GROUP FINANCIAL REVIEW

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UPHOLDING FINANCIAL STRENGTH THROUGH OPERATIONAL EXCELLENCE AND STRATEGIC GROWTH

Dear Valued Shareholders,

In 2023, PGB demonstrated resilience to record a strong financial performance despite continuing to face external headwinds such as elevated fuel gas prices and a weakening Ringgit. Our steadfast commitment to operational excellence and delivering enhanced cost efficiencies played a vital role in mitigating the impact of these challenges.

DELIVERING COMMENDABLE FINANCIAL RESULTS

Group revenue increased by 4.6% or RM285.25 million, reaching RM6,445.42 million in 2023. This notable uptick was predominantly driven by the Utilities segment, which benefited from higher product prices in tandem with elevated fuel gas price due to an upward revision of Imbalance Cost Pass-Through (ICPT) tariff for the year.

> The Group recorded a strong financial performance for the full year 2023 on the back of continued operational excellence and further supported by stronger margin from Utilities segment.
>
> **SHAHRUL AZHAM SUKAIMAN**
> Chief Financial Officer

However, gross profit experienced a decline of 2.6% or RM60.68 million during the year at RM2,287.01 million, with the contributions of our Gas Processing and Regasification segments contracting of elevated operating expenses, particularly depreciation costs. This was also compounded by lower revenue resulting from lower transportation and regasification tariffs under Regulatory Period 2 (RP2). The impact was partially offset by increased contributions from the Utilities segment, which saw higher revenue and enhanced margins in line with higher product prices and favourable ICPT tariff movement.

Our PBT meanwhile, improved by 5.1% or RM116.65 million, on the back of higher share of profit from joint venture companies, lower financing costs and lower impact from unfavourable foreign exchange movement following early settlement of a USD lease liability.

Profit for the period of RM1,901.04 million also increased in tandem with our higher PBT, rising by 8.1% or RM142.57 million. This upturn was further amplified by reduced tax expenses, most notably the absence of the Prosperity Tax imposed in FY2022.

Correspondingly, our EBITDA has increased by 0.7% or RM22.63 million to RM3,267.15 million in 2023, while earnings per share increased by 10.6%, indicative of the higher profits attributable to shareholders of the Company. Total assets declined marginally by 1.9% or RM369.12 million to RM19.32 billion, with cash and cash equivalents impacted by our early settlement of USD denominated long-term contract.

Backed by our improved performance over 2022, the Group has distributed four (4) single-tier interim dividends for the financial year 2023, amounting to 72.0 sen per share and surpassing RM1.42 billion. This equates to a 78.3% payout ratio of the Group's net earnings in 2023, reaffirming our dedication to maintaining a robust level of returns to shareholders even as we navigate a challenging economic climate.

RESPONDING TO MARKET DYNAMICS

In 2023, we encountered familiar market challenges reminiscent of the previous year, with elevated gas prices impacting our costs for internal gas consumption and a weakening Ringgit increasing our exposure to currency exchange losses.

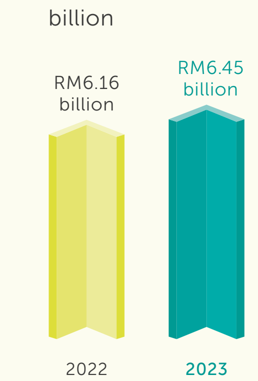
While gas prices eased early in the year, it remained above pre-2022 levels as geopolitical conflicts continue to place upward pressure on fuel costs. Although higher gas prices result in higher Utilities revenue from customers, electricity tariffs are set at par with TNB tariff to remain competitive. Additionally, with operating cost exposed to gas price fluctuations, our Utilities segment thus faces the most impact.

Despite the upward revision of ICPT tariff benefiting our utilities segment, internal gas consumption costs persisted at an elevated level across the Group. Mitigating this required consistent optimisation of our consumption of natural gas, coupled with simultaneous efforts to enhance cost efficiency in services and materials.

We also had to be proactive in addressing the freefalling Ringgit against the US dollar, which reached its lowest point in 25 years due to rising risk aversion amid escalating turmoil in the Middle East. Our successful early settlement of USD-denominated CAPEX hire fees, amounting to USD233.61 million, significantly reduced our exposure to forex movements, resulting in increased profits for the year and sustain dividend payouts to shareholders.

GROUP REVENUE

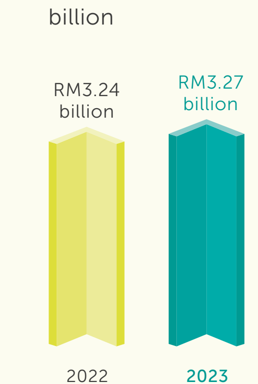
RM6.45 billion



increased by **4.6%**

EBITDA

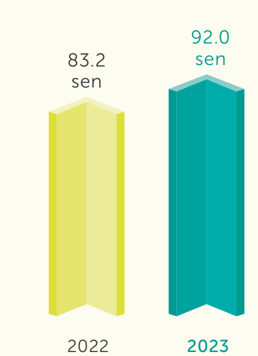
RM3.27 billion



increased by **0.7%**

EARNINGS PER SHARE

92.0 sen



increased by **10.6%**

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Early settlement of our long-term USD lease liability for floating storage units at Regasification Terminal Sungai Udang has served to significantly mitigate our forex exposure and increase profitability in 2023.

Moving forward, we will continue to mitigate the impact of upward pressures on operating costs by enhancing our commitment to cost discipline and internal efficiencies, leveraging on Group-wide experience and the expertise of our on-ground teams to uncover new solutions to minimise internal gas consumption and optimise operating costs.

SEGMENTAL PERFORMANCE AND OUTLOOK

In 2023, the Group's two regulated business segments i.e., our Gas Transportation and Regasification businesses, moved into the Regulatory Period 2 (RP2), which will run until 2025. Gas transportation revenue decreased by 2.1% or RM24.29 million as a result of lower RP2 transportation tariff, despite being cushioned by the introduction of the new compression tariff effective 1 January 2023. Profit was however comparable at RM562.22 million on lower revenue was partially offset by lower operating expenses, mainly due to lower internal gas consumption. Similarly, revenue from the Regasification segment also contracted by 4.2% in line with lower RP2 tariff, while overall profit was further impacted by depreciation expenses in tandem with higher capital expenditure.

It should be noted that the introduction of new revenue adjustments in RP2 will enable the recovery of certain costs related to asset value adjustments, foreign exchange losses and escalating Internal Gas Consumption prices, which will be reflected in the subsequent financial period.

We nevertheless remain wary of escalating operational costs and will actively engage with regulators to align expectations and enhance the financial positioning of our Gas Transportation and Regasification segments.

In the coming year, the newly completed 10km gas pipeline to Banting is anticipated to grow revenue in the Gas Transportation segment, while the Regasification segment has sanctioned one new project – a third LNG storage at Pengerang which is expected to contribute positively to the Group's annual PBT upon realisation.

As the Gas Processing segment concluded the final year of the Second Term of the GPA, revenue witnessed a 1.8% increase, amounting to RM31.41 million, primarily driven by the attainment of higher performance incentives. However, profit margin dipped on the back of elevated operating expenses, particularly in the form of increased depreciation expenses following the completion of several capital projects.

The segment will move into the 3rd Term of the GPA next year, which runs from 2024 to 2028. With the five-year contract fixing the segment's base revenue based on the charge for reservation, our focus remains on optimising profitability by achieving the operational performance criteria to qualify for increased incentives.

In the Utilities segment, revenue demonstrated robust growth, surging by 18.4% or RM337.95 million mainly attributable to higher products prices in tandem with elevated fuel gas price supported by higher electricity tariff in line with upward revision of ICPT. The ICPT tariff stood at 20 sen/kwh in the initial six months of 2023 and 17 sen/kwh in the second half of the year, averaging 18.5 sen/kwh over the year - a substantial increase from the 3 sen/kwh average in 2022. Coupled with improved terms in contract renewals, the segment's profit experienced a significant boost, rising by 106.1% or RM149.67 million during the year.

In a favourable development that will support Utilities revenue in the coming year, the Suruhanjaya Tenaga announced in December that the current ICPT tariff will be maintained for the first half of 2024. Segment revenue will be further bolstered in line with the successful commissioning of a new facility at Utility Kertih (UK) in October 2023 to supply utilities to PCC Oxyalkylates Malaysia Sdn. Bhd. (PCCOM). In addition, a newly sanctioned Air Separation Unit (ASU) project at Pengerang, to harness cold energy utilisation from LNG at RGTP, is expected to contribute positively to the segment upon operation.

GAS TRANSPORTATION SEGMENT

Revenue
RM1,144.1 million

GAS PROCESSING SEGMENT

Revenue
RM1,778.2 million

REGASIFICATION SEGMENT

Revenue
RM1,352.3 million

UTILITIES SEGMENT

Revenue
RM2,170.8 million

SAFEGUARDING OUR FINANCIAL HEALTH

Throughout 2023, the Group relied on established strategies and adhered to the principles outlined in our Strategic Agenda to fortify our financial well-being.

Increasing Cost Efficiencies

The impact of economic headwinds and rising operational expenses across the Group in 2023 has prompted intensified efforts to optimise costs and bolster fiscal discipline across the Group. While our business model benefits from revenue stability in the form of long-term contracts, stringent measures are essential to control expenditure and mitigate costs that could compromise our margins.

A steadfast culture of cost discipline continues to be instilled in our day-to-day operations, leaving no avenue unexplored in the pursuit of optimising consumption and enhancing operational efficiencies. Over the past year, we focused on enhancing our preventive maintenance framework with the objective of extending the intervals for plant turnaround maintenance. This enables us to save on associated costs while maintaining robust safeguards against breakdowns and service disruptions that could otherwise escalate operating expenses.

We have simultaneously leveraged on digital transformation initiatives to achieve greater cost optimisation. The Unified Operational Centre (UOC) established in Segamat in 2022 utilises cutting-edge machine learning and technology to enhance the supply chain of our Gas Transportation and Regasification products. Since its inception, efficiencies from the UOC have generated an estimated RM11 million in value, while maintaining our Operational Performance at a world-class benchmark of 99.9% reliability.

We continue to make targeted investments to our infrastructure to achieve our objectives, with a notable development in 2023 being the installation of new pipeline meters with greater accuracy in measuring utilisation, thereby optimising our cost per unit.

In 2023, PGB recorded a total capital expenditure (CAPEX) of RM1.22 billion. Looking ahead, our commitment remains a steadfast in concentrating efforts on advancing and implementing viable growth plans to secure a consistent level of returns of shareholders.

Optimised Capital and Cash Management

In a challenging operational landscape marked by escalating costs impacting our profitability, the Group's rigorous approach to adeptly managing its capital and fostering fiscal discipline remains pivotal in enhancing our financial resilience. We continually assess our funding requirements and financing strategies, aiming to optimise the capital structure and cost of capital as we stay mindful of adverse market conditions affecting both our regulated and unregulated businesses.

In 2023, the Group made significant progress in successfully negotiated early settlement of the USD-denominated CAPEX Hire fee for the provision of Floating Storage Units at Regasification Terminal Sungai Udang. This strategic prepayment has substantially reduced of the Group's foreign currency exposure, improving our earnings stability going forward.

During the year under review, the Group continued to utilise its RM1.30 billion financing facility with RHB Islamic Bank Berhad to fund its growth in the Gas Transportation business. As at 31 December 2023, the total amount drawn down increased to RM1.17 billion.

Gas Processing Santong

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As of 31 December 2023, the Group's gearing stood at 18.6% (inclusive of arrangements accounted for as leases under MFRS). With the concurrent generation of robust net cash inflows, our financial position remains robust, positioning us favourably to embark on new projects as opportunities arise. The Group is closely monitoring its total debt to total asset ratio to maintain a prudent level that optimises our capital structure and ensures ongoing compliance with covenants under our agreements.

The Group's cash and cash equivalents are held predominantly in In-House Accounts managed by PETRONAS Integrated Financial Shared Service Centre to enable more efficient cash management. At the conclusion of the financial year, cash and cash equivalents amounted to RM3.03 billion, marginally reduced owing to the early settlement of the aforementioned USD-denominated lease liability, but nevertheless retaining the Group's robust liquidity position.

The Group's fund investments activities are mostly managed by PETRONAS' Group Treasury, and comprises primarily of money market placements. These investments are managed in accordance with existing policies and guidelines that define the parameters within which the investment activities shall be undertaken in order to achieve the Group's investment objective of preserving capital and generating optimal returns within allowable risk parameters.

We will uphold a prudent capital management approach that strikes the right balance between investing to foster business growth, ensuring financial stability and distributing robust returns to our shareholders.

The Group remains committed to its dividend policy that stipulates a payout ratio of around 50% of the consolidated profit after tax and non-controlling interests, and has continued to surpass this threshold. Backed by our robust operational and financial performance, our payout ratios have consistently exceeded 70% over the past five years, underscoring our commitment to reward shareholder loyalty. In the coming year, the Group remains committed to ensuring a sustained level of returns to shareholders despite facing a more challenging operating environment.

Looking ahead, our capital management approach will remain prudent, as we strike the right balance between investing to foster business growth, ensuring continuous financial prudence and distributing robust returns to our shareholders.

PROACTIVELY MANAGING OUR FINANCIAL RISKS

As we confront persistent market volatility characterised by currency fluctuations and elevated fuel gas prices, our focus remains on mitigating the adverse effects of these and other factors. This involves adeptly adapting to market conditions to reduce our exposure, integrating strategic processes into our operations and enhancing our engagement with regulators to negotiate favourable contractual and regulatory terms.

Our prudent financial governance remains guided by the PETRONAS Financial Policy (PFP), supported by the PETRONAS Financial Standards (PFS), which outlines the principles and requirements that promote effective implementation of financial management including financial risk management practices. We constantly monitor, assess and review our risk profile to ensure robust risk management practices remain a fundamental component of our business.

Through the proactive management of the following risks, we aim to minimise the impact of external factors on our bottom line.

Market Risk

During the year under review, the Group faced market risks primarily related to foreign currency exchange rates and increasing costs for internal gas consumption driven by ongoing geopolitical instability.

In 2023, we demonstrated considerable agility and forward thinking to swiftly mitigate a significant portion of our exposure to currency market fluctuations by negotiating favourable terms for the early settlement of our long-term USD contract for floating storage units at RGTSU.

In further managing and counteracting the impact of rising gas costs, the Group has amplified its commitment to projects and initiatives aimed at optimising internal gas consumption and other operating expenses, leveraging on the expertise and experience of our on-ground teams to seek new solutions.

To facilitate hedging activities that address transactional exposure in the immediate term, the Group relies on the PETRONAS Group Treasury Division, which possesses in-house expertise in such transactions. All transactions entered into by the Group are non-speculative and comply with the PETRONAS Group-wide policies and guidelines.

Gas Processing Santong

Credit Risk

The Group has continued to uphold stringent credit management processes and procedures, encompassing customer credit assessments, deliberations on credit limits and the establishment of collateral requirements to mitigate potential losses. These measures are in place to ensure our preparedness to accommodate new customers, including those arising from our growth projects, as well as potential new shippers and capacity users under Third Party Access.

Liquidity Risk

The Group's liquidity position remains robust, with substantial cash reserves and sufficient credit headroom. We uphold rigorous monitoring of both receivables and payables to further mitigate potential liquidity risk. Consequently, we maintain a strong liquidity position that empowers the Group to assuredly navigate the ongoing uncertain economic environment while remaining poised to capitalise on potential opportunities.

MOVING FORWARD

I believe that external forces notwithstanding, the fundamentals of our business and industry are in good health. With revenue steady due to stable long-term contracts, our success and profitability moving forward will rest on our ability to control and optimise our costs, while effectively mitigating our exposure to external market and geopolitical forces.

Guided by PGB's Strategic Agenda, our focus will remain on sustaining our operational, commercial and project excellence. Our ability to maintain plant reliability and equipment effectiveness is vital for us to reap the benefits of regulatory or contractual incentives tied to our performance. We must also develop stronger collaboration with our regulators and business partners, fostering a deeper mutual understanding of cost and operational impacts to maximise the value gained from the contracts and deals that we have entered into.

Despite the potential for market fluctuations, we remain optimistic of achieving healthy results in the upcoming year. Leveraging our expertise, committed team and financial strength, we remain focused on effectively mitigating external factors beyond our control while simultaneously unlocking greater internal efficiencies and seizing viable growth opportunities. We remain well-positioned to provide sustainable returns to our stakeholders over the long term.

SHAHRUL AZHAM SUKAIMAN
Chief Financial Officer