

30 May 2018 | 1QFY18 Results Review

## Gas Malaysia Berhad

*Commendable quarter*

### INVESTMENT HIGHLIGHTS

- **Gas Malaysia's (GMB) 1QFY18 reported earnings grew by +18.1%yoy to RM40.2m**
- **Earnings growth supported by strong sales growth of +20.9%yoy to RM1.4b**
- **Commendable earnings contributed by higher volume of gas sold**
- **Maintain BUY with an unchanged TP of RM3.50 per share premised on strong sales, good dividend yield and strong potential upside**

**Sustained strong gas sales volume.** GMB's 1QFY18 reported earnings surged by +18.1%yoy to RM40.2m. The company's 3MFY18 earnings kept pace with ours and consensus expectations, making up 20.2% and 22.0% of FY18 earnings estimates respectively. We are expecting stronger quarters ahead as 2HFY18 is typically a stronger period. The increase in earnings and revenue year-over-year are largely due to higher higher volume of gas sold and higher natural gas tariff.

**Gas sales volume expected to expand in FY18.** We believe that gas sales volume for FY18 will continue to sustain and to register year-over-year growth. Our gas volume growth projection is currently 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 the 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 with 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 dividends estimates.

**Maintain BUY**


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

#### RETURN STATS

Price (28 May 2018)	RM2.76
Target Price	RM3.50
Expected Share Price Return	+26.8%
Expected Dividend Yield	+4.7%
<b>Expected Total Return</b>	<b>+31.5%</b>

#### STOCK INFO

KLCI	1,775.84
Bursa / Bloomberg	5209 / GMB MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	1,284.0
Market cap. (RM'm)	3,543.0
Price over NA	3.3x
52-wk price Range	RM2.59 – RM2.95
Beta (against KLCI)	0.87
3-mth Avg Daily Vol	0.39m
3-mth Avg Daily Value	RM1.1m
Major Shareholders (%)	
Anglo Oriental Annuities	30.93
Tokyo Mitsui Gas	18.50
Petronas Gas	14.80
Lembaga Tabung Haji	7.88

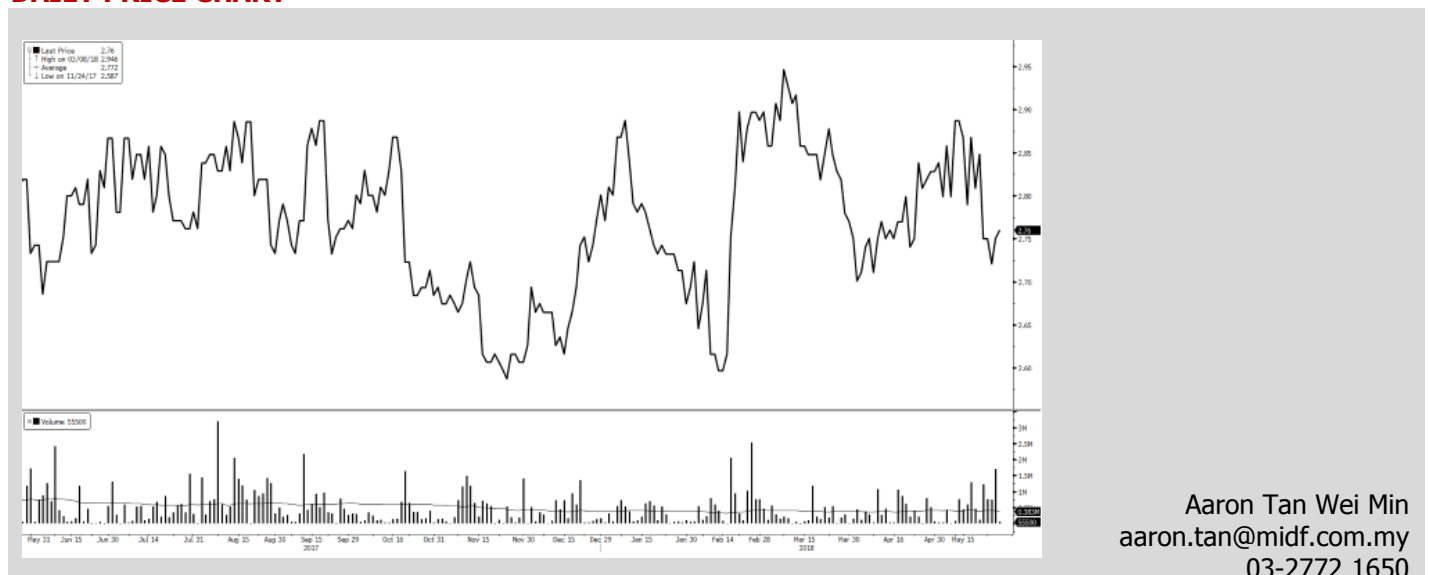
**Maintain BUY.** We are maintaining our **BUY** recommendation with an unchanged target price of **RM3.50** per share. Our TP valuation is based on Gordon Growth Model with a risk-free rate (rfr) assumption of 3.9%, market-risk premium of 6.1%, beta of 0.6x and a terminal growth rate of 4%. Key risks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

## INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM m)	2,773.5	3,619.0	4,053.0	5,348.8	5,475.1	6,049.8
EBIT (RM m)	220.0	151.1	203.2	253.8	260.2	287.1
Pretax Profit (RM'm)	213.1	143.6	212.8	248.2	254.2	280.6
Net Profit (RM m)	167.6	106.2	165.1	194.6	198.3	218.9
EPS (sen)	13.1	8.3	12.9	15.2	15.4	17.0
EPS Growth (%)	-2.2	-36.4	54.9	17.9	1.9	10.4
PER (x)	21.1	33.3	21.5	18.2	17.9	16.2
Net Dividend (sen)	13.1	8.0	12.9	12.0	13.0	15.3
Net Dividend (%)	4.7	2.9	4.7	4.3	4.7	5.6

Source: MIDFR

## DAILY PRICE CHART



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Source: MIDFR, Company

## 1QFY18 Results Summary

FYE Dec (RM m)	Quarterly Results				
	1Q17	4Q17	1Q18	YoY (%)	QoQ (%)
Revenue	1187.0	1471.1	1435.2	20.9	-2.4
Gross Profit	56.0	113.4	68.9	23.2	-39.2
Interest Income	3.6	1.3	2.2	-37.9	68.3
Other Op Income	0.3	1.2	0.3	3.2	-76.0
Admin. Expenses	-14.0	-19.9	-15.0	7.0	-24.7
Net Finance Costs	0.6	-2.1	-2.2	-459.2	4.1
Pretax Profit	45.2	96.5	54.8	21.3	-43.2
Tax & Zakat	-10.7	-19.5	-14.6	36.8	-25.5
Net Profit	34.1	77.0	40.2	18.1	-47.8
Net Margin (%)	2.9	5.2	2.8	-0.1	-2.4
EPS (sen)	2.6	6.0	3.1	19.0	-47.8
Segmental:					
Revenue:					
- Natural Gas & LPG	1187.0	1471.1	1435.2	20.9	-2.4
EBITDA					
- Natural Gas & LPG	56.3	110.8	67.8	20.3	-38.8

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.