

06 July 2022

Gas Malaysia Bhd

Margin To Stay Elevated

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We raised our DCF-driven target price to RM3.40 from RM3.10 on the back of 15%-23% upgrade in FY22-FY23 net profit forecasts on higher total margin spread assumption of RM2.60/mmbtu from RM2.50/mmbtu-RM2.40/mmbtu. We believe our previous assumptions were conservative as the strong 1QFY22 margin is to set a new base for the next three years. **OUTPERFORM** maintained.

The key takeaways from our recent engagement with the company are as follows:

1. While the company did not disclose the decline in shipper volume from Gas Malaysia Energy & Services Sdn Bhd (GMES) in 1QFY22 following market liberalisation, which started from Jan 2022, due to information sensitivity, it confirmed that Gas Malaysia Distribution Sdn Bhd (GMD) continued to register volume growth as all shippers have to pay for the usage of GMD's distribution pipeline.
2. 1QFY22 margin spread is to stay for at least three years which is the shortest contract tenure while the rest are 5-year and 8-year contracts. Given the strong margin, we believe the retail margin could be as high as 1.5%-2.0% against the earlier indication of 1%. This is more than sufficient to address the decline in volume, which we estimated at 5% QoQ in 1QFY22, and even lead to better results.
3. While the company didn't share the RAB return rate which is slightly higher than TENAGA's (OP; TP: RM10.81) 7.3% in RP3, it believes the rate of return in RP2 should be able to maintain at current RP1's level when it ends this December.

Upgrade FY22-FY23 earnings by 15%-23%. As witnessed in 1QFY22, the market liberalisation may not be a bad thing for GASMSIA as it managed to improve its profitability given the tariff setting strategy to boost retail margin. In addition, as gas prices remain elevated, retail margin which is based on gas selling price will remain high. As the shortest contract tenure is three years, this means the current strong margin spread will at least stay firm for the next three years. As such, we upped our total margin spread assumption to RM2.60/mmbtu for FY22-FY24 but a lower spread of RM2.40/mmbtu thereafter. This led us to upgrade FY22-FY23 earnings forecast by 15%-23%. NDPS is also raised proportionally based on unchanged earnings payout of 90%.

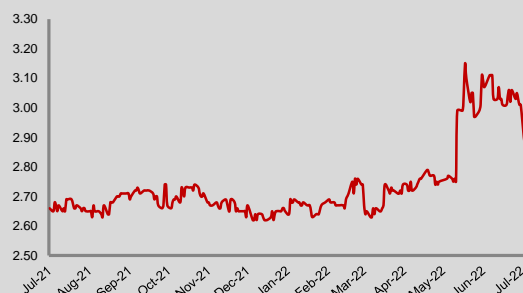
Maintain OUTPERFORM. We remain optimistic about GASMSIA's earnings prospects given the expected strong earnings for the next three years supported by favourable retail margin arising from the better deal in contract renegotiation. With economic reopening, volume growth is back on track which we projected at 3% annually. As such, we maintain our OUTPERFORM rating for its earnings defensiveness and above average dividend yield of >7%. Post-earnings revision, our new DCF-driven target price is now RM3.40, from RM3.10 previously.

Downside risk to our recommendation is lower-than-expected margin spread in the future as well as losing clients to other shippers.

OUTPERFORM ↔

Price: **RM2.91**
Target Price: **RM3.40** ↑

Share Price Performance



KLCI	1,440.81
YTD KLCI chg	-8.1%
YTD stock price chg	9.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	GMB MK
Market Cap (RM m)	3,736.4
Shares Outstanding	1,284.0
52-week range (H)	3.30
52-week range (L)	2.61
3-mth avg daily vol:	801,389
Free Float	12%
Beta	0.4

Major Shareholders

Anglo Oriental Annuity	30.9%
Tokyo Gas Mitsui	18.5%
Petronas Gas Bhd	14.8%

Summary Earnings Table

FY Dec (RM m)	2021	2022F	2023F
Turnover	5851.6	6296.8	6815.5
EBIT	336.3	429.0	435.6
PBT	330.4	422.5	428.8
Net Profit (NP)	249.6	304.2	325.9
Core Net Profit	251.4	304.2	325.9
Consensus (NP)		301.2	301.3
Earnings Revision (%)		+15.1	+22.5
Core EPS (sen)	19.6	23.7	25.4
Core EPS growth (%)	12.7	21.0	7.1
NDPS (sen)	17.7	21.3	22.8
NTA/Share (RM)	0.88	0.90	0.93
BV/Share (RM)	0.88	0.90	0.93
Core PER (x)	14.9	12.3	11.5
Price/NTA (x)	3.3	3.2	3.1
PBV (x)	3.3	3.2	3.1
Gearing (x)	0.26	0.26	0.26
Dividend Yield (%)	6.7	7.3	7.8

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Valuation - New

	RM m	RM/Share	%	Valuation Basic
PV of FCF for FY22-FY31	2,043.4	1.59	46.8%	6.5% WACC
PV of FCF in perpetuity	2,628.0	2.05	60.2%	6.5% WACC, g = 2%
Net Cash/(Debt)	-307.4	-0.24	-7.0%	estimated FY22E
Total DCF value	4,364.0	3.40	100.0%	
Issued share (m)	1,284.0			
DCF value per share	RM3.40			

Source: Kenanga Research

Valuation - Old

	RM m	RM/Share	%	Valuation Basic
PV of FCF for FY22-FY31	1,867.4	1.45	46.9%	6.7% WACC
PV of FCF in perpetuity	2,445.2	1.90	61.4%	6.7% WACC, g = 2%
Net Cash/(Debt)	-329.8	-0.26	-8.3%	estimated FY22E
Total DCF value	3,982.8	3.10	100.0%	
Issued share (m)	1,284.0			
DCF value per share	RM3.10			

Source: Kenanga Research

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2019	2020	2021	2022F	2023F	FY Dec	2019	2020	2021	2022F	2023F
Revenue	6886	6687	5851.6	6296.8	6815.5	Growth (%)					
EBITDA	311	382	430.1	526.3	539.9	Turnover	10.5	-2.9	-12.5	7.6	8.2
Depreciation	-79	-87	-93.8	-97.3	-104.3	EBITDA	3.2	22.9	12.4	22.4	2.6
EBIT	232	295	336.3	429.0	435.6	Op. Profit	-1.3	27.2	13.9	27.6	1.5
Other Income	4	12	5.2	3.3	3.4	PBT	3.3	20.1	13.6	27.9	1.5
Interest Expense	-15	-17	-10.4	-10.8	-11.2	Net Profit	5.2	11.8	17.4	21.9	7.1
Associate	21	0	-0.7	1.0	1.0	Core Net Profit	1.8	26.8	12.7	21.0	7.1
Exceptional/FV	0	0	0.0	0.0	0.0	Profitability (%)					
PBT	242	291	330.4	422.5	428.8	EBITDA Margin	4.5	5.7	7.4	8.4	7.9
Taxation	-49	-75	-77.3	-118.3	-102.9	Operating Margin	3.4	4.4	5.7	6.8	6.4
Minority Interest	0	0	0.0	0.0	0.0	PBT Margin	3.5	4.3	5.6	6.7	6.3
Net Profit	190	213	249.6	304.2	325.9	Net Profit	2.8	3.2	4.3	4.8	4.8
Core Net Profit	176	223	251.4	304.2	325.9	Core Net Margin	2.6	3.3	4.3	4.8	4.8
						Effective Tax Rate	20.0	25.7	23.4	28.0	24.0
						ROA	7.4	9.1	9.5	10.4	10.9
						ROE	16.9	20.7	22.2	26.2	27.3
						DuPont Analysis					
						Net Margin (%)	2.6	3.3	4.3	4.8	4.8
						Assets T/over (x)	2.63	2.52	2.04	2.08	2.15
						Leverage Factor(x)	2.51	2.46	2.54	2.61	2.65
						ROE (%)	16.9	20.7	22.2	26.2	27.3
						Leverage					
						Debt/Asset (x)	0.15	0.15	0.12	0.13	0.12
						Debt/Equity (x)	0.38	0.38	0.30	0.33	0.31
						Net Cash/(Debt)	-227	-176	-292	-307	-306
						Net Debt/Equity (x)	0.22	0.16	0.26	0.26	0.26
						Valuations					
						Core EPS (sen)	13.7	17.4	19.6	23.7	25.4
						NDPS (sen)	14.1	15.1	17.7	21.3	22.8
						BV (RM)	0.81	0.84	0.88	0.90	0.93
						NTA (RM)	0.81	0.84	0.88	0.90	0.93
						Core PER (x)	21.2	16.7	14.9	12.3	11.5
						Net Yield (%)	5.1	5.5	6.7	7.3	7.8
						PBV (x)	3.82	3.58	3.46	3.31	3.22
						P/NTA (x)	3.58	3.46	3.31	3.22	3.13
						EV/EBITDA	12.3	10.4	7.9	7.7	7.5

Source: Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
GAS MALAYSIA BHD	2.91	3,736.4	Y	12/2022	7.6%	8.2%	21.0%	7.1%	14.9	12.3	11.5	3.3	3.2	26.6%	7.3%	3.40	OP
MALAKOFF CORP BHD	0.625	3,054.4	Y	12/2022	22.8%	-5.8%	-12.6%	11.8%	9.7	11.1	9.9	0.6	0.6	5.2%	7.2%	0.980	OP
PESTECH INTERNATIONAL BHD	0.410	403.7	Y	06/2022	-10.1%	-6.3%	-30.1%	3.8%	5.4	7.7	7.5	0.7	0.6	8.2%	0.0%	0.660	OP
PETRONAS GAS BHD	16.32	32,292.9	Y	12/2022	1.0%	-0.8%	-3.7%	4.5%	15.9	16.6	15.8	2.5	2.4	14.8%	5.1%	17.51	MP
SAMAIDEN GROUP BHD	0.580	223.3	Y	06/2022	130.1%	15.1%	101.7%	21.8%	30.3	15.0	12.3	3.7	2.9	21.8%	0.0%	0.710	OP
TENAGA NASIONAL BHD	8.02	45,923.3	Y	12/2022	-3.3%	1.8%	-0.8%	13.1%	9.6	9.6	8.5	0.8	0.8	8.3%	5.2%	11.06	OP
YTL POWER INTERNATIONAL BHD	0.685	5,550.0	N	06/2022	31.8%	1.5%	-61.4%	104.7%	12.1	31.3	15.3	0.4	0.4	1.4%	7.3%	1.11	OP
Simple Average					25.7%	2.0%	2.0%	23.8%	14.0	14.8	11.5	1.7	1.6	12.3%	4.6%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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