

PETRONAS Gas Berhad

Q1 2023 Analyst Briefing



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Corporate Participants

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

Izan Hajar Ishak, PETRONAS Gas Berhad - Head of IR

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

Conference Call Participants

Anshool Singhi, JPMorgan Chase & Co, Research Division - Research Analyst

Daniel Wong, Hong Leong Investment Bank Berhad, Research Division - Research Analyst

Jun Sian Tan, AmInvestment Bank Berhad, Research Division - Research Analyst

Ken Wui Koh, Macquarie Research - Analyst

PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the PETRONAS Gas Berhad Analyst Briefing for Quarter Ended 31st March 2023.

(Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Izan. Please go ahead.

Izan Hajar Ishak, PETRONAS Gas Berhad - Head of IR

Thank you, operator. Assalamualaikum and Good evening, everyone. Thank you for joining our session today for PETRONAS Gas Berhad's Analyst Briefing for Quarter Ended 31st March 2023. I'm Izan from Investor Relations. With here from PGB, we have Encik Abdul Aziz Othman, Managing Director and CEO; Shahrul Azham Sukaiman, CFO; and Hisham Maaulot, Head of Business Development and Commercial.

We will start the briefing with key highlights, business updates, financial performance to be followed by Q&A. For reference, our financial results is available at both Bursa Malaysia and PGB website. The presentation material is available at our website and also at the host platform. Without further ado, I hand over to Mr. Aziz for the highlights. Aziz?

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

Thank you, Izan. Hello. Assalamualaikum, good evening, everyone. Again, thank you for joining us today. Let us start with an overview of the business as well as external environment that we are operating in. After more than 3 years since the initial outbreak, have a very good news on May 6, 2023, the World Health Organization, WHO has declared that COVID-19 is no longer global health emergency.

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

So obviously, because of that, we expect the population to gradually, if not already getting into the normal life. And of course, with that business activities which is expected to increase in line with consumer demand. The Malaysian GDP for 2023 was subsequently revised upward to 4.2% to reflect better than expected economy of expansion. Based on the data released by the department of statistics of Malaysia, the Services Producer Price Index, SPPI rose 3.4% in quarter 1 2023 as most sub-sectors recorded an increase of prices during the quarter.

So the SPPI with that the increased cost of doing business faced by many companies at the moment, potentially further driving down profitability. For us, because of the opening up of the world, we will increase our maintenance activities for the year. Obviously in 2020, 2021 and to a certain extent in 2022, our activities were kind of lower than what we have done before because of the constraints brought back by the pandemic. Now the market out there is very volatile.

First and foremost what has really impacted us the most is the gas price, which has seen substantial increase while at the same time, the global inflation has actually greatly affected the forex movement. In quarter 1 2023, the Malaysia Reference Price, the MRP reached at peak of MYR 58 per MMBtu. Nevertheless, we expect it to taper a little bit in the following quarters of this year.

At the same time, I mentioned about the SPPI, the trend we expect to increase. And because of that, we expect our operational and maintenance spending to see an increasing trend also due to the cost as well as mentioned before, that we are starting to perform more activities. In the near term, the MRP and the overall cost of the business are expected to remain elevated, higher than the preceding years.

Nevertheless, our operation, we expect it to continue to be stable, which would mean that it will translate into steady revenue throughout the quarter, although profit would show greater degree of fluctuation due to the high cost environment.

Now with that, let me go into the key highlights for the quarter. Again, we sustained our operational performance in quarter 1 2023, leveraging on obviously investment that we have made on digitalization as well as capability of our people.

Our digital initiative has enabled us to manage our plant operation better. For example, the implementation of predictive analytics have helped to improve plant monitoring and maintenance planning, resulting in the less unplanned shutdown. Our people, on the other hand has been equipped with proper tools and training plus ensuring PGB has the right talent for the job. These are the 2 key factors in running our plant as well as other assets well.

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

On the financial side, revenue for quarter 1 2023 was higher than the same quarter in 2022. This is despite the lower RP2 tariffs for our regulated business. And the higher revenue was mainly due to higher revenue from the Utilities segment, of course, on the higher product price due to the pass-through from the higher fuel gas that I mentioned just now. At the same time, while we enjoy higher revenue, the higher gas price at the Utilities has also impacted the cost of -- for the product, against volatility. So this has led to reduce PGB's gross profit margin to 33%, evidently lower than our normal range between 40% to 50%.

Despite all that, we have a healthy balance of cash to support the implementation of current projects with some headroom for new projects or other value and hitting opportunities. So with that, the board has declared an interim dividend for the quarter at MYR 0.16 per share, which is similar to quarter 1 2022.

Looking at the financials. Comparing quarter 1 2023 with quarter [one] (corrected by company after the call) 2022. Group revenues stood at MYR 1.67 billion, an increase of 15% mainly contributed by higher revenue from Utilities segment in line with the higher product prices. Gross profit was at MYR 547 million, lower by 11%, again due to the higher operating expenses, mainly fuel gas, the internal gas consumption and depreciation expenses. Yes, just to note that the fuel gas and the internal gas consumption PGB pay is at market value linked to MRP.

Profit after tax showed a 2% increase due to higher interest income from fund investment, higher share of profit from joint venture companies and lower tax expense. The tax expense in quarter 1 2022 was higher due to the imposition of Prosperity Tax at that time. EBITDA was lower by 4%, in line with the gross profit movement. Earnings per share increased by 3%, reflecting higher profit as attributable to shareholders of the company. First interim dividend of MYR 0.16 per ordinary share was announced, as I mentioned, similar to the same quarter last year.

Later on, our CFO, will provide the details of the financial performance

Moving on to the business update, starting with Gas Processing. Operation at our gas processing plant continued to operate at a world-class level. We consistently match the reservation charge requirement as stipulated in the Gas Processing Agreement.

This business segment continues to operate in a steady manner where the OEE was almost 100% for both ethane and methane. Predictive analytics as I mentioned, as part of our digital initiative has led to higher level of efficiencies, resulting in MYR 39 million of performance incentive achieved in the quarter.

On the projects, the TCOT off-gas rerouting project is slightly behind schedule due to delay in compressor fabrication and instrument equipment work. This is attributed to disruption in the supply chain as business activities surge in the recent quarters. Regardless, the slight delay has minimal impact to us.

On the GPA, we have started the third term GPA negotiation with PETRONAS. And of course, we aim to gain a fair key terms to ensure that we have a fair return on our assets amidst the challenging environment that I have mentioned.

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

Next is the Gas Transportation. The group pipeline network sustained close to 100% reliability during the quarter under the year. Average sales gas delivery was more than 2.2 billion standard cubic feet per day, higher than previous quarter in line with more business gradually returning to the pre-COVID days.

Effective 1 January 2023, as we mentioned, the Energy Commission has approved RP2 tariff of MYR 1.061 per gigajoule and introduced a separate tariff of high-pressure gas delivery tariff of MYR 0.533 -- 0.553 per gigajoule. The regular tariff is lower than RP1 tariffs. However, the separate tariff for customer utilization, utilizing PGU II Sector 3, as I mentioned above, has helped to partly mitigate the segment revenue.

On growth, the pipeline project at Pulau Indah are progressing well and to progress in the next -- in the coming quarters. As for the Kluang compressor station, there is a slight delay, also attributed to the disruption in the supply value chain as I mentioned, similar to the TCOT project just now. Regardless, the delay has -- will have a minimal impact to PGB.

For Regasification business, we managed to sustain full capacity payments supported again by strong operational performance at both regasification terminals. The group regasification terminals in Sungai Udang and Melaka, and Pengerang and Johor, sustained strong reliability performance at close to 100% during the quarter.

We received a total of 15 cargoes at both terminals, higher than 13 cargoes received in quarter 1 2022.

Just like the pipeline, effective 1 January 2023, the Energy Commission has approved new RP2 tariff for the regasification terminal, the regulated tariff was unchanged for RGTSU at MYR 3.455 per gigajoule while it was lower for RGTP at MYR 3.165 per gigajoule.

On the digitalization, we recently completed the implementation of remote monitoring of RGTP from Segamat. Now both our Regas terminals are operated remotely from Segamat. And this not only improve on our cost, but also will improve employee safety and wellbeing, big chunk of it is reduced their exposure to offshore hazard for RGTSU. As for the LNG storage projects that I've mentioned a few times, we are working hard to reach final investment decision, and we will share more in the second half of the year.

Utilities. Overall, we continue to fulfill customer demand with 100% product delivery reliability for electricity and steam. For electricity, quarter 1 2023 volume was lower than previous quarters due to lower offtake from customers and lower sales to the grid on unfavorable pricing during the quarters. Again, this is because of the high gas price that I mentioned before. Steam offtake is slightly lower as per customer demand. Industrial Gases. Volume was also delivered according to customers' plan availability.

We have since actually completed all our contract renewals. So all are already contributing to better commercial terms that have partially mitigated the high cost of fuel gas that we purchase from PETRONAS. The ICPT surcharge of MYR 0.20 per kilowatt hour announced in January has also partially reduced our electricity production cost. So we are actively engaging with the government on the continuation of the ICPT beyond June 2023.

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

So on projects in 2023, several projects are expected to complete. Of course, I mentioned about the TCOT Off-Gas Rerouting, the lateral gas pipeline to Pulau Indah and the lateral gas pipeline to Banting. We are closely monitoring all the projects to be delivered timely, safely and within budget.

We continue to seek projects that would enhance revenue contribution to GPU business as well as adding up to the RAB and the GTR business. There are several new developments under the project in the pipeline on the right side of the slide. And again, we hope that we will announce this will be soon. Other than that, of course, one, the big thing that we are looking at is to have a role in the value chain of the carbon capture and storage that PETRONAS is developing in Kertih. Studies are currently underway and of course, we are working hard that PGB will be a player in these value chains and becoming another business for PGB. So that's all for now. Over to Shahrul for financials.

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

Thank you, Aziz. Good evening, everyone. I'm Shahrul here. Thank you to the MD/CEO on the operating landscape and also the operational performance for all our business segments. Let me now take you through the financials. So let's start with segmental performance for Gas Processing. In quarter 1, 2023, the business continued to run as usual with sustained revenues amid higher operating costs, and this revenue was sustained based on excellent operational performance that had said earlier.

So comparing against preceding quarter 4 2022, revenue for the quarter was slightly higher at MYR 444 million, supported by higher incentive received as a result of operational optimization. Correspondingly, our gross profit was also higher at MYR 208 million.

Against corresponding quarter, quarter 1 2022, segment revenue increased by 2%, following a high internal gas consumption incentive achieved. And similarly, this is also supported by continuous operational optimization effort that we have done at our gas processing plant. Segment results, however, declined by 11% due to high operating expenses in line with higher level of plant activities, mainly depreciation expense as we capitalized more project post MCO as well as higher level of plant repair and maintenance activities during the quarter, right?

Moving on to Gas Transportation segment. The group's pipeline network registered close to 100% reliability during the quarter under review. The business assumed new RP2 tariffs effective 1 January 2023 for regular PGU tariff and a separate tariff for PGU II sector 3 at tariff C.

In terms of performance comparing against preceding quarter 4 2022, our revenue was lower by 3% at MYR 288 million on the low RP2 tariff effective earlier this year, and this was partly mitigated by the additional revenue coming from tariff C.

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

Gross profit higher by more than 100% to reach MYR 123 million due to lower operating costs. This was due to the higher recognition of fuel gas costs in the preceding quarter. So what has happened is that as part of our continuous operational improvement, we have installed an equipment at the end of last year that allowed us to closely monitor what we have call as unaccounted for gas or [UfG].

So for financial year 2022, prior to the installation of the equipment, the reconciliation of [UfG] can only within at the end of the year hence, higher costs recorded in the preceding quarter. Against corresponding quarter, quarter 1 2022, segment revenue was comparable, while segment results fell by 33% due to higher operating expenditure mainly internal gas consumption expense in tandem with higher fuel gas price.

And as I explained during our special briefing on RP2, under the new regime, IGC is recoverable during the next annual review adjustment from the shipper.

Moving on to Regasification segment, which also assumed new RP2 tariff for both Regas terminals. Again, just to recap, tariff for RGT Sungai Udang is maintained similar to RP1 while tariff for RGT Pengerang was lower. The result against preceding quarter, quarter 4 2022, revenue was 6% lower at MYR 334 million, mainly due to lower operating days and also lower RP2 tariff for RGT Pengerang. Segment result was 23% lower at MYR 160 million on the back of higher operational expenses involving depreciation following capitalization of gas projects and also higher internal gas consumption following higher gas price.

Against corresponding quarter, quarter 1 2022, segment revenue was slightly lower by 3% on the back of lower RP2 tariff for RGT Pengerang. Segment results similarly declined by 9% in tandem with lower revenue, coupled with higher operating expenditures.

Moving on to Utilities segment. The group's utilities plants achieved 100% product -- delivery reliability for all the products during the quarter under review. Performance against preceding quarter, quarter 4 2022, revenue was at 12% higher at MYR 608 million, largely due to higher product prices. Gross profit was 68% higher at MYR 57 million on the back of low operational expenses as we recorded higher level of maintenance activities in the preceding quarter.

Against corresponding quarter, quarter 1 2022, revenues surged by 55%, mainly attributable to higher product prices. The product prices for steam and industry gases were highly in line with the increase of new gas price, which is based on Malaysia Reference Price, MRP. And as for electricity, the tariff was also higher as a result of upward revision of Imbalance Cost Pass Through or ICPT surcharge, as mentioned by Encik Aziz earlier.

Segment results grew by more than 100% in tandem with higher revenue and improved margin following favorable impact of improved terms in the recent contract renewals, which allow a more balanced cost pass through to customers and reduce our vulnerability to gas price volatility. For record, we have completed the contract renewal from [many] customers by end of quarter 2 last year.

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

So overall result for PGB group level, against preceding quarter, quarter 4 2022, group revenue was at MYR 1.67 billion higher by 3%, mainly contributed by higher revenue from Utilities segment. Gross profit was at MYR 547 million, increased by 17%, in line with higher revenue and lower operating expenses as we recorded higher level of maintenance activities in the preceding quarter 4.

PAT, however, declined by 3% at MYR 448 million on the back of higher tax expense. Tax expense was lower in preceding quarter as we were doing downward adjustment on a tax provision for prosperity tax based on the actual result for 2022.

Against corresponding quarter, quarter 1 2022, our group revenue rose by 15%, mainly contributed by higher revenue from Utilities segment. Gross profit, nevertheless, declined by 11% due to higher operating expenditure mainly relating to fuel gas, internal gas consumption and depreciation expenses. In contrast to gross profit, Profit after tax for the quarter improved slightly by 2% due to higher interest income from fund investment, higher share profit from our JV companies and also lower tax expenses. The corresponding quarter tax expense was higher as a result of imposition of prosperity tax for the year assessment of 2022.

Moving on to our balance sheet. As at 31st March 2023, the group's total assets remained robust at MYR 19.6 billion following higher cash and cash equivalents and also trade and other receivables. With that, we have a healthy balance of cash with some headroom to -- for us to grow our existing and also upcoming growth projects.

For dividend, the Board has approved the first interim dividend of MYR 0.16 per share payable on 20 June 2023. And this interim dividend demonstrates our commitment to ensure sustained level of returns to the shareholders despite the ongoing economic conditions. With that, I end the financial section. I will now pass the line over to Aziz Othman to share on the company update.

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

Thank you, Shahrul. Ladies and gentlemen, again, before I go into what we'll be focusing on for the remaining of the year, let's go back to the business environment, which will continue to be challenging. While we are essentially an infrastructure company, obviously, we will be impacted by the gas price since we pay market price for our fuel gas. In 2023, the forecast for gas price, as I mentioned, will continue to be high.

One good thing is a portion of our cost at the regas terminal are in U.S. dollar. We expect the U.S. dollar to Malaysian ringgit will continue to be volatile, hence positively impacting the PAT. Now to address this concern, we have reached an agreement with our counterparty on the settlement of the USD contracts. Post the settlement, we expect that there will be less Forex impact to our financials. We will announce the outcome of this exercise really soon. So again, that exposure will reduce a lot once this is in place.

Then this year is also the first year of the RP2 for our GTR business. We are thankful to the government on the tariff decision. There are tariff -- reduction in the tariff, as I mentioned, will impact our revenue for GTR.

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

Of course, compounding the matter is the highest cost environment compared to 2021 and 2022. More activities as we are coming out from the pandemic so that obviously will increase our OpEx and we'll have some impact to our profit.

Now despite all that, we will continue with our strategy of continued value creation, two-pronged. One is operational excellence of the assets. And second is pursuing sustainable growth opportunity.

As I mentioned, all our long-term contracts has been renewed recently. So we will have long-term contracts running well into 2030.

Our focus on these assets are about operational excellence. As long as we make the assets available, we can collect the capacity payment accordingly. So that will be one of the key focus with long-term contracts are already extended. We hope to have the resolution on GPA. The new GPA by year-end, and then it's all about operational excellence for us.

The second part is about pursuing the growth. We are very focused in the 4 areas that we think we are good, which is LNG storage, power generation capacity, integrated utilities and the carbon capture and storage. So sometime late last year, we have announced the new 55-megawatt capacity in Sipitang .

So that was a result of our efforts to increase the power generation capacity, which is one of the success that we have had. And we are working on a few more initiatives that we hope, as we go into later part of this year, we have announcement on some of these new projects. So that's all for now. Let's move to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question. And your first question comes from the line of Max Koh Wui from Macquarie.

Ken Wui Koh, Macquarie Research - Analyst

Just a few questions. For the first one, I think earlier, you did mention that you're looking at a settlement with your counterparties to help you to mitigate the volatile USD to ringgit. I just want to understand that because you did say that previously that the new tariffs, basically a new tariff RP2 allows for the pass on of forex impact on an annual basis. So again, I just understand, is this an additional mitigating -- yes, mitigating effort and also which division does this -- yes, so this design will be applicable for which divisions?

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

Okay. The -- charter hire for the storage comprised of CapEx hire and OpEx hire. So the CapEx hire is the one that we have settled with the counter party, which is for the RGTSU, the regas terminal in Sungai Udang. So with that, there will be no more forex movement that will impact the CapEx hire. We do have a small portion of OpEx hire, which we moved with forex, but it's not going to be significant going forward.

Ken Wui Koh, Macquarie Research - Analyst

Okay. So you were mentioning that you reached a settlement, this is already done. So whereas for the OpEx one, are you looking at a new settlement as well? Or no, would it just be just an ongoing business as usual?

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

We will continue to look at improving our financial position if there are opportunities, we will do it. But at this moment, we are focusing on the CapEx because it represents a big chunk of our exposure on U.S. dollar.

Ken Wui Koh, Macquarie Research - Analyst

Okay. Understood. All right. And this would -- I mean, would this be similar to a sort of an annual adjustment as what you do for your CapEx adjust -- for your USD impact on CapEx.

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

The OpEx hire will be adjusted. I -- is it annual or next RP?

Ken Wui Koh, Macquarie Research - Analyst

next RP, it will be a RP3 period.

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

Correct.

Ken Wui Koh, Macquarie Research - Analyst

Okay. Great. Understood. All right. And also, I think previously, you also did mention that you are also looking at increasing maintenance activities for the year. Can I get a guidance in terms of what your CapEx for this year. But if I look at your financial statements, are you looking at committing about MYR 4.5 billion -- sorry, about MYR 4.8 billion in terms of capital commitment. Can I just confirm that, that is what you're looking at in terms of CapEx? And also what's the breakdown between, let's say, the regulated and the nonregulated divisions.

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

Shahrul here. I'll take that question. So in terms of capital expenditure, I think at the moment, we are anticipating the CapEx to be almost similar at last year's level around MYR 1.2 billion, but of course, subject to some other finalization of our growth opportunities by the moment, looking at around MYR 1.2 billion CapEx for 2023. In terms of the -- between the regulated and non-regulated, it about 50-50 about half between the 2 regulatory and also non-regulated segment.

Ken Wui Koh, Macquarie Research - Analyst

Okay. Great. Understood. Okay. And maybe one last question is that you did mention that the GP margin on a group level is down about 33% versus, let's say, about 40% to 50%. This is mainly due to the higher gas cost or MRP. I think if you look at data from the department of statistics, it seems that in the second quarter, MRP seems to be on a downward trend. So my question is, I guess your message is, you're trying to say that I guess, IGC will still remain volatile, but do you expect margins to improve within the next few quarters if we are looking at MRP on the downtrend?

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

What we see, as I mentioned, quarter 1 was the highest MRP, we expect it to be lower going forward, which obviously will have in the margin side. But I have also mentioned that while it's going down, it's still on the high side compared to what we have experienced before. So that's where we are.

Operator

(Operator Instructions) your next question comes from the line of Lucas Tan from Investment Bank.

Jun Sian Tan, AmlInvestment Bank Berhad, Research Division - Research Analyst

I have a question about the margin for gas transportation and regasification. I noticed that your EBIT margin for gas transportation actually improved, mainly due to lower IGC costs. But on the contrary, your regasification margins actually dropped by close to 10%. Just wondering why there's different directions in terms of the margin changes?

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

I will take this question. I believe this is in comparison to preceding quarter. As mentioned in my presentation earlier, what happened for GTR business, we have installed a new equipment that allows us to track our -- what we call as unaccounted for gas better. And as for last year 2022, we were only able to do the reconciliation by end of the year, hence, the higher fuel gas costs recorded in quarter 4. So for this year 2023, we are taking it bit on the new equipment in stock, and we expect the cost to be more constant throughout the quarters.

Jun Sian Tan, AmlInvestment Bank Berhad, Research Division - Research Analyst

So meaning to say, if it wasn't for the one-off event in year-end last year, on a Q-on-Q basis, the IGC would have been higher in this quarter. Is that what you mean?

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

Yes. Q-on-Q, mainly because of the price impact the MRP movement.

Jun Sian Tan, AmlInvestment Bank Berhad, Research Division - Research Analyst

Yes. Okay. So -- so that explains mostly why the -- why is that a different actions? I mean because regas actually, regas margin drop gas transportation increase.

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

Yes. Yes.

Operator

The next question comes from the line of Daniel Wong from Hong Leong Research.

Daniel Wong, Hong Leong Investment Bank Berhad, Research Division - Research Analyst

On the JV side, why did the JV numbers kept dropped significantly in the previous fourth quarter? And how come this quarter improved drastically? That's the first question. The second question, you just now guided that the transportation and regas will be able to pass through the higher fuel costs into FY '24. Just want to get an understanding, if we base on this first quarter, how much cost are you expected to pass through?

Izan Hajar Ishak PETRONAS Gas Berhad - Head of IR

Can you repeat the question?

Shahrul Azham Bin Sukaiman PETRONAS Gas Berhad - CFO

Can you repeat the second question.

Daniel Wong, Hong Leong Investment Bank Berhad, Research Division - Research Analyst

On the gas transportation and regas -- just now as guided that you guys were able to pass through the higher IGC for the forex to FY '24 on an annual basis. So based on the first quarter alone right, this first quarter numbers right. How much will PETRONAS Gas able to pass through the costs?

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

Let me answer the first question first on the share profit from our associates and joint ventures. I think you saw a lower number in quarter 4 compared to quarter 1. First, because the volume for one of our JV in Pengerang is higher in quarter 1 this year. And for the same JV, late last year, quarter 4, we do a small provisions on receivables. And hence, the higher profit recorded for quarter 1 this year.

Secondly, in -- that is now under the new regime is pass-through. So when we submit our OpEx to Energy Commission, there's certain assumption on our MRP price level. So what was agreed if the price is higher than what was used as a basis during the tariff decision, we'll be able to recover in the next year to our AAR -- yes.

Daniel Wong, Hong Leong Investment Bank Berhad, Research Division - Research Analyst

So how much are we able to pass through?

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

I think indicatively you look at the MRP price is slightly is higher than what we forecasted around 50 -- in the mid 30s to now MYR 40 MMBtu. So that's a differential for the pass-through.

Daniel Wong, Hong Leong Investment Bank Berhad, Research Division - Research Analyst

Meet the (inaudible) -- on the MRP.

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

Yes.

Daniel Wong, Hong Leong Investment Bank Berhad, Research Division - Research Analyst

But we are not sure how much gas IGC you guys consider per annual basis.

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

It's subject to the volume as well. So yes.

Daniel Wong, Hong Leong Investment Bank Berhad, Research Division - Research Analyst

On an average basis, are you able to guide -- on average basis, how much IGC per annum on a -- just a bit on some rough guidance

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

Can I get back to you a question to take the numbers first.

Daniel Wong, Hong Leong Investment Bank Berhad, Research Division - Research Analyst

Okay, sure. And then the other how was forex assumptions? Are we looking at as compared to now, which is about 4.4. Now it increased further to 4.5 vis-a-vis.

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

So you mean the assumption for what?

Daniel Wong, Hong Leong Investment Bank Berhad, Research Division - Research Analyst

forex.

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

The assumption for tariff. You mean?

Daniel Wong, Hong Leong Investment Bank Berhad, Research Division - Research Analyst

The ForEx, you guys, will be able to pass through the higher forex cost price on the CapEx spending on this right? on the x basis. So in the book, how much forex under the current RP2, what are the forex assumption being used as compared to now today, which is real high at 4.4, 4.5.

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

I believe the submission mid to ST was sometime in March last year. So the assumption was around 4.2.

Operator

Your next question comes from the line of Anshool Singhi from JPMorgan.

Anshool Singhi, JPMorgan Chase & Co, Research Division - Research Analyst

I -- most of the questions I had are actually -- they have asked them but I just had...

Izan Hajar Ishak, PETRONAS Gas Berhad - Head of IR

Anshool, we -- can you please speak up a bit...

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

A bit louder.

Anshool Singhi, JPMorgan Chase & Co, Research Division - Research Analyst

Can you hear me clearly now?

Izan Hajar Ishak, PETRONAS Gas Berhad - Head of IR

A bit louder.

Anshool Singhi, JPMorgan Chase & Co, Research Division - Research Analyst

My apologies.

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

Yes, yes. Okay.

Anshool Singhi, JPMorgan Chase & Co, Research Division - Research Analyst

Yes. So I had -- most of the questions I had are asked. I have already basic questions. So you mentioned that the IGC cost adjustment will be made next year, assuming the cost drop to below 35 by the end of the year, you will register savings. Is that understanding correct?

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

I think the way it worked with the regulator is..... During the RP period, there are assumptions on the gas price. If it goes higher then will be adjusted in the next year. Whatever that percentage is higher price wise, assuming the volume remains same. Likewise, if we used less or the price is lower than the budget, then it will also be adjusted, meaning we have to give back but that's how it works. So we are not exposed either way. It's just a timing between this year and next year.

Anshool Singhi, JPMorgan Chase & Co, Research Division - Research Analyst

Yes, yes. That is very, very clear. And I just had another follow-up question. So for the regulated business, if we want to assume a run rate how would we go about doing that?

Izan Hajar Ishak, PETRONAS Gas Berhad - Head of IR

Sorry, Anshool.

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

Which business? Again regulated...

Anshool Singhi, JPMorgan Chase & Co, Research Division - Research Analyst

The regulated business, specifically transportation

Izan Hajar Ishak, PETRONAS Gas Berhad - Head of IR

Sorry, Anshool, what's the question again?

Anshool Singhi, JPMorgan Chase & Co, Research Division - Research Analyst

Yes. So my question is, given the -- within quarters, while there is still some impact of the fluctuation of the gas price and the IGC, if you want to assume a run rate is -- how should we go about that? Is there -- is the fluctuation still going to be considering MRP remains elevated for the next 2 quarters as when.

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

I think the way it worked with the regulator is..... During the RP period, there are assumptions on the gas price. If it goes higher then will be adjusted in the next year. Whatever that percentage is higher price wise, assuming the volume remains same. Likewise, if we used less or the price is lower than the budget, then it will also be adjusted, meaning we have to give back but that's how it works. So we are not exposed either way. It's just a timing between this year and next year.

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

The price is based on Malaysia reference price. The Malaysia reference price is published by Jabatan Statistik every quarter. You can see trend of the price every -- if you refer to the Jabatan Statistik so obviously, move with the oil price. And it has a seasonal impact also because linked to the oil price, which is also seasonal. So at some time is quarter is higher, sometimes it's lower, but we budgeted a number for the year. Yes. Does that answer your question, Anshool.

Anshool Singhi, JPMorgan Chase & Co, Research Division - Research Analyst

Yes.

Operator

There seems to be no further phone questions at this time. If you wish to take your web questions.

Izan Hajar Ishak, PETRONAS Gas Berhad - Head of IR

Yes. We will take some questions from the web from Teh of Kenanga, the first quarter effective tax rate was around 30% and it is explained in the results note that the low tax rate was due to tax incentives granted to Pengerang RGT. So is this a new incentive? And how long does this incentive last?

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

Okay. I'll take this question. So yes, you're right, our Q1 ETR is about 20%, and it's lower than last year. Last year was around 23% because last year, we had the impact of Cukai Makmur or Prosperity Tax. So what we are seeing now is the regular EPR rate. And you are right, this is because of the incentive that we have for our RGT in Pengerang mainly. So RGT Pengerang is granted tax incentives for its regasification activities. And of course, this is subject to availability of statutory income. So we will have this for 15 years. And as of last year, so we still have the unused tax losses. So we particularly still have that incentive for a quite long period moving forward.

Izan Hajar Ishak, PETRONAS Gas Berhad - Head of IR

All right. The next question is from [Seang] of RHB. Okay. What's PGAS role in CCS project and any time line for such new projects?

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

Okay. There's 2 questions. The JV we talk about it just now -- so the CCS. Okay. PGAS is not a molecule owner. We process the gas on behalf of the shipper, which in this case is PETRONAS. So again, the CO2 and whatever [utilities] is associated with the molecule owner. So what we are looking at is to process this or to take care of it on behalf of the molecule owner. So that's how the project is. So what we are looking at is on the offshore, where -- wherever that CO2 is entered, we are looking at gathering it.

And then consolidating it before we pump or we compress it onward to offshore for storage in depleted reservoir. So anything onshore in Kertih is what we are looking at as a business -- new business for us going forward. We -- the PETRONAS actually expected to have this project up and running by 2028. So -- we are working to support that timeline to meet the objective that PETRONAS has set.

Izan Hajar Ishak, PETRONAS Gas Berhad - Head of IR

All right. Last question of the day from Tan Chi Wei of Maybank. Will IGC pass-through now being reviewed annually? Can P&L recognition of IGC be done on accrued theoretical basis? Or we will continue to recognize actual as incurred?

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

Okay. Yes, the IGC pass-through will be reviewed annually. So in terms of profit and loss recognition of IGC. At the moment, we cannot accrue the pass-through because the accounting standards doesn't allow that to happen, but there is a new accounting standard by the name of MFRS 14, regulatory asset and regulatory liabilities. We currently had the exposure draft that would allow this accrual to happen. So until that being made effective, we will continue to recognize the actual gas cost during the year and recover or surrender the differences in the following year.

Izan Hajar Ishak, PETRONAS Gas Berhad - Head of IR

All right. That's all. It seems like there's all the questions for today, over to Heidi.

Operator

That does conclude our conference for today. Thank you for participating. You may now disconnect.