%	%	qoq ppt chg	yoy ppt chg	%	yoy ppt chg
Construction	(10.1)	12.6	(22.7)	(23.0)	0.5	10.7
Property	61.7	3.5	58.2	45.8	30.0	13.3
Core Net Margin	8.7	1.8	7.0	0.5	5.3	6.6

Source: MRCB, UOB Kay Hian

RESULTS

- Missed expectations.** Excluding one-off legal proceedings cost of RM10m, Malaysian Resources Corporation (MRCB) reported 2Q19 core net profit of RM21m (>100% qoq, -2% yoy) and revenue of RM241m (+3% qoq, -44% yoy). 1H19 net profit missed expectations, coming in at 21% and 26% of our and consensus full-year estimates. Key variance against our forecast came from: a) mismatch of progress billings recognition of its unbilled sales as some key projects are in the early stages; b) conversion of property sales bookings into actual sales only from 2H19, instead of from 1H19; and c) slower billings for its lower-margin construction projects. Meanwhile, 1H19 performance was partially cushioned by net gains of RM55m from the disposal of its 30% stake in St Regis, as guided by the company.

KEY FINANCIALS

Year to 31 Dec (RMm)	2017	2018	2019F	2020F	2021F
Net turnover	2,753	1,871	715	1,251	1,821
EBITDA	306	192	177	185	239
Operating profit	274	155	137	144	198
Net profit (rep./act.)	162	101	76	93	148
Net profit (adj.)	162	101	76	93	148
EPS (sen)	3.7	2.3	1.7	2.1	3.4
PE (x)	20.0	32.1	42.5	34.8	21.9
P/B (x)	0.7	0.7	0.7	0.7	0.7
EV/EBITDA (x)	15.1	24.1	26.2	25.1	19.4
Dividend yield (%)	2.7	2.7	2.7	2.7	2.7
Net margin (%)	5.9	5.4	10.7	7.5	8.1
Net debt/(cash) to equity (%)	62.1	26.8	26.7	26.1	24.2
Interest cover (x)	10.1	3.3	3.8	4.2	6.3
ROE (%)	4.2	2.1	1.6	1.9	3.0
Consensus net profit	-	-	94	127	170
UOBKH/Consensus (x)	-	-	0.81	0.74	0.87

Source: MRCB, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM0.74
Target Price	RM1.03
Upside	+38.8%
(Previous TP)	RM1.16

COMPANY DESCRIPTION

Property and construction company known for developing KL Sentral, an integrated development within a world class transportation hub.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	MRC MK
Shares issued (m):	4,412.0
Market cap (RMm):	3,264.9
Market cap (US\$m):	776.8
3-mth avg daily t'over (US\$m):	1.5

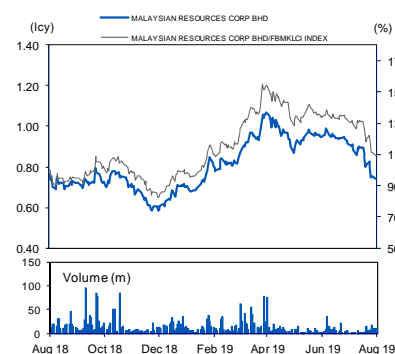
Price Performance (%)

52-week high/low	RM1.07/RM0.585			
1mth	3mth	6mth	1yr	YTD
(19.1)	(16.9)	(7.5)	(3.3)	20.3

Major Shareholders

Employees Provident Fund	38.4
Gapurna Sdn Bhd	16.7
Lembaga Tabung Haji	10.1
FY19 NAV/Share (RM)	1.10
FY19 Net Debt/Share (RM)	0.30

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Construction: Maiden loss in 2019.** The construction arm reported its first quarterly loss in 2019. 2Q19 core EBIT loss was RM5.2m (excludes legal proceedings costs of RM10m) arising from higher expense for certain completed projects pending finalisation of final accounts. Also, 1H19 construction profit was dragged by a lower RM1m (-93% yoy) contribution from the LRT3 project. Meanwhile, the construction progress of LRT3 will pick up gradually in 4Q19 as discussions with work package contractors are ongoing and are expected to be concluded soon. Separately, we expect annual blended construction margins to normalise to 6-7% in the remaining quarters of this year, driven by accelerated billings of its construction orderbook backlog and cost efficiency.

- Property development: 30% stake disposal in St Regis boosted earnings.** The property arm reported a strong 2Q19 EBIT of RM44m (>100 qoq, +82% yoy) on the back of net gains of RM55m from the disposal of a 30% stake in St Regis. 1H19 earnings dropped 15% yoy, dragged by lower revenue as sales were not converted into SPA in 1H19 compounded by slower recognition of unbilled sales. The slower billings recognition was due to work progress in the early stages of construction for projects such as 9 Seputeh. However, MRCB expects a stronger recovery in early-20 as progress billings will accelerate with the advance stages of construction. Its Carnegie (take-up rate: 83%) project in Melbourne which is due for completion at end-19 will contribute positively in 2020 upon handover to buyers. As of Jun 19, the group's property sales were RM244m, short of its target of RM800m, while unbilled sales stood at RM1.8b. New property launches such as Astonia (GDV RM250m) and PJ Sentral commercial units (GDV RM500m) are expected to lift sales in 2019 despite the challenging outlook.

STOCK IMPACT

- Sustainable earnings from construction orderbook backlog.** MRCB's strong outstanding orderbook of RM21.2b as of Jun 18 will provide earnings visibility for its construction business in the next 3-4 years.
- Continuously replenishing its orderbook.** The company is actively tendering for new jobs, including infrastructure-related works, with a tenderbook of RM1.5b. We expect MRCB would be the key beneficiary of the rollout of shelved mega projects such as the East Coast Rail Link (ECRL), given its strong track record coupled with its ability to undertake large projects and an improved balance sheet with net gearing of 0.25x in 2Q19 (2Q18: 1.10x).

EARNINGS REVISION/RISK

- We cut our net profit forecasts for 2019-21 by 14-39% on: a) a recalibration of our billings assumptions for the outstanding construction orderbook and unbilled property billings; b) lower construction orderbook replenishments of RM1b for 2019 and RM1.2b for 2020 (vs RM1.5b annually) while maintaining replenishment of RM1.5b for 2021; and c) a lower property sales of RM400m per year (RM450m previously).

VALUATION/RECOMMENDATION

- Maintain BUY with a lower target price of RM1.03** (from RM1.16), based on a 10% discount to our SOTP valuation of RM1.18/share, implying 48.2x 2020F PE. Key catalysts include the revival of the East Coast Rail Link and sooner-than-expected kick-start of LRT3 works.

SOTP VALUATION

	(RMm)
Property	3,887.9
Construction	755.1
DCF of LRT3 PDP fees	119.8
Investment Properties	783.0
Net Debt	(941.0)
QCT 33% stake	398.3
Total RNAV	5,003.0
Share base (m)	4,385.2
SOTP/share (RM)	1.14
Discount	10%
Target Price (RM)	1.03

Source: UOB Kay Hian

OUTSTANDING ORDERBOOK AS OF JUN 19

Projects	(RMm)
Construction Projects	
Bukit Jalil	10,116
LRT3 (50% JV stake)	4,663
Kwasa Utama C8	2,662
MRT2	319
PR1MA Brickfield	315
SUKE	300
Others	1,622
Sub Total	20,398
Fee-based Contracts	
Kwasa Utama - Management fee for C8	177
PDP to develop Kwasa Damansara township	158
Bukit Jalil Sentral	841
Semarak City Phase 1	27
Sub Total	1,203
Total	21,200

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Net turnover	1,871	715	1,251	1,821
EBITDA	192	177	185	239
Deprec. & amort.	37	40	41	41
EBIT	155	137	144	198
Total other non-operating income	26	n.a.	n.a.	n.a.
Associate contributions	25	13	27	40
Net interest income/(expense)	(58)	(46)	(44)	(38)
Pre-tax profit	149	104	127	200
Tax	(46)	(26)	(32)	(50)
Minorities	(1)	(2)	(2)	(2)
Net profit	101	76	93	148
Net profit (adj.)	101	76	93	148

CASH FLOW

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Operating	1,161	118	136	191
Pre-tax profit	149	104	127	200
Tax	(70)	(26)	(32)	(50)
Deprec. & amort.	37	40	41	41
Associates	(17)	0	0	0
Working capital changes	(1,413)	0	0	0
Other operating cashflows	2,476	0	0	0
Investing	1,041	(50)	(50)	(50)
Capex (growth)	(333)	(50)	(50)	(50)
Investments	(17)	0	0	0
Proceeds from sale of assets	1,326	0	0	0
Others	65	0	0	0
Financing	(2,195)	(65)	(65)	(65)
Dividend payments	(106)	(65)	(65)	(65)
Issue of shares	0	0	0	0
Proceeds from borrowings	(784)	0	0	0
Loan repayment	n.a.	n.a.	n.a.	n.a.
Others/interest paid	(1,305)	0	0	0
Net cash inflow (outflow)	6	3	21	76
Beginning cash & cash equivalent	464	470	473	493
Changes due to forex impact	82	82	82	82
Ending cash & cash equivalent	552	555	575	651

BALANCE SHEET

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Fixed assets	665	675	685	694
Other LT assets	4,206	4,206	4,206	4,206
Cash/ST investment	552	555	575	651
Other current assets	2,927	2,927	2,927	2,927
Total assets	8,350	8,363	8,393	8,478
ST debt	729	729	729	729
Other current liabilities	1,380	1,380	1,380	1,380
LT debt	1,119	1,119	1,119	1,119
Other LT liabilities	221	221	221	221
Shareholders' equity	4,832	4,844	4,872	4,955
Minority interest	68	70	71	73
Total liabilities & equity	8,350	8,363	8,393	8,478

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	10.3	24.7	14.8	13.1
Pre-tax margin	8.0	14.5	10.1	11.0
Net margin	5.4	10.7	7.5	8.1
ROA	1.1	0.9	1.1	1.8
ROE	2.1	1.6	1.9	3.0
Growth				
Turnover	(32.0)	(61.8)	74.8	45.6
EBITDA	(37.2)	(7.9)	4.3	29.4
Pre-tax profit	(39.3)	(30.1)	21.9	57.5
Net profit	(37.5)	(24.5)	22.3	58.4
Net profit (adj.)	(37.5)	(24.5)	22.3	58.4
EPS	(37.5)	(24.5)	22.3	58.4
Leverage				
Debt to total capital	27.4	27.3	27.2	26.9
Debt to equity	38.3	38.2	37.9	37.3
Net debt/(cash) to equity	26.8	26.7	26.1	24.2
Interest cover (x)	3.3	3.8	4.2	6.3

COMPANY UPDATE

Petronas Dagangan (PETD MK)

Conserving Cash For Many Investment Plans

While PETD's volume growth story is commendable, profits will remain uncertain due to the higher cost base for rolling out new retail partnerships and digital offerings. At the same time, oil price had been unpredictable. PETD guided that it is conserving cash earmarked for more investments, including bunkering. Positively, the non-fuel retail income is picking up traction from 1H19. Overall, outlook remains volatile. Maintain HOLD and DCF-target price of RM23.25. Entry: RM21.00.

WHAT'S NEW

- Volume growth commendable.** The group volume growth (2Q19: +8%, 1H19: +5%) appears as a success story relative to one year ago, when 2Q18 volume recorded 1% decline (across both retail and commercial segments). Retail volume growth was strong, benefitting from higher station productivity, more stations in operations and the roll-out of new Primax 95 Pro-Drive fuel product. For the commercial segment, while jet fuel volumes growth continued to be strong, Petcoke and bitumen volume also benefitting from higher refinery production. Lubricants, despite being small to the group, saw high growth in volume from the low base in 2018. These offset unexciting growth in LPG volumes, which faced changing dynamics in eateries (since the implementation of smoking ban) while margins were impacted by higher packaging material costs.
- Non-fuel retail income yet to perform.** The group's overall other income only recorded RM99.2m in 2Q19 (-12% QoQ, -21% yoy). Retail non-fuel income, including Kedai Mesra, had declined in 1H19, despite the many partnerships secured in the past few years. In response, management has revamped its retail strategies and included new retail partnerships. We understand the non-fuel income is back on a growth path in recent months. The long-term target for non-fuel income is to reach 30% of overall retail income.
- Big surge in opex.** Group opex base surged to RM621m in 2Q19 (+24% yoy, +6% qoq). We believe this is mainly due to promotional expenses not just for its station and Mesra offerings, but also to improve take-ups for its SETEL e-payment app and offerings by its retail partners. One of the key drivers supporting non-fuel income growth is the new partnership with Tealive. PetDag targets to ramp up Tealive presence at its Kedai Mesra outlets from 35 currently to 100 by end-19 (vs the full plan of 300 outlets). Management guided that the cost co-invested in this partnership is at around RM150,000-200,000 per outlet and more than 3x above PetDag's usual capex of RM24/psf for other retail offerings. Nevertheless, this retail partnership is expected to churn high volumes and should enable fast recoupment of the initial capex.

KEY FINANCIALS

Year to 31 Dec (RMm)	2017	2018	2019F	2020F	2021F
Net turnover	27,421	30,069	31,275	32,530	33,836
EBITDA	1,799	1,520	1,655	1,686	1,745
Operating profit	1,441	1,178	1,150	1,196	1,243
Net profit (rep./act.)	1,082	850	876	889	924
Net profit (adj.)	1,095	824	857	889	924
EPS (sen)	110.2	82.9	86.3	89.5	93.0
PE (x)	20.2	26.9	25.8	24.9	24.0
P/B (x)	3.7	3.8	3.7	3.7	3.6
EV/EBITDA (x)	11.1	13.1	12.1	11.8	11.4
Dividend yield (%)	4.3	3.1	3.3	3.4	3.5
Net margin (%)	3.9	2.8	2.8	2.7	2.7
Net debt/(cash) to equity (%)	(54.8)	(36.2)	(37.8)	(37.9)	(38.8)
Interest cover (x)	269.0	334.2	402.5	227.9	210.6
ROE (%)	19.2	14.3	14.8	14.8	15.1
Consensus net profit	-	-	954	1,002	1,036
UOBKH/Consensus (x)	-	-	0.90	0.89	0.89

Source: Petronas Dagangan Bhd, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM22.30
Target Price	RM23.25
Upside	+4.3%

COMPANY DESCRIPTION

The principal domestic marketing arm of Petronas for downstream products, in retail, commercial, liquefied petroleum gas (LPG) and lubricants.

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	PETD MK
Shares issued (m):	993.5
Market cap (RMm):	22,154.0
Market cap (US\$m):	5,270.8
3-mth avg daily t'over (US\$m):	3.3

Price Performance (%)

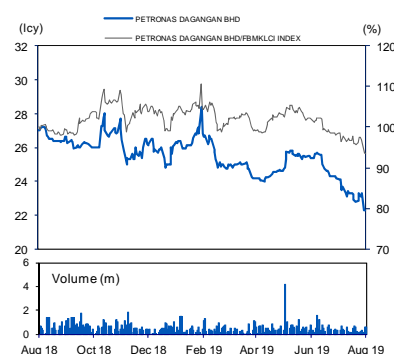
52-week high/low RM28.40/RM22.30

1mth	3mth	6mth	1yr	YTD
(7.6)	(9.3)	(16.8)	(16.4)	(15.8)

Major Shareholders

Major Shareholders	%
Petronas	69.9
EPF	6.4
FY19 NAV/Share (RM)	5.96
FY19 Net Cash/Share (RM)	2.26

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- SETEL e-payment app targeted for nationwide rollout.** Petronas' SETEL e-payment solution has been made available at about 277 stations in the Klang Valley (2018: 100) and recorded about RM11m of transaction value in 1H19. According to the Petronas Group's disclosure, the app is targeted for nationwide usage by Dec 19.
- Large retail network prepared for targeted fuel subsidy rollout.** The targeted fuel subsidy for the B40 group of citizens could be finalised during the government's Cabinet meeting that will take place sometime in Aug-Sep 19. The mode of rollout is still unclear, but may involve cash reimbursements to the bank accounts of qualified B40 citizens, while the retail fuel prices charged to customers of non-B40 categories may be on a floating mechanism. PetDag believes it is well prepared to serve the new system, given that it has the largest retail station network in the country at >1,000 stations.
- High cash base conserved for multiple investment plans.** Management downplayed the potential for bumper special dividends, as PETD is conserving its high cash base (RM3.6b) for future plans. Aside from ramping up existing projects in the digital space (SETEL app), new partnerships and Kedai Mesra refurbishments, PETD may invest in new areas in the supply chain, including marine and energy bunkering in anticipation of the upcoming IMO2020 regulations.

EARNINGS REVISION/RISK

- Retain forecasts.** Although the volume growth is on track to our unchanged 5% assumption, we had reduced our forecasts earlier in anticipation of a weak 3Q due to oil price downtrend (inventory lag loss) and higher opex/depreciation base. Management is guiding to at least meet RM1b PBT target for 2019. (2018 RM1.18b). Our DPS forecast is maintained at RM0.73, a slight increase from 2018's RM0.70 and at 85% payout. In the worst-case scenario that 2019F PBT only reaches RM1b (implying net profit of only RM0.75b), we believe PETD can afford to maintain its DPS base by increasing its payout to 100%.

VALUATION/RECOMMENDATION

- Retain DCF-based target price at RM23.25.** Our target price implies 26x 2020F PE, and 3.1% dividend yield assuming a higher 85% payout from 75% (above the minimum 50% policy but in line with 5-year average of 85%).
- Retain HOLD.** Although its cash flow remains strong to support dividend obligations, and the share price retracement in the past two months has reflected the negative earnings risk, we do not see a re-rating as its business is clearly in a volatile period. At the same time, PETD is embarking on a high capex cycle (2019-21) to diversify its non-fuel income sources and digital initiatives. Unlike the previous cycle of RM0.35b-0.48b capex spending back in 2012-14, the current cycle may provide uncertain returns. We advise an entry level of RM21.00 for a safer dividend yield of 3.5%.

SHARE PRICE CATALYST

- Higher earnings and dividend payouts.** PetDag's cash balance forecast of RM2b-3b alone can sustain four years of annual DPS of RM0.70-0.75. If we assume PetDag pays out RM1.5b as special dividends, this may result in special DPS of RM1.50 (~6% yield). We are taking the view of a low likelihood of substantial special dividends given earnings volatility and high capex requirements.

SETEL E-PAYMENT APP



Source: Petronas Annual Report 2018



The first fuel e-payment solution in Malaysia that allows customers to purchase fuel, and eventually c-store items, directly from smartphones, eliminating the need to queue at the counter. It is now available at more than 250 PETRONAS stations within the Klang Valley and will be made available in all regions nationwide by December 2019.

VOLUMES BY SEGMENTS (FUEL-BASED INCOME)

Volumes (m litre)	2Q19	2Q18	yoy chg (%)	qoq chg (%)
Retail	~1,680	~1,560	+8	+4
Commercial	~1,810	~1,660	+9	+3
LPG	~410	~400	+3	-1
Lubricants	~13	~15.2	-15	+19
Total	~3,920	~3,650	+8	+3

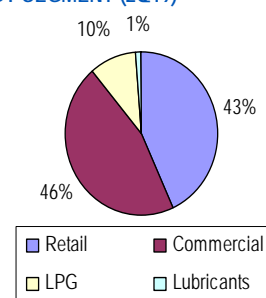
Source: PetDag, UOB Kay Hian

OPEX MOVEMENT (RM MIL)

Opex	2Q19	2Q18	yoy chg (%)	qoq chg (%)
Total	620.6	499.6	+24%	+6%

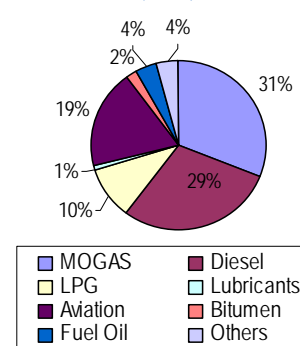
Source: PetDag, UOB Kay Hian

VOLUME BY SEGMENT (2019)



Source: PetDag, UOB Kay Hian

VOLUME BY PRODUCT (2Q19)



Source: PetDag, UOB Kay Hian

DCF VALUATION

	Current
Risk-free Rate	4.3%
Beta	0.7x
Risk premium	8.4%
Long-term growth	3.5%
EBITDA p.a.	RM1.6b-1.9b
Capex p.a.	RM388m-407m
Working capital p.a.	RM300m-930m
Target Price	RM23.25

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Net turnover	30,069	31,275	32,530	33,836
EBITDA	1,520	1,655	1,686	1,745
Deprec. & amort.	342	505	490	501
EBIT	1,178	1,150	1,196	1,243
Associate contributions	4	4	4	4
Net interest income/(expense)	(5)	(4)	(7)	(8)
Pre-tax profit	1,177	1,149	1,192	1,239
Tax	(316)	(287)	(298)	(310)
Minorities	(12)	(5)	(5)	(5)
Net profit	850	876	889	924
Net profit (adj.)	824	857	889	924

CASH FLOW

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Operating	82	1,524	1,112	1,142
Pre-tax profit	1,177	1,149	1,192	1,239
Tax	316	287	298	310
Deprec. & amort.	341	505	519	531
Associates	4	4	4	4
Working capital changes	(928)	161	(298)	(315)
Other operating cashflows	(828)	(582)	(603)	(626)
Investing	(291)	(270)	(290)	(229)
Capex (growth)	(375)	(388)	(407)	(346)
Investments	(14)	(14)	(14)	(14)
Proceeds from sale of assets	(34)	0	0	0
Others	132	132	132	132
Financing	(960)	(853)	(759)	(747)
Dividend payments	(934)	(729)	(756)	(785)
Loan repayment	(26)	(124)	(3)	38
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	(1,170)	401	63	166
Beginning cash & cash equivalent	3,358	2,188	2,589	2,652
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	2,188	2,589	2,652	2,818

BALANCE SHEET

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Fixed assets	3,336	4,048	3,847	3,574
Other LT assets	511	19	24	24
Cash/ST investment	2,188	2,589	2,652	2,818
Other current assets	3,136	3,235	3,596	3,991
Total assets	9,171	9,890	10,119	10,407
ST debt	25	110	50	50
Other current liabilities	3,025	3,420	3,498	3,588
LT debt	30	236	308	362
Other LT liabilities	154	154	154	154
Shareholders' equity	5,897	5,926	6,059	6,198
Minority interest	40	45	50	55
Total liabilities & equity	9,171	9,890	10,119	10,407

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	5.1	5.3	5.2	5.2
Pre-tax margin	3.9	3.7	3.7	3.7
Net margin	2.8	2.8	2.7	2.7
ROA	9.0	9.2	8.9	9.0
ROE	14.3	14.8	14.8	15.1
Growth				
Turnover	9.7	4.0	4.0	4.0
EBITDA	(15.5)	8.9	1.9	3.5
Pre-tax profit	(18.1)	(2.3)	3.7	3.9
Net profit	(21.5)	3.1	1.5	3.9
Net profit (adj.)	(24.7)	4.1	3.7	3.9
EPS	(24.7)	4.1	3.7	3.9
Leverage				
Debt to total capital	0.9	5.5	5.5	6.2
Debt to equity	0.9	5.8	5.9	6.7
Net debt/(cash) to equity	(36.2)	(37.8)	(37.9)	(38.8)
Interest cover (x)	334.2	402.5	227.9	210.6

TRADERS' CORNER



Source: BursaStation Professional

MKH Bhd (MKH MK)

Technical BUY with +17.8% potential return

Last price: RM1.18

Target price: RM1.29, RM1.39

Support: RM1.11

Stop-loss: RM1.09

BUY with a target price of RM1.39 and stop-loss at RM1.09. On yesterday's activity, the stock price managed to close above the BBI line and we expect MKH will continue on the upward movement hereafter. This bullish movement is supported by the MACD, which is currently on a bullish crossover. This is also consistent with the uptick in the Stochastic, which suggests stronger buying momentum ahead. We peg our targets at RM1.29 and RM1.39 in the near term.

Expected Timeframe: 2 weeks to 2 months



Source: BursaStation Professional

Notion VTEC (NVB MK)

Technical BUY with 28.6% potential return

Last price: RM0.525

Target price: RM0.61, RM0.675

Support: RM0.50

Stop-loss: RM0.495

BUY with a target price of RM0.675 and stop-loss at RM0.495. A successful closing above the BBI line on the back of higher trading volumes points to improving sentiment as NVB looks set to resume the uptrend. An uptick in the RSI suggests a strong momentum to push share price higher in the near term. Additionally, the MACD and Stochastics are currently on a bullish crossover, indicating a stronger uptrend ahead. We peg our upside targets at RM0.61 and RM0.675.

Expected Timeframe: 2 weeks to 2 months

ANALYST

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