Gas Malaysia Berhad

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

Higher Capex Expected Post-FY23

***Maintain* BUY**

***Revised* Target Price: RM3.96**

(Previously RM3.71)

KEY INVESTMENT HIGHLIGHTS

- **GMB's FY23 revenue up +6%yoy to RM8.1b while earnings down -3%yoy to RM379.5m**
- **FY23 earnings above expectations despite lower volume sold, offset by higher ASP and no prosperity tax**
- **GMB expecting higher capex of about Rm275m to RM300m in FY24 to catch up on pipeline issues in FY23**
- **Maintain BUY with a revised target price of RM3.96**

Maintain BUY, revised TP:RM3.96. Gas Malaysia Bhd (GMB)'s FY23 results were above our expectations at 106% and consensuses at 105%. We adjusted out earnings forecast marginally to accommodate the group's FY23 results, as well as on the expectation of a higher capex for FY24. At this juncture, we maintain our **BUY** call for GMB with a revised **target price of RM3.96.**

FY23 revenue up +6%yoy. GMB's 4QFY23 revenue slipped -19%yoy to RM1.8b. However, FY23 revenue added +5.6%yoy to RM8.1b. This was in line with higher average natural gas selling price mitigated by lower volume of natural gas sold.

FY23 earnings down -3%yoy. 4QFY23 earnings gained by +9.5%yoy to RM104.4m. Conversely, FY23 earnings declined by -2.5%yoy to RM379.5m. This was mainly due to: (i) lower volume of natural gas sold, (ii) higher operating and administrative expenses, and (iii) lower contributions from the Group's joint venture companies. These were partially offset by higher finance income and the absence of Cukai Makmur taxation.

Lower volume caused by weaker demand from the rubber industry. The group reported that the drop in demand from the rubber sector had dragged the volume of gas sold in FY23. We gather that, based on the latest available data, rubber production had seen a drop in 1HFY23 by -12%yoy to 245.7kT, while consumption declined by -32%yoy to 355.3kT. However, the industry had been stabilising to breakeven levels towards the end-year of CY23. For GMB, its highest contributor in FY23 was from the F&B industry.

Sustained operations despite lower volume. GMB reported 38 new industrial customers and 5 expansions in FY23, offset by 17 terminated contracts. To date, GMB serves 1,050 industrial customers. FY23 volume contribution for natural gas offtake, however, was lower by -9.8%yoy to 148.7mGJ. Despite the lower gas volume, GMB reported a total of 2,833km of operational pipeline, of which 59.3km were completed in FY23.

RETURN STATISTICS	
Price @ 20th February 2024 (RM)	3.38
Expected share price return (%)	+17.2
Expected dividend yield (%)	+6.7
Expected total return (%)	**+23.9**

SHARE PRICE CHART

Price performance (%)	Absolute	Relative
1 month	2.4	-2.1
3 months	5.3	-2.0
12 months	1.8	-3.6

INVESTMENT STATISTICS

FYE Dec	2024F	2025F	2026F
Revenue	8,227	8,618	9,199
Operating Profit	566	669	707
Profit Before Tax	574	676	713
Core PATAMI	455	579	624
Core EPS	35.4	45.1	48.6
DPS	24.8	29.3	31.6
Dividend Yield	6.7%	7.9%	8.5%

KEY STATISTICS	
FBM KLCI	1,555.59
Issue shares (m)	1,284.0
Estimated free float (%)	15.62.
Market Capitalisation (RM'm)	4,339.92
52-wk price range	RM2.97-RM3.46
3-mth average daily volume (m)	0.55
3-mth average daily value (RM'm)	1.76
Top Shareholders (%)	
Anglo Oriental Annuities Sdn Bhd	30.93
Tokyo Gas-Mitsuit & Co Holdings	18.50
Petronas Gas Bhd	14.80

MIDF Research
research@midf.com.my

Higher capex to catch up in FY24. During the analyst briefing, the management noted that average Malaysia Reference price (MRP) for CY24 is expected to be lower to RM41-46 per quarter, as compared to the average range of RM55-57 in CY23. However, the group is expected to increase its capex from RM220m in FY23 to a range of RM275m-300m in FY24. The reason for the higher capex was to catch up to the delays caused by pipeline issues encountered in 2QCY23, which prompted emergency maintenance amounting to a provision of approximately RM28m. We believe that this capex would help GMB to improve its operations and provide more opportunities for GMB to include more sustainable green projects in its future portfolio.

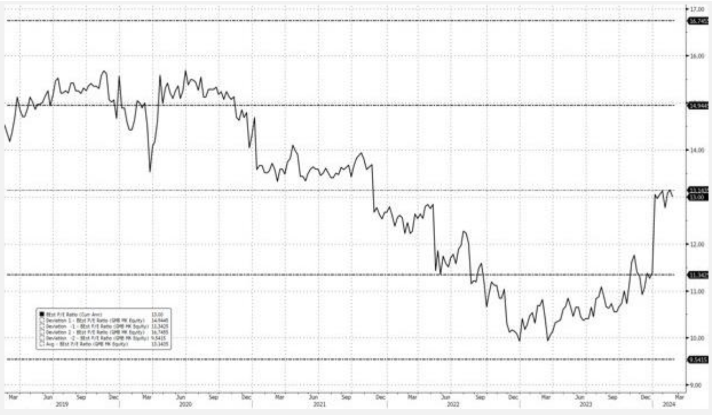
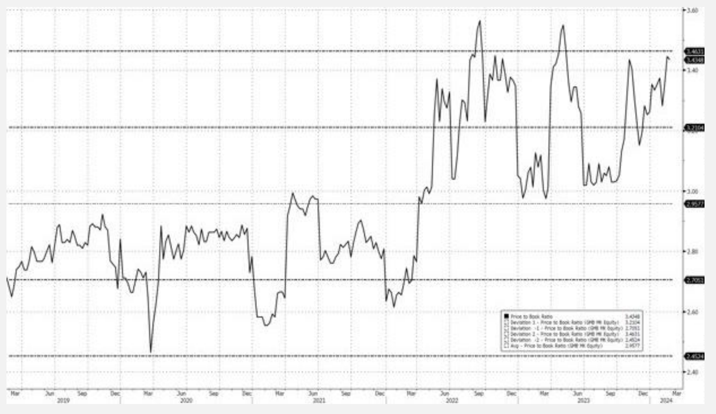
Revised earnings estimates. Given GMB's earnings came in above expectations, despite being lower than FY22 results, we revised our FY24 and FY25 earnings forecast upwards by a marginal +1% and +3% respectively. We remain positive on GMB's future operations, given the higher expected capex in FY24 and Brent crude oil stabilizing to a USD80-85pb range. This would eventually translate to a better, less volatile ASP. However, the lower expected MRP based off the previous six-month trend of Brent crude price still adds into the group's near-term risk.

Revised target price. We maintain our **BUY** call for GMB, with a new **target price of RM3.96** (previously RM3.71)**.** The target price is pegged on a PER of 11.2x to revised EPS24 of 35.4sen. The PER is based on industry's 5-year mean. Note that we have yet attached a premium valuation for GMB on its effort to diversify into clean renewable energy as we have yet seen meaningful contribution from this segment.

Table 1: Gas Malaysia's Quarterly Earnings Review

Financial year ending 31st Dec (in RM'm unless stated otherwise)	Quarterly Results					Cumulative results		
	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)
Revenue	**2,223.3**	**1,816.8**	**1,801.5**	(0.8)	(19.0)	**7,649.4**	**8,078.9**	5.6
Cost of Sales	(2,056.3)	(1,687.2)	(1,633.6)	(3.2)	(20.6)	(7,031.5)	(7,485.6)	6.5
Gross Profit	**166.9**	**129.7**	**167.9**	29.5	0.6	**617.9**	**593.4**	(4.0)
Finance income	5.1	4.9	4.8	(2.9)	(5.7)	11.9	19.2	61.5
Other operating income	0.4	2.2	0.5	(77.0)	30.5	2.7	4.0	47.8
Admin. expenses	(26.9)	(22.9)	(29.1)	27.1	8.2	(79.2)	(94.2)	19.1
Selling & distribution expenses	(0.3)	(0.3)	(0.4)	17.7	20.6	(1.1)	(1.4)	30.4
Finance costs	(2.6)	(3.0)	(3.0)	(0.5)	15.3	(10.2)	(11.1)	8.9
Share of results in JV	0.9	1.9	2.0	1.3	107.5	4.7	3.9	(16.3)
Profit before zakat & taxation	**143.5**	**112.5**	**142.7**	26.8	(0.6)	**546.7**	**513.7**	(6.0)
Tax expenses	(47.4)	(25.5)	(37.5)	46.9	(21.0)	(153.7)	(126.8)	(17.5)
Profit after tax	**95.2**	**86.2**	**104.3**	21.1	9.6	**389.5**	**383.4**	(1.6)
Exceptional Items	**0.1**	**(2.0)**	0.0	(101.9)	(66.1)	**(0.2)**	(3.9)	1,491.9
PATANCI Ex-EI	**95.3**	**84.2**	**104.4**	23.9	9.5	**389.3**	**379.5**	(2.5)
Basic EPS (sen)	7.4	6.7	8.1	21.2	9.6	30.3	29.9	(1.5)
DPS (sen)	4.5	22.8	4.8	(78.9)	6.7	27.0	22.8	(15.7)
				+/(-) ppts				*+/(-) ppts*
Gross Profit Margin (%)	7.5	7.1	9.3	2.2	1.8	8.1	7.3	(0.7)
Pretax Profit Margin (%)	6.5	6.2	7.9	1.7	1.5	7.1	6.4	(0.8)
Net Margin (%)	4.3	4.7	5.8	1.0	1.5	5.1	4.7	(0.3)
Segmental: Natural Gas & LPG								
Revenue:	2,223.3	1,816.8	1,712.7	(5.7)	(23.0)	7,649.4	7,990.1	4.5
EBITDA	163.6	132.9	162.2	22.0	(0.9)	631.8	594.4	(5.9)

FORWARD BAND

BEst PE Ratio	BEst P/Bk Ratio
	

Source: Bloomberg, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	7,649.4	8,078.9	8,226.9	8,617.7	9,199.4
EBITDA	540.4	501.7	565.7	669.2	707.0
D&A	102.0	103.8	113.8	119.4	125.5
Profit before tax	546.7	513.7	574.2	675.5	713.2
Tax	-153.7	-126.8	-115.7	-92.8	-87.2
PATAMI	389.5	383.4	455.0	579.2	623.5
Core PATAMI	389.5	383.4	455.0	579.2	623.5

Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Fixed assets	1,616.0	1,734.2	1,790.3	1,844.2	1,936.5
Intangible assets	76.1	78.2	76.2	76.0	76.9
Non-current assets	1,726.6	1,840.8	1,866.5	1,920.3	2,013.5
Cash	591.3	688.9	708.0	731.7	802.4
Trade debtors	824.8	672.3	726.8	806.1	865.2
Current assets	1,420.7	1,364.8	1,434.8	1,537.8	1,667.6
Trade creditors	1,362.1	1,249.8	1,309.4	1,391.0	1,515.0
Short-term debt	161.2	250.2	268.7	286.4	295.5
Current liabilities	1,560.9	1,526.4	1,578.1	1,677.4	1,810.5
Long-term debt	80.0	80.0	97.9	98.9	108.2
Non-current liabilities	308.1	311.3	337.7	343.0	353.3
Share capital	642.0	642.0	642.0	642.0	643.0
Retained earnings	633.1	726.6	743.6	795.6	874.2
Equity	1,278.3	1,367.9	1,385.6	1,437.6	1,437.6

Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
PBT	546.7	513.7	574.2	675.5	713.2
Depreciation & amortisation	102.0	103.8	113.8	119.4	125.5
Changes in working capital	56.6	49.4	57.0	26.4	80.4
Operating cash flow	626.0	515.9	597.2	658.8	739.7
Capital expenditure	260.8	-56.4	-199.1	-263.4	-360.6
Investing cash flow	232.3	-204.2	-186.9	-252.2	-280.1
Debt raised/(repaid)	-90.0	89.0	-99.4	-74.6	-51.0
Dividends paid	-241.0	-289.9	-291.7	-308.3	-337.9
Financing cash flow	-342.4	-214.1	-391.1	-383.0	-388.9
Net cash flow	548.4	97.6	19.1	23.7	70.6
Beginning cash flow	42.9	591.3	688.9	708.0	731.7
Ending cash flow	591.3	688.9	708.0	731.7	802.4

Profitability Margins	2022A	2023A	2024F	2025F	2026F
EBITDA margin	7.1%	6.2%	6.9%	7.8%	7.7%
PBT margin	1.3%	1.3%	1.4%	1.4%	1.4%
Core PAT margin	5.1%	4.7%	5.5%	6.7%	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 *rise* 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 *fall* 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