

PETRONAS Gas Berhad

Q2 2023 Analyst Briefing



Aug 25, 2023 / 6.00 PM (GMT +8), Q2 2023 PETRONAS Gas Bhd Earnings Call

Corporate Participants

Abdul Aziz bin Othman, PETRONAS Gas Berhad - MD, CEO & Director
Shahrul Azham bin Sukaiman, PETRONAS Gas Berhad – CFO
Suriyanti binti Nordin - Head of IR

Conference Call Participants

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

PRESENTATION

Operator

Good day and thank you for standing by. Welcome to the PETRONAS Gas Berhad Analyst Briefing for quarter ended 30th of June 2023 call and webcast.

(Operator Instructions) Please note that today's conference is being recorded. I would now like to turn the conference over to your speaker, Suri Nordin. Please go ahead.

Suriyanti Nordin, PETRONAS Gas Berhad - Head of IR

Assalamualaikum and Good evening, everyone. Thank you for joining our session today for PETRONAS Gas Berhad's Analyst Briefing for quarter ended 30th June, 2023. My name is Suri from Investor Relations, and I have with me from PGB, Encik Abdul Aziz Othman, Managing Director and CEO; Encik Shahrul Azham Sukaiman, Chief Financial Officer; and Encik Hisham Maaulot, Head of Business Development and Commercial.

We'll start the briefing with key highlights, business updates, financial performance, and to be followed by question-and-answer session. For reference, our financial result is available at both Bursa Malaysia and PGB websites. The presentation material is available at our website and also at the webcast host platform.

Without further ado, I'll hand over to Encik Aziz for the highlights. Encik Aziz?

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

Thank you, Suri.

Assalamualaikum and good evening everyone. Thank you for joining us today.

Also, I would like to apologize for the technical glitch that we were facing just now. Let us start, with an overview of the business environment for the business. As forecasted in the previous analyst briefing, the Malaysia Reference Price, which is the gas price for Malaysia is taper down to MYR 48 per MMBtu in quarter 2 2023 from a peak of MYR 58 per MMBtu in quarter 1 2023. We expect MRP to follow the same downward trend in the following quarters, although still higher than the preceding years.

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

The increasing Services Producer Price Index, SPPI trend would continue to affect our operational and maintenance spending. While it may not be at the same rate of increase, the spending will still be higher than we have seen before. We expect the high-cost environment to continue in the near term with MRP and overall cost of doing business remaining at elevated levels, while revenue we expect to remain stable throughout the quarters.

Now moving on to the key highlights for the quarter. Our operational performances continue to be at world-class standards with focus, as always, on continuous improvement, utilizing our predictive analytical tools from our investment in digitalization and talent. Again, we achieved close to 100% reliability in delivering products and services in all our operating segments.

On the financial side, revenue for quarter 2 2023 was higher than the same quarter in 2022. This is despite the lower RP2 tariffs for our regulated business. And this is mainly due to higher revenue from the Utilities segment on higher product prices, and this has also resulted in higher gross profit during the quarter. Profit for the period improved in line with higher gross profit, coupled with higher profit contribution from joint ventures companies. Higher income from fund placement, lower ForEx movement exposure following the early settlement of FSU at LNG Regasification Terminal in Sungai Udang, Melaka, and of course, the lower tax expense. With that, we have declared an interim dividend for the quarter at MYR 0.16 per share, similar to quarter 1 2023.

Taking a snapshot at the financials, comparing half 1 2023 with half 1 2022, the group revenue stood at MYR 3.31 billion, an increase of 11.8% or MYR 349.8 million. And this is mainly contributed by higher revenue from Utilities segment, which is in line with the higher product price. Gross profit was, however, MYR 36.7 million or 3% lower due to higher operating expenses, mainly relating to internal gas consumption (IGC) and depreciation expenses by both Gas Transportation and Gas Processing segments, coupled with lower revenue from the Regasification segment. These were offset with higher margin contribution from Utilities segment, and this is in tandem with higher revenue as well as stronger margin as a result of a more balanced cost pass-through to customers, reducing the business exposure to gas price volatility.

PAT showed a 10.7% or MYR 91.2 million, increased on the back of strong operational performance and further supported by higher profit contribution from the joint venture companies, higher interest income from fund investments and lower Forex movement exposures. And following the -- as we're all aware, the early settlement of FSU at LNG Regasification in Sungai Udang, Melaka. This is further supported by lower tax expenses, most of it from no imposition of prosperity tax as compared to corresponding period in 2022.

EBITDA was higher by 1.1% or MYR 17.2 million, in line with PBT movement. EPS accordingly increased by 12.7%, reflecting higher profit attributable to shareholders of the company. Dividend per share for the quarter was approved at MYR 0.16, making it a total of MYR 0.32, similar to the same period last year. Later, the details on our financial performance will be presented by Encik Shahrul.

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

Now let's move on to the business updates. First, starting with Gas Processing. As I've mentioned, PGB continuously operating our Gas Processing plant at world-class standard. Our commitment to customers is reflected by consistently meeting the reservation charge requirement as per the Gas Processing Agreement with the shipper, achieving 99.9% OEE and 100% reliability for both C1 and C2 products. One of our focuses for this year is to change our operating philosophy in order to optimize the sales gas production as requested by the shipper while maintaining 100% reliability. This effort, together with the support of predictive analytics by our tech centers has resulted in MYR 43 million of performance incentives achieved in the quarter.

On project updates, the disruption in the supply chain following the COVID-19 pandemic and subsequently, the Ukraine war, continues to impact our business activities. Our biggest project at GPU, the TCOT off-gas rerouting project, is progressing slightly behind schedule. And this is due to the delay in compressor fabrication and instrument equipment works. Regardless, a slight delay has minimal impact to PGB. And on the Third Term Gas Processing Agreement, we aim to conclude negotiation by end of this quarter.

Next, the Gas Transportation. The group pipeline network sustained close to 100% reliability during the period under review. Average salesgas delivered was more than 2.1 billion standard cubic feet per day. On growth projects, the pipeline extension to Pulau Indah is progressing with slight delay. We are facing some construction challenges, but still within our risk control and the completion date is within the requested delivery period of the customer and the shipper.

As for the Kluang compressor station project, the estimated delay was more than what we expected due to the supply chain disruption as explained earlier. However, there is no commercial impact as the project is fully socialized and the extended completion date is now looking at end of quarter 4 2024. Meanwhile, the new project in Banting has achieved gas in in July earlier than scheduled and is expected to achieve initial acceptance by end of quarter 3 2023.

For Regasification business, we managed to sustain full capacity payment supported by strong operational performance at both the terminals. The group LNG regasification terminals in Sungai Udang, Melaka and Pengerang, Johor sustained their strong liability performance at close to 100% during the quarter. We received a total of 27 cargoes at both terminals, higher than the 23 cargoes received in half 1 2022. This is in line with the higher level of business activities.

The RGT Sungai Udang received 4 cargoes, while the RGT Pengerang received 23 cargoes, making it a total of 27 cargoes for the first half of the year. Both RGT Sungai Udang and RGT Pengerang have been operating under remote assistance and insights from the Unified Operations Center in Segamat. As for the LNG storage project, we are close to reaching final investment decision, and we hope to make an announcement before end of the year.

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For Utilities, overall, we continue to fulfill customers' demand with 100% product delivery reliability for electricity and steam, supported by higher plant availability and reliability. For electricity, the first half of 2023 volume was lower than the same period in 2022 due to lower offtake from customers and lower sales to the grid due to the unfavorable pricing during the quarter. For steam, offtake is slightly lower as per customer demand. For industrial gases, sales volume delivered was higher compared to the same period last year. And again, this is in line with higher customers' plant availability.

With the fluctuation in fuel gas price, electricity, and steam demand, it is crucial to operate the plant with optimum parameters to optimize fuel gas consumption while still meeting customers' demand. Our Cogen optimization initiative, resulting in savings on our production costs for electricity and steam. As at quarter 2 2023, the optimization value amounting to MYR 7.2 million.

In June 2023, the government announced an imbalanced cost pass-through ICPT surcharge of MYR 0.17 per kilowatt hour for the period of 1st July until 31st December 2023. This is lower than the surcharge in half 1 of 2023 at MYR 0.20 per kilowatt hour. What this means for PGB is that the electricity tariff will be lower by MYR 0.03 because of the downward revision of ICPT surcharge, of course, leading to lower revenue for the next 6 months.

Projects, as highlighted earlier, our project execution have been impacted by supply chain disruption, which caused several projects to be delayed. Rest assured, we are closely monitoring all the projects to ensure that they are delivered within reasonable time, while at the same time to also ensure the projects are safe and within their respective budgets. We will also continue to pursue opportunities for projects that would enhance revenue contribution for GPU business and add to regulated asset base under the Gas Transportation and Regasification business.

For projects in the pipeline, referring to the right side of the slide, we are close to reaching final investment decision for the LNG storage expansion in Pengerang and we hope, as I mentioned, to make an announcement sooner. PGB is also looking forward to play a vital role in Petronas carbon capture and storage integrated value chain. Studies are currently underway prior to final investment decision, which we hope to make some time in the future.

So that's all on operational highlights. Over to Shahrul for financials.

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

Thank you, Encik Aziz. Good evening, everyone.

I will take you through the financials for quarter 2 2023. So, we will start with segmental performance for Gas Processing. In quarter 2 2023, the business continued to run reliably with sustained revenues amidst high operating costs. Against preceding quarter 1 2023, revenue for the quarter was comparable at MYR 447 million. Gross profit was, however 5% higher at MYR 219 million, mainly due to lower operating expenses.

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Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

Against the corresponding quarter, quarter 2 2022, segment revenue increased by 2%, following the higher internal gas consumption incentive achieved, and this is supported by the continuous operational optimization efforts as mentioned by Encik Aziz earlier. Segment results, however, declined by 6% due to higher operating expenses, mainly depreciation expense in line with higher capital expenditure.

For results against corresponding year-to-date against first-half 2022, revenue improved by 2% to MYR 891 million on higher internal gas consumption incentive following favorable impact from change in operating philosophy at Gas Processing plants. Nevertheless, segment results declined by 8% to MYR 427 million due to higher operating expenses, mainly depreciation expenses in line with high capital expenditure, as well as other cost escalation, including manpower costs.

Next, moving on to Gas Transportation. The group's pipeline network registered close to 100% reliability during the quarter under review. And just to recap, the business assumed new RP2 tariffs effective 1st January this year for PGU tariff and a separate tariff for PGU Sector III, which is the Tariff C. Comparing the results against preceding quarter, quarter 1 2023, revenue was slightly lower by 2% at MYR 283 million, mainly from lower Gas Transportation revenue as we have divested our gas pipeline in Sabah effective April this year.

In contrast, gross profit rose by 34% to reach MYR 165 million due to low operating cost, mainly from internal gas consumption due to lower fuel gas price in line with the lower MRP. As mentioned by our CEO earlier, fuel gas price was at its highest in quarter 1 at MYR 58 per MMBtu. Against, the corresponding quarter, quarter 2 2022, segment revenue declined by 3% from lower RP2 tariff, while segment results fell by 6% due to higher operating expenses, mainly internal gas consumption in line with higher fuel gas price.

Under the new RP2 regime, impact of higher IGC cost is recoverable during the next annual review adjustment. For 6 months results against corresponding year-to-date last year, revenue was marginally lower at MYR 572 million, mainly because of lower RP2 tariff. Segment results declined by 20% to MYR 288 million, mainly due to higher operating expenses, in particular, the higher internal gas consumption expenses following high MRP for the first half of 2023.

Moving on to Regasification segment. Against the preceding quarter, quarter 1 2023, revenue was slightly higher at MYR 337 million, mainly due to higher number of operating days compared to quarter 1 this year. Segment results were 4% higher at MYR 166 million on the back of lower operating expenses, mainly lower IGC expenses in tandem with lower fuel gas price. Against the corresponding quarter, quarter 2 2022, segment revenue and results were lower by 5% and 9%, respectively, mainly due to lower RP2 tariff for RGT Pengerang. For results against corresponding quarter 6 months 2022, our revenue declined by 4% to MYR 671 million due to lower RP2 tariffs, and the results declined by 9% to MYR 326 million in tandem with lower revenue, coupled with higher operating expenses, mainly on depreciation and utilities costs.

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Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

Next, for Utilities business. The plant achieved 100% product delivery reliability for all the utilities products for the quarter under review. The financial result against preceding quarter, quarter 1 2023, revenue declined by 6% at MYR 570 million, mainly due to lower product prices in line with the decrease in fuel gas price. Gross profit was at MYR 101 million, 44% higher attributable to higher margin, mainly from favorable impact of lower fuel gas price.

Against the corresponding quarter, quarter 2 last year and also against corresponding 6 months period last year, segment revenue increased by 35% and 45% respectively, mainly attributable to higher product prices in line with higher MRP. The product price for steam and industrial gases was higher in line with the increase in fuel gas price, which is based on the MRP. As for electricity, the tariff was higher as a result of upward revision of our Imbalance Cost Pass Through or ICPT surcharge for the first half 2023 at MYR 0.20 per kilowatt hour.

Segment results grew significantly for corresponding quarter and year-to-date in tandem with higher revenue and further supported by the favorable impact of improved terms in the recent contract renewal, which allow a more balanced cost pass-through to customers, which also helped to reduce Utilities business vulnerability to gas price movements.

Combining all the results for all the segments, we moved to financial performance of PGB Group. Against preceding quarter, quarter 1 2023, group revenue was at MYR 1.64 billion, lower by 2%, mainly contributed by lower revenue from Utilities segment, driven by lower contribution from steam and industrial gases following lower MRP. Gross profit was at MYR 652 million, an increase of 19% as a result of higher contribution from all business segments following lower operating expenses, mainly fuel gas and internal gas consumption.

Similarly, profit after tax was higher by 11% at MYR 496 million, in line with higher gross profit, but partially offset by the unfavorable impact of Forex movement. So MYR weakened by end of quarter 2 compared to quarter 1 this year. Against the corresponding quarter, quarter 2 last year, PGB group revenue rose by 9%, mainly contributed by higher revenue from Utilities segment, driven by the higher product prices.

Gross profit increased by 5%, with higher contribution from Utilities segment. Profit for the quarter improved by 19%, in line with higher gross profit, coupled with higher share of profit or high profit contribution from JV companies, higher interest income from fund investments and lower exposure from Forex movement post-settlement of our US dollar lease liabilities for FSU at RGT Sungai Udang and also coupled with lower tax expenses.

In corresponding quarter, tax expense was higher because of the imposition of Prosperity Tax. For the 6-month result against corresponding period last year, group revenue increased by 12% to MYR 3.31 billion, mainly driven by higher revenue from Utilities segment. Gross profit, however, lower by 3% due to higher operating expenses coming from Gas Transportation and Gas Processing segments, coupled with lower revenue from our regasification segment, but this were partly offset by high contribution from Utilities segment.

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Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

Profit after tax for the first 6 months of 2023, higher by 11% on the back of the strong operational performance, as mentioned earlier and further supported by the higher share of profit from our JV companies, higher interest income from fund investments in line with higher interest rate, lower exposure from Forex as well as the lower tax expenses due to no imposition of Prosperity Tax.

Moving on to the balance sheet. At 30th June 2023, our group total assets declined by MYR 779 million at MYR 18.9 billion. This is mainly due to lower cash and cash equivalents, following the early settlement of our dollar lease liabilities for FSU at RGT Sungai Udang. And this was done as part of our foreign exchange rate mitigation strategy, so we can minimize our balance sheet exposure to dollar movement.

Nevertheless, we still have a healthy balance of cash with some headroom to play with for our existing and also upcoming growth projects that we have in the pipeline.

For dividends, the Board has approved the second interim dividend of MYR 0.16 per share payable on 22nd September 2023. And this interim dividend demonstrates our commitment to ensure sustained level of returns to the shareholders.

And with that, I end the financial section. I will now pass the line over to Encik Aziz to share on the company updates on look forward basis.

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

Thank you, Shahrul.

Ladies and gentlemen, despite the challenging business environment ahead, we are optimistic in delivering another resilient and healthy performance. Our focus, as always, will be on safety, reliability and operating cost to ensure a sustainable revenue with a healthy margin, while also looking at opportunities for growth and value creation. So the recently launched National Energy Transition Roadmap, NETR, Part One, reaffirms the importance and relevancy of the natural gas business for Malaysia.

The identified catalyst projects and initiatives provide several opportunities for PGB in its pursuit to grow our green portfolio, which includes renewables and CCS, supporting our target to achieve net-zero carbon emission by 2050. On that note, on 9 June 2023, we signed a memorandum of understanding with Menteri Besar Terengganu Incorporated to conduct a joint assessment on the 40-megawatt mini-hydro power plant development. And this project, if realized, would mean a new growth opportunity for PGB in renewable energy, and of course, will help us on reducing our CO2 emission. This collaboration is part of our commitment to build a green portfolio, which is essential for us to achieve our sustainability target.

That's all for now. Over to question and answer. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the question come from the line of Alex Goh from AmlInvestment Bank.

Alex Goh, AmlInvestment Bank - Analyst

Can you hear me?

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

Yes, Alex.

Alex Goh, AmlInvestment Bank - Analyst

Okay. That's wonderful. I've got a few questions, but first, just on the Utilities division. You mentioned that the numbers for your Utilities was very, very strong. If I were to compare second quarter to first quarter, I'm looking at your profit now, right, even though your revenue came down. I'm just wondering, could you explain a little bit of how the ICPT had an impact over there?

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

Okay. Okay. There're 2 factors actually impacting the Utilities profit. First, of course, the ICPT. So you see, we sell our electricity based on TNB's electricity tariff. Now the government announced that on top of the TNB electricity tariff, there is an ICPT of MYR 0.20. So, that will be added to the tariff that we charge to the customer. So that's one.

The second part is, as you recall, as you see from the presentation, in the first quarter, the MRP was at the highest level of MYR 58 per MMBtu. So the second quarter has dropped to around MYR 48. So, your costs to generate electricity come down because the gas price come down, while the tariffs remain with the MYR 0.20 ICPT. Then of course, we also can pass some of it to the other products as per our new contracts that we have signed.

Clear, Alex?

Alex Goh, AmlInvestment Bank - Analyst

Okay. But going forward, now that the second half of the year, the ICPT is coming down, does that mean the profit as well for your Utilities is going to drop?

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

Okay. It works both ways Alex, because how much MRP come down, but what we know the ICPT only dropped by MYR 0.03. So it is a factor of both. If MRP come down more, then you'll see a higher profit for Utilities. So it works with those two numbers.

Alex Goh, AmlInvestment Bank - Analyst

Okay. And one of the reasons why your earnings were so strong overall this year in the second quarter against first quarter is because of operational costs were down. Exactly what operational cost actually has went down? And was it kind of one-off? Is going to be recurring during the second half of the year?

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

Sorry Alex, could you repeat your question again? It wasn't too clear.

Alex Goh, AmlInvestment Bank - Analyst

I'm just looking at all your expense in divisions. If I were to compare second quarter with first quarter, actually, all your divisions have done very well. They have gone up. I'm just wondering -- because your commentary mentioned that the increase was due to lower operating costs. I'm just wondering what exactly what were the costs that came down, and is that going to be recurring in the second half of the year?

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Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

Okay. I think the main contributor for the lower operating costs is mainly the fuel gas. As mentioned earlier, we incur fuel gas in Utilities, in our Transportation and Regasification business for the IGC. And secondly, in quarter one, our manpower cost slightly higher because we fit our bonus in quarter one.

Alex Goh, AmlInvestment Bank - Analyst

I see. But going into the second half, will the IGC also come down, be at the same level or what is it? How should we look at it?

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

As mentioned by En. Aziz, in the first slide earlier on the outlook of MRP, because MRP is 6 months lagging from Brent. So, we kind of know the second half of 2023 MRP price would be lower than the first half.

Alex Goh, AmlInvestment Bank - Analyst

Okay. So it is going to be available in the second half how much the impact to your bottom line?

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

Yes.

Alex Goh, AmlInvestment Bank - Analyst

Okay. That's good. And before I keep everyone else in a queue, my final question is regarding the new project, the green fuel as well as energy transition project, do we have some kind of idea how much all these investments are going to cost in terms of Capex and what are sort of a timeline and activities you are looking at?

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

At this moment, we are still at FEL 1, which is a very inaccurate Capex, even if we tell you also, it's very inaccurate. But if you look at the target, we are working together with PETRONAS. PETRONAS wanted to capture the CO2 and inject it back in the depleted reservoir offshore of Kerteh. PETRONAS target is simple. By 2028, the project should be completed for injection. So, we are working backwards. We are looking maybe in a year time for final investment decision on that project.

Alex Goh, AmlInvestment Bank - Analyst

Okay. With all these projects in line, do you think you'd be paying special dividend by the end of this year?

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

Let's cross the bridge then. Alex,

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

I think as always, we always try to balance between growth and also returning returns to shareholders.

Alex Goh, AmlInvestment Bank - Analyst

Okay. But with this kind of projects in line, I'm just wondering what would be the kind of IRR or the threshold (inaudible) for the balance sheet to give better (inaudible) dividend to shareholders?

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

I think it depends on the business model. So if it is infrastructure with assured return, you would know. It should be in line with the typical infrastructure return. And a lot of PGB's -- our projects are actually infrastructure. So that's -- you can look at those range as a typical IRR.

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Operator

(Operator Instructions) And the question come from the line of Daniel Wong from Hong Leong Research.

Daniel Wong, Hong Leong Research - Analyst

Can you guys hear me?

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

Yes.

Daniel Wong, Hong Leong Research - Analyst

Okay. Good. Okay. My first question, firstly, it was guided that maintenance costs for this year should be higher than FY '22. So, I'm wondering, compared this second quarter versus the first quarter, has it been any significant change or just maintained as so-called flattish for your maintenance costs?

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

Daniel, Shahrul here. If you are referring to our O&M costs, I don't have the number comparing in this same period last year. But for the year, we're anticipating higher spending in the second half of the year because of the higher level of activities. Comparing against last year, I don't have the number as of now. I can get back to you later. But for this year, the spending will be more during the second half of the year because there's a lot more planned activities during the second half of the year.

Daniel Wong, Hong Leong Research - Analyst

I was asking between first quarter and second quarter, actually.

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

First and second quarter of the year?

Daniel Wong, Hong Leong Research - Analyst

Yes. Because I'm looking at your margin actually improved quite strongly. So wondering any attribution to your low maintenance charges for the second quarter?

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

If you're wondering on the improved margin for second quarter, I think the main favor is the lower fuel gas price as mentioned earlier.

Daniel Wong, Hong Leong Research - Analyst

I see. Okay. And then did your internal gas consumption volume decrease or increase between quarter-on-quarter basis?

In terms of volume long term and the overall cost volume?

Yes.

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad - CFO

We'll come back on that.

Daniel Wong, Hong Leong Research - Analyst

Yes. Sure. And then my -- and last question, on the -- on this -- it was mentioned that last time you guys were on commission negotiations with Petronas on the new Gas Processing fair return. Any updates on that?

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

Okay. As you're aware, the current GPA will expire by end of this year. We have good progress in the negotiation. Rest assured that we will get it ready before end of the year. We should be able to make announcement on that prior to that. Yes.

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Daniel Wong, Hong Leong Research – Analyst

This one will be under RAB structure also, is it? similar to...

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

It's similar. I mean, return on the Capex that we are allowed to spend with Opex pass-through.

Daniel Wong, Hong Leong Research – Analyst

Okay. Okay. Understood. Okay. I'm referring to your -- the NETR slide, the growth opportunity here. Just now you mentioned that this CCS Kerteh is targeted to commence by 2028, is it?

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

Completed by 2028 for capturing and injection. So as I mentioned, we are starting the FEL work. It takes about a year or so before we reach FID.

Daniel Wong, Hong Leong Research – Analyst

Okay. I see. So the project...

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

So the project will be around 2025 starting the EPCC.

Daniel Wong, Hong Leong Research – Analyst

Okay. And actually, I'm more interested on your hydrogen infrastructure. Okay. For hydrogen infrastructure, are we looking at something like the gas transmission network where you actually spend a whole expense to the whole (inaudible) type of zoning scale?

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

Okay. I think, again, if there is a molecule of hydrogen, which at this moment I think is the biggest challenge. Affordable molecule, if that is kind of happen, then I don't see any other company, at least within the PETRONAS group that is more ready to put the infrastructure for the transport of hydrogen. You see we have the right-of-way traversing across Peninsular Malaysia. So for us, it's just putting another pipeline if need be. But there are 2 ways, either a new pipeline or you mix in the gas pipeline. So, all those are options that can be done.

Daniel Wong, Hong Leong Research – Analyst

Okay. Either you use the existing pipeline of the gas transmission or you can build another pipeline concurrent to the existing transmission lines?

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

Correct.

Daniel Wong, Hong Leong Research – Analyst

I see. Okay. What else? Okay. Just now you mentioned this mini-hydro of 40 megawatt with Terengganu government collaboration. When is it expected this project to commence actually?

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

We are still at feasibility study stage. As you recall, we just signed about one month ago. So, I can't say until we complete, the feasibility study.

Daniel Wong, Hong Leong Research – Analyst

I see. Okay. What else? Capex, is it still in line MYR 1.2 billion for the year?

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad – CFO

Shahrul here. Capex, yes, is more or less comparable to last year based on our latest forecast. Yes.

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Daniel Wong, Hong Leong Research – Analyst

Okay. So to sum it up, from what we understand from just around the briefing, second half of the year, we are expecting demand for Utilities for gas orders to remain stable compared to the first half and then overall margin could be higher due to the lower MRP, but may be offset by the higher maintenance charges in the second half also, is it?

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

Thank you for understanding our briefing. That is exactly what we see for the next 6 months.

Daniel Wong, Hong Leong Research – Analyst

I see. Okay. On the interest income, just now you mentioned higher investment income on this. Is this expected to continue or this is more one-off in the second quarter?

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad – CFO

The higher income from fund placement is mainly because of the high interest rate. Yes.

Daniel Wong, Hong Leong Research – Analyst

High interest rate. Got it. So it remain high. So, we can expect this one to remain stable.

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad – CFO

Yes. And also it's a function of our cash balance. So if we sanction few projects in the second half, so we may have a lower cash balance, but probably offset by the remain elevated interest rate compared to last year.

Daniel Wong, Hong Leong Research – Analyst

Okay. Sure. That's all for me.

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad – CFO

Daniel, you asked on IGC. You asked about quarter 1 and quarter 2. So it's comparable volume.

Daniel Wong, Hong Leong Research – Analyst

Internal gas consumption volume is comparable. Nothing changes. Okay. And maintenance, quarter-on-quarter also nothing changed, right, q-on-q basis?

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad – CFO

Comparable.

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

Comparable.

Daniel Wong, Hong Leong Research – Analyst

Comparable. Okay. Sure.

Operator

We have no further questions on the phone line at the moment. I hand back to you. Thank you.

Suriyanti Nordin, PETRONAS Gas Berhad – Head of IR

Okay. Thank you, Razia. I think that concludes our analyst briefing for quarter 2 2023. Thank you, everyone, for coming.

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

Thank you.

Shahrul Azham Bin Sukaiman, PETRONAS Gas Berhad – CFO

Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect your lines. Thank you.