

15 November 2018 | 3QFY18 Results Review

Gas Malaysia Berhad

Earnings supported by higher gas volume

INVESTMENT HIGHLIGHTS

- **Gas Malaysia's (GMB) 3QFY18 reported earnings grew by +22.7%yoy to RM41.0m**
- **Earnings growth supported by strong sales growth of +11.8% to RM1.5b**
- **Strong earnings contributed by higher volume of gas sold and higher natural gas tariff**
- **Maintain BUY with an unchanged TP of RM3.50 per share premised on strong sales, good dividend yield and potential upside**

Reported earnings grew by +22.7%yoy. GMB's 3QFY18 reported earnings grew by +22.7%yoy to RM41.0m. 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. Meanwhile, the company's cumulative 9MFY18 earnings came in broadly within ours and consensus expectations, making up 65% and 70% of FY18 earnings estimates respectively. We continue to expect stronger quarter ahead as 4Q is typically the strongest quarter for GMB.

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 resilient national GDP growth of 4.8% 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 2018 GDP growth of approximately 4.8%.

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 sold and rise in new customers acquisition is likely to sustain throughout 2018.

Impact on earnings. No changes made to our earnings estimates.

Maintain BUY

Maintain Target Price (TP): RM3.50

| RETURN STATS | |
|------------------------------|---------------|
| Price (14 November 2018) | RM2.83 |
| Target Price | RM3.50 |
| Expected Share Price Return | +23.7% |
| Expected Dividend Yield | +5.4% |
| Expected Total Return | +29.1% |

| 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) | 3,633.72 |
| Price over NA | 3.7x |
| 52-wk price Range | RM2.66 – RM3.01 |
| Beta (against KLCI) | 0.77 |
| 3-mth Avg Daily Vol | 0.34m |
| 3-mth Avg Daily Value | RM0.98m |
| Major Shareholders (%) | |
| Anglo Oriental Annuities | 30.93 |
| Tokyo Mitsui Gas | 18.50 |
| Petronas Gas | 14.80 |
| Lembaga Tabung Haji | 7.79 |

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 3.2%, 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.

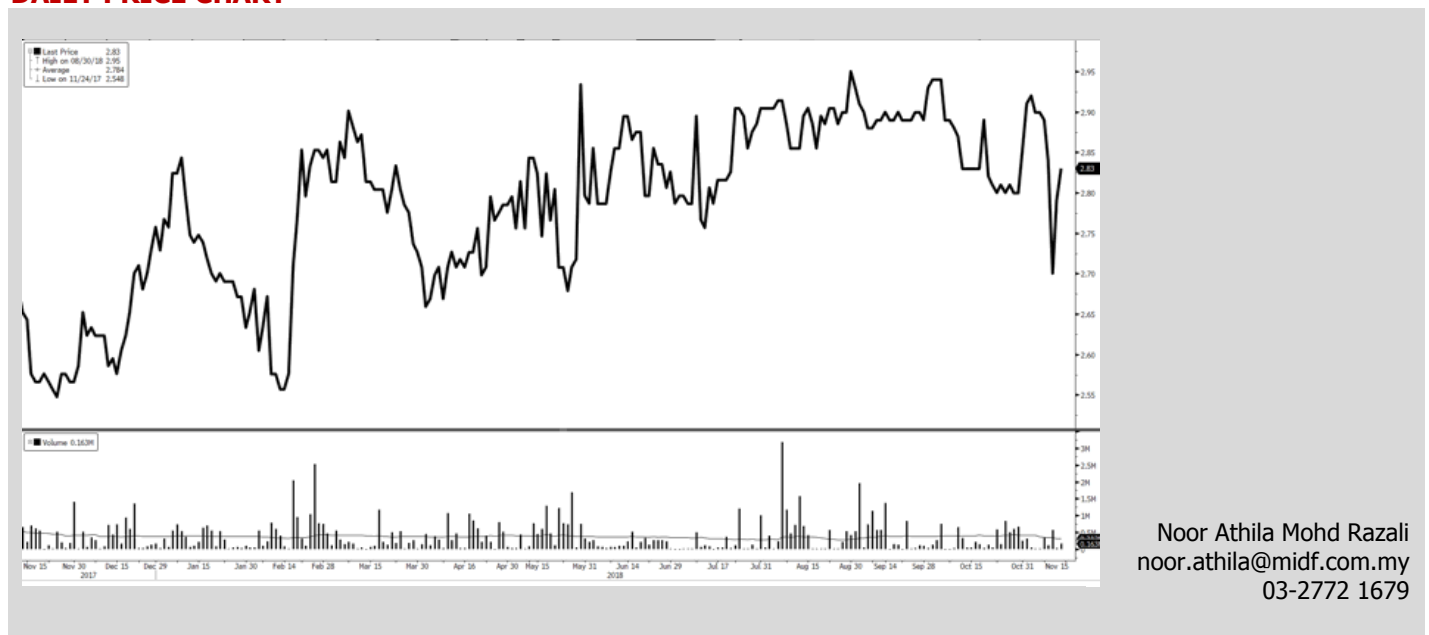


INVESTMENT STATISTICS

| 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) | 34.1 | 22.0 | 18.7 | 18.3 | 16.6 |
| Net Dividend (sen) | 8.0 | 12.9 | 13.0 | 13.0 | 15.3 |
| Net Dividend (%) | 2.8% | 4.6% | 4.6% | 4.6% | 5.4% |

Source: MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

Table 1: Gas Malaysia's quarterly earnings review

| FYE Dec (RM m) | Quarterly Results | | | | | Cumulative | | |
|-------------------------|-------------------|-----------------|-----------------|----------------|--------------|-----------------|-----------------|--------------|
| | 3QFY17 | 2QFY18 | 3QFY18 | QoQ (%) | YoY (%) | 9MFY17 | 9MFY18 | YoY (%) |
| Revenue | 1,392.53 | 1,503.19 | 1,556.28 | 3.53 | 11.76 | 3,859.87 | 4,494.72 | 16.45 |
| Cost of Sales | (1,330.62) | (1,424.17) | (1,484.36) | 4.23 | 11.55 | (3,683.39) | (4,274.85) | 16.06 |
| Gross Profit | 61.91 | 79.01 | 71.92 | (8.97) | 16.17 | 176.48 | 219.87 | 24.59 |
| Interest Income | 2.31 | 1.21 | 1.39 | 14.69 | (39.75) | 8.80 | 4.83 | (45.18) |
| Other Op Income | 0.43 | 0.58 | 0.26 | (54.59) | (38.79) | 1.04 | 1.13 | 8.36 |
| Admin. Expenses | (17.80) | (14.22) | (17.23) | 21.21 | (3.20) | (48.62) | (46.46) | (4.44) |
| Selling & Dist Expenses | (0.26) | (0.28) | (0.31) | 13.00 | 22.27 | (0.76) | (0.90) | 18.65 |
| Net Finance Costs | (2.39) | (4.34) | (3.15) | (27.47) | 31.59 | (3.50) | (9.71) | 177.53 |
| Share of results in JV | 0.23 | 1.73 | 1.52 | (12.26) | 565.35 | 0.39 | 4.13 | 960.67 |
| Pretax Profit | 44.43 | 63.70 | 54.40 | (14.60) | 22.46 | 133.83 | 172.88 | 29.18 |
| Zakat Expense | (0.88) | (0.88) | (0.88) | - | - | (2.63) | (2.63) | - |
| Tax Expense | (10.11) | (14.75) | (12.50) | (15.27) | 23.57 | (31.86) | (40.94) | 28.50 |
| Net Profit | 33.44 | 48.07 | 41.03 | (14.66) | 22.71 | 99.35 | 129.31 | 30.17 |
| Gross Profit Margin (%) | 4.45 | 5.26 | 4.62 | (0.63) | 0.18 | 4.57 | 4.89 | 0.32 |
| Net Margin (%) | 2.40 | 3.20 | 2.64 | (0.56) | 0.24 | 2.57 | 2.88 | 0.30 |
| | | | | | | | | |
| EPS (sen) | 2.62 | 3.74 | 3.20 | (14.44) | 22.14 | 7.77 | 10.07 | 29.60 |
| | | | | | | | | |
| <i>Segmental:</i> | | | | | | | | |
| Revenue: | | | | | | | | |
| - Natural Gas & LPG | 1,392.53 | 1,503.20 | 1,556.32 | 3.53 | 11.76 | 3,859.87 | 4,494.72 | 16.45 |
| | | | | | | | | |
| EBITDA | | | | | | | | |
| - Natural Gas & LPG | 57.42 | 77.10 | 68.12 | (11.65) | 18.64 | 170.35 | 213.01 | 25.04 |

Source: MIDFR, Company

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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. |