

19 February 2018 | 4QFY17 Results Review

Gas Malaysia Berhad

Best quarterly results ever recorded

Maintain BUY

Unchanged Target Price (TP): RM3.50

INVESTMENT HIGHLIGHTS

- **Gas Malaysia's (GMB) 4QFY17 reported earnings skyrocketed to RM77m (+49.2%yoy)**
- **Earnings growth premised on strong sales growth of +40.1%yoy to RM1,471.1m**
- **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**

Strong sales volume. GMB's 4QFY17 reported earnings surged by +49.2%yoy to RM77m. The company's cumulative FY17 earnings of RM194.6m exceeded ours and consensus expectations by a variance of more than >10%. Although we were expecting stronger earnings in 2H, the surge in earnings recorded were largely due to higher-than-expected higher volume of gas sold and higher natural gas tariff.


Gas sales volume to expand aggressively in FY18. We believe that gas sales volume for FY17 registered strong year-over-year growth of more than +8%yoy – We were conservatively projecting growth of between 6-6.5%. This is a direct result of strong GDP growth of 5.9% recorded in 2017 compared with 4.2% recorded a year earlier. 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. Given the anticipated strong gas sales volume in FY18 supported by robust GDP growth, we are revising our FY18 earnings forecast upward by +7.4%. We are however maintaining our conservative dividend payout forecasts.

RETURN STATS	
Price (15 February 2018)	RM2.70
Target Price	RM3.50
Expected Share Price Return	+29.6%
Expected Dividend Yield	+4.8%
Expected Total Return	+34.4%

STOCK INFO	
KLCI	1,838.28
Bursa / Bloomberg	5209 / GMB MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	1,284.0
Market cap. (RM'm)	3,466.8
Price over NA	3.30
52-wk price Range	RM2.66 – RM3.15
Beta (against KLCI)	0.84
3-mth Avg Daily Vol	0.32m
3-mth Avg Daily Value	RM0.90m
Major Shareholders (%)	
Anglo Oriental Annuities	30.93
Tokyo Gas Mitsui	18.50
Petronas Gas	14.80
Lembaga Tabung Haji	7.98

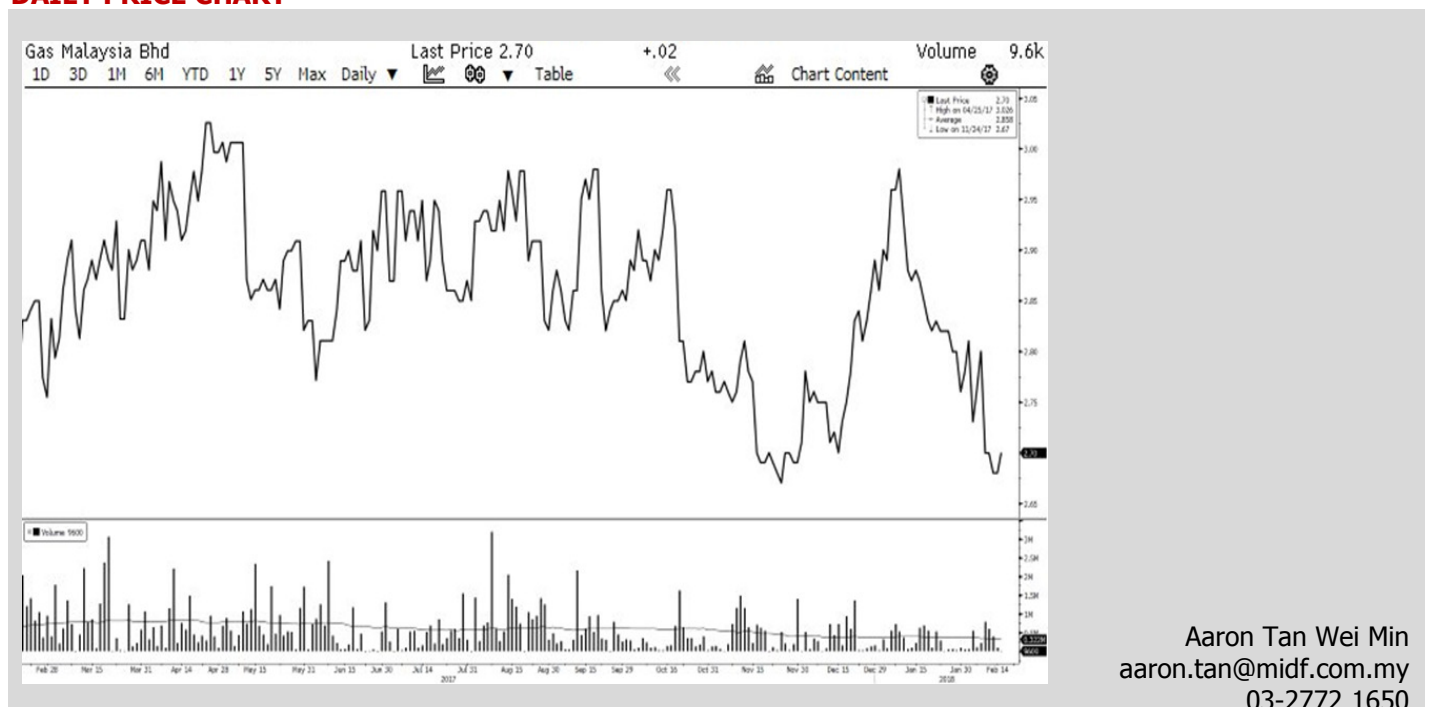
Maintain BUY. We are maintaining our **BUY** recommendation with an unchanged target price of **RM3.50** per share. Our TP valuation is based on Gordon Growth Model with a risk-free rate (rfr) assumption of 3.9%, market-risk premium of 6.1%, beta of 0.6x and a terminal growth rate of 4%. Key risks to our earnings outlook and dividend payout are: (i) high capex requirement; (ii) higher future gearing and; (iii) structural changes to 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)	20.7	32.5	21.0	17.8	17.5	15.8
Net Dividend (sen)	13.1	8.0	12.9	12.0	13.0	15.3
Net Dividend (%)	4.9	3.0	4.8	4.4	4.8	5.7

Source: MIDFR

DAILY PRICE CHART



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

Source: MIDFR, Company

4QFY17 Results Summary

FYE Dec (RM m)	Quarterly Results			Cumulative			Comments
	4Q17	YoY (%)	QoQ (%)	FY16	FY17	YoY (%)	
Revenue	1471.1	40.1	4.8	40.0	5348.8	32.0	Stronger than anticipated gas sales volume
Gross Profit	113.4	46.6	55.9	255.4	307.8	20.5	
Interest Income	1.3	-66.1	-42.7	13.3	10.1	-24.0	
Other Op Income	1.2	257.7	180.8	1.7	2.2	29.0	
Admin. Expenses	-19.9	68.7	12.0	-52.1	-68.6	31.7	
Net Finance Costs	-2.1	79.4	735.9	-3.1	-5.6	80.8	
Pretax Profit	96.5	42.3	74.6	212.8	248.2	16.6	
Tax & Zakat	-19.5	17.5	77.9	-48.4	-54.0	11.6	Lower tax rate due to reversals of over-provision
Net Profit	77.0	49.2	73.2	165.1	194.6	17.9	
Net Margin (%)	5.2	0.3	2.1	4.1	3.6	-0.4	
EPS (sen)	6.0	49.3	73.4	12.9	15.2	17.9	
<i>Segmental:</i>							
Revenue:							
- Natural Gas & LPG	1471.1	40.1	4.8	4053.0	5348.8	32.0	
EBITDA							
- Natural Gas & LPG	110.8	-162.0	61.8	257.4	299.4	16.3	

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.