

Gas Malaysia Berhad

(5209 | GMB MK) Utilities | Gas, Water & Multi-Utilities

Anticipating Natural Gas' ASP to Trend Higher

KEY INVESTMENT HIGHLIGHTS

- **GMB's 3QFY23 revenue down -3%yoy to RM1.8b, earnings down -11%yoy to RM84m**
- **Earnings lower than expectations; attributed to lower volume sold in 3QCY23 by -6%yoy offset by higher ASP**
- **GMB focusing on new CHP plants for cleaner energy generation**
- **Maintain BUY with revised TP: RM3.71**

Maintain BUY, revised TP:RM3.71. Gas Malaysia Bhd (GMB)'s 3QFY23 results were below our yearly expectations at 63%. We are maintaining **BUY** call for GMB, with a revised **TP of RM3.71** (previously RM4.00). We maintain our BUY call on the positive prospect GMB's diversification into CHP plants for a cleaner power generation, as well as the expectation of a higher average selling price for natural gas in the coming quarters due to the 6-month laggard on the basis of the Brent crude price.

Revenue down -3%yoy. GMB's 3QFY23 revenue slipped -2.6%yoy to RM1.82b. This was in line with lower volume of natural gas sold (-6%yoy to 39.5mGJ), mitigated by higher average natural gas selling price in tandem with the global market price.

Earnings down -11%yoy. 3QFY23 net profit declined by -11.2%yoy to RM84.2m. The lower earnings were due to lower volume sold, as well as higher operating and admin costs, offset by higher contributions from GMB's joint venture companies and higher finance income.

Higher demand amid lower volume. GMB reported 26 new industrial customers and 4 expansions in 3QFY23, offset by 12 terminated contracts. To date, GMB serves 1,042 industrial customers. 9MFY23 volume contribution for natural gas offtake, however, was lower by -13.2%yoy to 109.9mGJ. Despite the lower gas volume, GMB reported a total of 2,803km of operational pipeline, of which 33.8km were completed YTD23. We believe this signalled a better demand for natural gas from the industrial and commercial sectors in the near term, in line with the need for cleaner fuels for power generation as indicated in Malaysia's NIMP 2030 and NETR initiatives.

Future revenue stream in the works. GMB had been diversifying into cogeneration (CHP) as part of the group's energy solution initiative. The group currently owned CHP plants in the North (33MW) and Central (2MW) regions. GMB's recent ventures were a plant in Penang which is expected to generate a maximum of 6.7MW and 35Tph of steam (expected commissioning: Dec CY23) and a new plant in Selangor expected to generate 2.3MW and 20Tph steam, with up to 467,000GJ gas consumption per year. We are positive in GMB's CHP plants, not only as a new revenue but also as an initiative to further reduce 18,000 tonnes of CO₂ a year in the group's ESG aspirations.

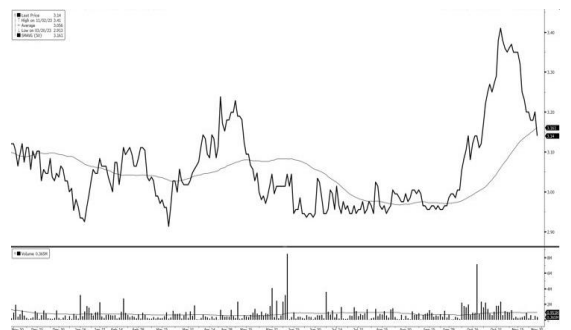
Maintain BUY

Revised Target Price: RM3.71
(Previously RM4.00)

RETURN STATISTICS

Price @ 28 th November 2021 (RM)	3.14
Expected share price return (%)	+18.2
Expected dividend yield (%)	+6.8
Expected total return (%)	+25.0

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.4	-3.8
3 months	3.3	3.3
12 months	-6.3	-3.8


INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	7,899	8,118	8,364
Operating Profit	472	544	640
Profit Before Tax	572	654	668
Core PATAMI	361	453	565
Core EPS	28.1	35.2	44.0
DPS	19.9	25.4	32.3
Dividend Yield	5.4%	6.8%	8.7%

KEY STATISTICS

FBM KLCI	1,448.02
Issue shares (m)	1284.0
Estimated free float (%)	15.62
Market Capitalisation (RM'm)	4,031.76
52-wk price range	RM2.97-RM3.46
3-mth average daily volume (m)	0.92
3-mth average daily value (RM'm)	2.93
Top Shareholders (%)	
Anglo Oriental Annuities Sdn Bhd	30.93
Tokvo Gas-Mitsui & Co Holdings	18.50
Petronas Gas Bhd	14.80

Revised earnings estimates. All in all, we revise our FY23-24 earnings forecast downwards by -18% and -13% respectively. Nevertheless, we maintain our positive stance on GMB given its diversifying portfolio, as well as the anticipation of a better ASP following the higher Brent crude price movement in 2HCY23.

Target price. Our target price is pegged on a PER of 10.5x to revised EPS24 of 35.2sen. The PER is based on the company's 5-year average with a slight premium in consideration of GMB's diversification into CHP plants. 

FORWARD BAND



Source: Bloomberg, MIDFR

Table 1: Gas Malaysia's Quarterly Earnings Review

Financial year ending 31st Dec (in RM'm unless stated otherwise)	Quarterly Results					Cumulative results		
	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Revenue	1,864.8	2,020.8	1,816.8	(10.1)	(2.6)	5,426.1	6,277.4	15.7
Cost of Sales	(1,709.8)	(1,869.2)	(1,687.2)	(9.7)	(1.3)	(4,975.2)	(5,851.9)	17.6
Gross Profit	155.0	151.6	129.7	(14.5)	(16.4)	450.9	425.5	(5.6)
Finance income	2.8	4.5	4.9	8.8	78.7	6.8	14.4	111.6
Other operating income	1.4	0.8	2.2	191.0	57.7	2.3	3.5	50.8
Admin. expenses	(19.0)	(21.0)	(22.9)	9.0	20.5	(52.3)	(65.1)	24.7
Selling & distribution expenses	(0.3)	(0.3)	(0.3)	3.1	6.4	(0.8)	(1.0)	34.7
Finance costs	(2.7)	(2.4)	(3.0)	24.0	10.6	(7.6)	(8.1)	6.7
Share of results in JV	1.6	(1.3)	1.9	(254.1)	21.6	3.7	2.0	(47.7)
Profit before zakat & taxation	138.8	131.9	112.5	(14.7)	(18.9)	403.2	371.0	(8.0)
Tax expenses	(42.3)	(33.2)	(25.5)	(23.1)	(39.6)	(106.2)	(89.3)	(15.9)
Profit after tax	95.7	97.8	86.2	(11.9)	(9.9)	294.3	279.1	(5.2)
Exceptional Items	(0.8)	(2.6)	(2.0)	(24.9)	147.4	(0.4)	(4.0)	>100
PATANCI Ex-EI	94.9	95.2	84.2	(11.6)	(11.2)	294.0	275.1	(6.4)
Basic EPS (sen)	7.5	7.6	6.7	(11.9)	(9.9)	22.9	21.7	(5.1)
DPS (sen)	4.5	22.8	4.8	(78.9)	6.7	18.8	22.8	21.1
				+ / (-) ppts				+ / (-) ppts
Gross Profit Margin (%)	8.3	7.5	7.1	(0.4)	(1.2)	8.3	6.8	(1.5)
Pretax Profit Margin (%)	7.4	6.5	6.2	(0.3)	(1.2)	7.4	5.9	(1.5)
Net Margin (%)	5.1	4.8	4.7	(0.1)	(0.4)	5.4	4.4	(1.0)

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	5,851.6	7,649.4	7,898.5	8,118.3	8,363.5
EBITDA	400.4	540.4	471.9	544.2	640.0
D&A	93.8	102.0	96.7	102.7	106.5
Profit before tax	330.4	546.7	484.5	566.0	668.4
Tax	-77.3	-153.7	-120.0	-110.0	-100.0
PATAMI	249.6	389.5	361.0	452.5	564.9
Core PATAMI	249.5	389.5	361.0	452.5	564.9
Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	1,532.6	1,616.0	1,642.9	1,680.2	1,731.5
Intangible assets	17.0	15.2	17.4	17.8	17.8
Non-current assets	1,635.0	1,726.6	1,704.9	1,744.1	1,790.3
Cash	42.9	591.3	687.4	710.4	835.8
Trade debtors	750.5	824.8	586.9	603.3	598.9
Current assets	1,233.4	1,420.7	1,303.5	1,317.5	1,379.2
Trade creditors	1,191.9	1,362.1	1,239.8	1,252.8	1,328.3
Short-term debt	320.2	161.2	294.2	309.1	330.1
Current liabilities	1,524.7	1,560.9	1,634.7	1,659.1	1,637.4
Long-term debt	11.0	80.0	80.0	80.0	80.0
Non-current liabilities	213.6	308.1	301.7	296.4	282.4
Share capital	642.0	642.0	642.0	642.0	642.0
Retained earnings	484.6	633.1	538.7	569.2	619.1
Equity	1,130.0	1,278.3	1,172.1	1,206.2	1,249.7
Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	330.4	546.7	484.5	566.0	668.4
Depreciation & amortisation	93.8	102.0	96.7	102.7	106.5
Operating cash flow	544.1	658.5	589.9	642.0	898.1
Investing cash flow	-456.1	232.3	-143.2	-209.1	-248.1
Financing cash flow	-277.9	-342.4	-350.6	-409.7	-524.6
Net cash flow	-189.9	548.4	96.1	23.1	125.3
Beginning cash flow	232.8	42.9	591.3	687.4	710.5
Ending cash flow	42.947	591.3	687.4	710.4	835.8
Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	6.8%	7.1%	6.0%	6.7%	7.7%
PBT margin	5.6%	7.2%	6.1%	7.0%	8.0%
Core PAT margin	4.3%	5.1%	4.6%	5.6%	6.8%

Source: Bloomberg, MIDFR

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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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology