Petronas Dagangan (PETD MK)

2Q26: Commercial Profit Recovery Shines

Highlights

- **1H26 core profit is above expectations,** with annualised margin/litre of 8 sen superior to the 5 sen fixed under the APM. The commercial segment recorded substantial profit gains, benefitting from a steeper product price downtrend vs 2022 (substantial gain was recognised only in 4Q22). We also deduced that PETD temporarily gained some market share to compensate for loss volumes from peers, as the main goal is to safeguard the nation's fuel security. These more than offset weak commercial volumes. We observe no major cash flow risk, and continue to like PetDag's defensive proposition and its important role as the nation's domestic fuel anchor. Retain BUY with target price rolled over to RM24.20.

2Q26 Results

Year to 31 Dec (RMm)	2Q26	% chg	% chg	1H26	% chg	Comments
Revenue	16,091.1	44.3	77.5	27,241.7	50.0	2Q26/1H26 volume growth yoy: +1%/+4%; qoq:0%
-Retail	8,937.7	41.1	177.9	15,272.8	59.9	2Q26/1H26 volume growth yoy: +7%/+7%; qoq:+3%
-Commercial	7,088.4	49.1	90.2	11,841.7	39.7	2Q26/1H26 volume growth yoy: -6%/-1%; qoq:-4%
-Convenience	65.0	4.3	(2.0)	127.3	(1.0)	Opex:RM875m (1Q26/ 2Q25: RM818m/RM800m)
EBIT	524.5	36.0	32.0	910.2	16.2	EBITDA: RM598m (1Q26/ 2Q25: RM448m/RM466m)
-Retail	36.8	(88.7)	19.2	362.2	1.7	Brent price downtrend throughout a majority of 2Q26
-Commercial	454.3	-	35.3	478.7	32.9	Hence, gains related to the lag in contractual price for
-Convenience	33.4	(7.2)	8.6	69.4	4.0	Jet fuel may appear sharper and quicker vs 2022 case
Finance cost	(2.5)	(6.8)	(26.3)	(5.2)	(24.9)	A second interim DPS of RM0.25 was announced
Associates	9.1	47.4	518.9	15.3	126.2	2Q26 exceptional items (EI):
Pre-tax profit	531.1	36.4	42.1	920.4	17.5	- RM18.3m net loss on asset disposal
Income tax	(137.1)	40.0	35.8	(235.0)	12.4	- RM1m net forex loss
Net profit	387.2	36.8	45.8	670.2	19.9	- RM2.7m inventory writebacks
Core profit	403.8	47.6	49.6	677.4	20.2	Annualised margin/litre at 8 sen vs 6 sen in 2025

Source: Petronas Dagangan

Analysis

- **1H26 profit above expectations,** comprising 61%/58% of our/consensus forecasts respectively, and the implied annualised margin of 8 sen/litre is far superior vs OilCo's margin of 5 sen as per Automatic Pricing Mechanism (APM). We earlier expected commercial earnings to mirror the trend during Russia-Ukraine crisis, when the jet fuel price downtrend extended throughout 2022 and Petronas Dagangan (PetDag) recognised a substantial profit gain in 4Q22. The jet fuel price downtrend from the US$200/bbl peak in Mar 26 was much steeper and occurred early in 2Q26 itself.
- **Price trends more than offset weaker volumes.** The 6% contraction in 2Q26 commercial volume was primarily due to jet fuel, in tandem with lower flight frequency. Fortunately, retail volumes were strong from diesel and Mogas, boosted by the successful integration of the BUDI95 subsidy with the Setel app. The app, which offers convenience to pay for fuel directly from the car seat, has seen its userbase expand by 31% from 8m in early-25 to 11m by end-25.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	37,951	38,269	38,740	40,746	42,865
EBITDA	1,920	1,847	2,149	2,218	2,288
Operating profit	1,394	1,357	1,604	1,641	1,678
Net profit (rep./act.)	950	925	1,196	1,224	1,251
Net profit (adj.)	950	925	1,196	1,224	1,251
EPS (x)	95.7	93.1	120.4	123.2	126.0
PE (x)	20.9	21.5	16.6	16.2	15.9
P/B (x)	3.3	3.3	3.3	3.2	3.1
EV/EBITDA (x)	11.1	10.2	10.0	9.7	9.4
Dividend yield (%)	4.8	4.9	5.3	5.4	5.5
Net margin (%)	2.5	2.4	3.1	3.0	2.9
Net debt/(cash) to equity (%)	-	-	-	-	-
Consensus net profit	-	-	1,152	1,178	1,185
UOBKH/Consensus (x)	-	-	1.04	1.04	1.05

Source: Petronas Dagangan Berhad, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	RM20.00
Target Price	RM24.20
Upside	+21.0%
Previous TP	RM23.20

Stock Data

Sector	Energy
Bloomberg ticker	PETD MK
Shares issued (m)	993.5
Market cap (RMm)	19,869.0
Market cap (US$m)	4,918.0
3-mth avg daily t'over (US$m)	1.25

Price Performance (%

52-week high/low				RM23.50/RM17.12
1mth	3mth	6mth	1yr	YTD
3.5	10.1	(6.5)	(12.3)	0.2

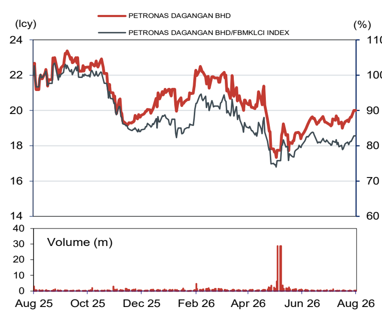
Major Shareholders (%)

Petronas	63.9
EPF	14.0

Balance Sheet Metrics

FY26 NAV/Share (RM)	RM6.15
FY26 Net Debt/Share (RM)	n.m.

Price Chart



Source: Bloomberg

Company Description

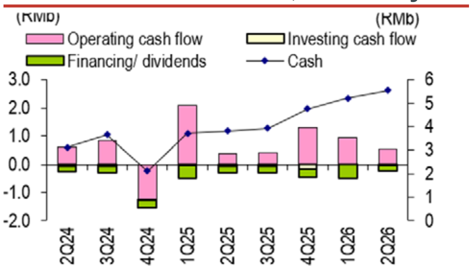
Petronas Dagangan is the principal domestic marketing arm of Petronas for downstream products, in retail, commercial, liquefied petroleum gas and lubricants. Retail fuel economics were largely driven by the Automatic Pricing Mechanism.

- **Addressing the 50% market share...** This was revealed in tandem with the government's announcements that PetDag had assured that national fuel security is secured until end-26. We highlight that this 50% refers to Malaysia's total domestic (retail and commercial) fuel requirement being accounted by Petronas through its marketing subsidiary PetDag. Also, if we use fuel station network as a gauge for retail-only segment, PetDag's market share may be under 30% against the nationwide fuel station network of 3,600.
- …**should take into account Petronas' superior supply chain network**. When analysing fuel volume data, taking into account PetDag's 2025 sales volume of 17.1b litres (2024: 16.8b) against Malaysia's 2025 domestic fuel demand of about 44b litres (based on 0.75m boepd), this implies approximate market share of 39%. Shell Malaysia's data was unknown, while Petron Malaysia Refining & Marketing Berhad (PMRMB) recorded total sales volume of 5.8b litres in 2025. However, we believe there are two rationales. Firstly, the context of "control" or having a superior, enterprise/ integrated local supply chain network is the key competitive advantage and is especially scalable for commercial business. We see Petronas continues to value this by absorbing full ownership of strategic facilities like PRefChem.
- **The second reason is likely a temporary "gain" in volumes over peers.** All fuel station operators have a joint cooperation to ensure the nation's fuel security, but Petronas is still the designated national anchor. PMRMB reported a 25% lower 1Q26 volume, as its Port Dickson refinery remains impaired since the critical product jetty was damaged by Cyclone Senyar in Nov 25. The refinery resumed partial operations in May 26, and will likely remain so until a replacement jetty gets commissioned in 1Q27. Petron had been tapping into fuel imports, but this alternative supply route is not always reliable. Based on these reasonings, we deduce Petronas can assist Petron on jet fuel supply to maintain its fuel security demand.

Valuation/Recommendation

- **Retain BUY with target price of RM24.20 (from RM23.20),** rolled over to a 2027 horizon. This implies 21x 2026F PE and dividend yield of 4.3% respectively. We believe PetDag offers a defensive position via its important role to safeguard national fuel security, and has a strong balance sheet that is well positioned to weather any uncertainties. There also appears to be no major cash flow risk despite nationwide concerns over the government's ballooning fuel subsidy burden, as subsidy receivables declined from RM1.3b in 1Q26 to RM0.7b currently. The long-term maturity of its non-fuel income (with future plans to include strategic hybrid super stations, and further retail penetration via Mesra and Petronas Concept Shops) should also provide more room to expand its profit margins/litre.

Cash Flow Movements, Quarterly



Source: PetDag

Fuel Retail Operator Analysis

Oil company	Stations	New	EV sites	Google Rating	Reviews	Positive
Petronas	>1,000	+10	>200	4.38	4,004	74%
Shell	>950	+20	>13	4.04	1,568	77%
Petron	>800	_+50	4	4.76	5,034	88%
Caltex	>450	Na	3	4.10	927	85$
BHP Petrol	>400	+30	8	4.22	2,693	76%

Source: Berkshire Media

Environmental, Social, Governance (ESG) Updates

Environmental
• Green Energy for its fuel stations. Installing solar panels and collaborating with GreenTech to provide ChargeEV facilities. • Promoting green fuel and circular economy. Early adopter of B100 Biodiesel fuel. Fuel stations are being used as collection platforms to collect Used Cooking Oil (UCO) as feedstock for Sustainable Aviation Fuel (SAF).
Social
• Support enterprises as station dealers or Kedai Mesra suppliers.
Governance
• 6 out of 10 board members are independent.

Source: UOB Kay Hian

Jet Fuel Price Movements vs Dated Brent Crude Prices In US$/bbl

Source: International Air Transport Association (IATA)Jet Fuel Monitor

Profit & loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	38,269	38,740	40,746	42,865
EBITDA	1,847	2,149	2,218	2,288
Deprec. & amort.	487	524	550	576
EBIT	1,360	1,625	1,668	1,712
Total other non-op. income	(5)	(5)	(5)	(5)
Associate contributions	13	13	13	13
Net interest income/(expense)	(16)	(34)	(40)	(47)
Pre-tax profit	1,357	1,604	1,641	1,678
Tax	(394	(401)	(410)	(420)
Minorities	(37)	(7)	(7	(7)
Net profit	925	1,196	1,224	1,251
Net profit (adj.)	925	1,196	1,224	1,251

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	4,117	5,025	5,148	5,244
Other LT assets	76	2	2	2
Cash/ST investment	4,755	2,601	2,678	2,746
Other current assets	2,023	3,582	3,204	2,824
Total assets	11,084	11,299	11,177	11,018
ST debt	74	50	50	50
Other current liabilities	4,639	4,088	3,796	3,463
LT debt	89	593	702	811
Other LT liabilities	49	49	49	49
Shareholders' equity	5,967	6,111	6,258	6,408
Minority interest	84	91	98	105
Total liabilities & equity	11,084	11,299	11,177	11,018

Cash flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	4,179	(558)	1,697	1,712
Pre-tax profit	1,357	1,604	1,641	1,678
Tax	394	401	410	420
Other operating cashflows	487	524	550	576
Investing	(297)	(493)	(493)	(493)
Capex (growth)	(530)	(530)	(530)	(530)
Others	(14)	(14)	(14)	(14)
Financing	(1,241)	(1,103)	(1,127)	(1,152)
Others/interest paid	(1,103)	(1,053)	(1,077)	(1,101)
Net cash inflow (outflow)	2,641	(2,154)	77	67
Beginning cash & cash equivalent	2,114	4,755	2,601	2,678
Ending cash & cash equivalent	4,755	2,601	2,678	2,746

Key Metric

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	4.8	5.5	5.4	5.3
Pre-tax margin	3.6	4.2	4.1	4.0
Net margin	2.4	3.1	3.0	2.9
ROA	9.0	11.6	11.9	12.3
ROE	16.4	16.7	17.2	17.6
Growth (% yoy)				
Turnover	0.8	1.2	5.2	5.2
EBITDA	(3.8)	16.3	3.2	3.2
Pre-tax profit	30.5	(11.1)	2.2	2.2
Net profit	(2.6)	29.3	2.3	2.3
Net profit (adj.)	(2.6)	29.3	2.3	2.3
EPS	(2.6)	29.3	2.3	2.3
Leverage				
Debt to total capital	2.7	10.4	11.8	13.2
Debt to equity	2.7	10.5	12.0	13.4
Net debt/(cash) to equity	(23.5)	(47.3)	(48.8)	(50.2)
Interest cover (x)	116.3	64.1	55.3	48.9