

09 August 2018 | 2QFY18 Results Review

## Gas Malaysia Berhad

*Higher gas volume and tariff boosted earnings*

### INVESTMENT HIGHLIGHTS

- **Gas Malaysia's (GMB) 2QFY18 reported earnings surged by +42.4%yoy to RM48.1m**
- **Earnings growth supported by strong sales growth of +17.3% to RM1.5b**
- **Strong earnings contributed by higher volume of gas sold and higher natural gas tariff**
- **Declared first interim dividend of 4.5sen**
- **Maintain BUY with unchanged TP of RM3.50 per share premised on strong sales, good dividend yield and strong potential upside**

**Reported earnings surged by +42.4%yoy.** GMB's 2QFY18 reported earnings surged +42.4%yoy to RM48.1m. The company's 6MFY18 earnings came in broadly within ours and consensus expectations, making up 45.0% and 48% of FY18 earnings estimates. We continue to expect stronger quarters ahead as 2HFY18 is typically a stronger period for GMB. The increase in earnings and revenue year-over-year are largely due to the higher volume of natural gas sold and higher natural gas tariff.

**Gas sales volume expected to expand in FY18.** We reiterate our view that we opine gas sales volume for FY18 will continue to sustain and register year-over-year growth. Our current gas volume growth projection is between 6-6.5%. Our assumption is premised on strong national GDP growth of 5.5% for 2018. Moving forward, we believe that the growth in the gas sales volume will be primarily driven by rubber, oleo-chemical, consumer products and glass manufacturing industry supported by robust 2018 GDP growth of approximately 5.5%.

**Incentive-based regulation (IBR) framework.** The IBR framework is clearly having a positive impact on the group revenue and earnings as its regulated assets continue to increase. In addition, the IBR will provide financial neutrality to the company with respect to any gas costs fluctuations. Management guided that the increase in volume of gas sold and rise in new customers acquisition is likely to sustain throughout 2018.


**Impact on earnings.** No changes to earnings and dividend estimates.

**Maintain BUY**

**Maintain Target Price (TP): RM3.50**

RETURN STATS	
Price (9 August 2018)	RM2.93
Target Price	RM3.50
Expected Share Price Return	+19.5%
Expected Dividend Yield	+4.9%
<b>Expected Total Return</b>	<b>+24.4%</b>

STOCK INFO	
KLCI	1,804.1
Bursa / Bloomberg	5209 / GMB MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	1,284.0
Market cap. (RM'm)	3,762.12
Price over NA	3.3x
52-wk price Range	RM2.66 – RM3.02
Beta (against KLCI)	0.76
3-mth Avg Daily Vol	0.35m
3-mth Avg Daily Value	RM1.01m
Major Shareholders (%)	
Anglo Oriental Annuities	30.93
Tokyo Mitsui Gas	18.50
Petronas Gas	14.80
Lembaga Tabung Haji	7.86

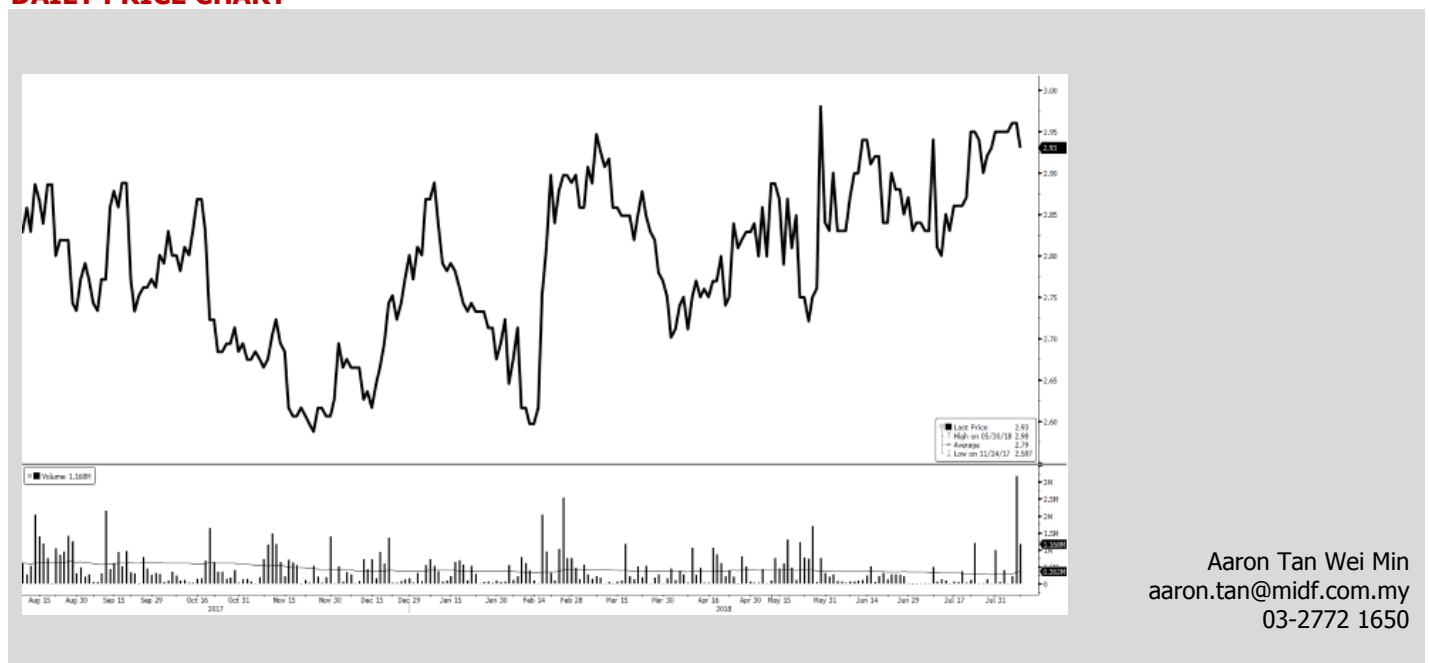
**Maintain BUY.** We are maintaining our **BUY** recommendation on GMB with an unchanged target price of **RM3.50** per share. Our TP valuation is based on Gordon Growth Model with risk-free rate (rfr) assumption of 3.9%, market risk premium of 6.1%, beta of 0.6x and a terminal growth rate of 4%. Key risks to our earnings outlook and dividend payout are: (i) high capex requirement; (ii) higher future gearing and; (iii) structural changes to the local gas pricing and consumption. 

## INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	3,619.0	4,053.0	5,348.8	5,475.1	6,049.8
EBIT (RM'm)	151.1	203.2	253.8	260.2	287.1
Pretax Profit (RM'm)	143.6	212.8	248.2	254.2	280.6
Net Profit (RM'm)	106.2	165.1	194.6	198.3	218.9
EPS (sen)	8.3	12.9	15.2	15.4	17.0
EPS Growth (%)	(36.4)	54.9	17.9	1.9	10.4
PER (x)	33.30	21.50	18.20	17.9	16.2
Net Dividend (sen)	8.0	12.9	12.0	13.0	15.3
Net Dividend (%)	2.9	4.7	4.3	4.9	5.8

Source: MIDFR

## DAILY PRICE CHART



Aaron Tan Wei Min  
aaron.tan@midf.com.my  
03-2772 1650

Source: MIDFR, Company

## 2QFY18 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly results					Cummulative results		
	2QFY17	1QFY18	2QFY18	QoQ	YoY	1HFY17	1HFY18	YoY
<b>Revenue</b>	<b>1,281.6</b>	<b>1,435.2</b>	<b>1,503.2</b>	4.7	17.3	<b>2,467.3</b>	<b>2,938.4</b>	19.1
Cost of Sales	(1,221.7)	(1,366.3)	(1,424.2)	4.2	16.6	(2,352.8)	(2,790.5)	18.6
<b>Gross Profit</b>	<b>59.9</b>	<b>68.9</b>	<b>79.0</b>	14.6	31.9	<b>114.6</b>	<b>147.9</b>	29.1
Finance income	2.9	2.2	1.2	(45.5)	(58.4)	6.5	3.4	(47.1)
Other operating income	0.3	0.3	0.6	99.7	73.3	0.6	0.9	41.3
Administrative expenses	(16.8)	(15.0)	(14.2)	(5.3)	(15.3)	(30.8)	(29.2)	(5.2)
Selling & distribution expenses	(0.3)	(0.3)	(0.3)	(9.8)	5.3	(0.5)	(0.6)	16.8
Finance cost	(0.5)	(2.2)	(4.3)	94.7	788.5	(1.1)	(6.6)	492.3
Share of result in JV	(0.1)	0.9	1.7	96.5	>100	0.2	2.6	>100
<b>Profit before zakat &amp; tax</b>	<b>45.5</b>	<b>54.8</b>	<b>63.7</b>	16.3	39.8	<b>89.4</b>	<b>118.5</b>	32.5
Zakat	(0.9)	(0.9)	(0.9)	-	-	(1.8)	(1.8)	-
Tax	(11.1)	(13.7)	(14.8)	7.7	33.0	(21.7)	(28.4)	30.8
<b>Net Profit</b>	<b>33.6</b>	<b>40.2</b>	<b>48.1</b>	19.6	43.2	<b>65.9</b>	<b>88.3</b>	34.0
MI	(0.2)	-	-	nm	nm	(0.3)	-	nm
<b>PATAMI</b>	<b>33.8</b>	<b>40.2</b>	<b>48.1</b>	19.6	42.4	<b>65.6</b>	<b>88.3</b>	34.5
EPS	2.63	3.10	3.74	20.6	42.2	5.15	6.88	33.6
<b>Segmental</b>								
Natural Gas & LPG	1,280.3	1,435.2	1,503.2	4.7	17.4	2,467.3	2,938.4	19.1
<b>EBITDA</b>								
Natural Gas & LPG	56.6	67.8	77.1	13.7	36.1	112.9	144.9	28.3

Source: MIDFR, Company

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.