

## Gas Malaysia Berhad

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

### Stable ASP In Line with Expected Stable Brent Oil Price

#### KEY INVESTMENT HIGHLIGHTS

- **Higher pipeline demand and capex growth in line with expected stable MRP in CY24**
- **GMES sales growth due to reversal of accruals; rebalancing added tolling fee income by +5%yoy**
- **Industrials and consumer sectors remain major offtakers**
- **Maintain BUY with target price of RM3.96**

We participated in Gas Malaysia Bhd (GMB)'s briefing yesterday following its 1QFY24 results. Below are the salient points:

**Pipeline demand growing.** GMB announced that the construction of 28km of pipelines were completed in 1QCY24, which included: (i) Tg Malim, Perak (16.2km), (ii) Tebong, Melaka (2.4km), (iii) Simpang Ampat, Penang (1.4km) and Kinta Valley, Perak (1.4km). As of 1QCY24, 160km of pipeline project is expected to be rewarded. Total pipeline YTD stood at 2,831 (CY23: 2,803).

**GMES sales growth on reversal of accruals.** GMES volume rose +4%yoy to 38.3mGJ. This was due to the reversal of gas cost accrual, which was not present in 1QFY23. GMB is expecting the reversal to continue in the coming months in tandem with the differing prices between contracts from customers, depending on its tenure and volume consumed. As of 1QCY24, the total customers stood at 1,058 with 11 new, 2 expanded and 3 terminated. New distribution tariff is RM1.528pGJ, inclusive of a rebate of RM0.045pGJ.

**Capex expected higher.** GMB's capex in CY23 stood between RM1.2b to RM1.4b, and for CY24, GMB is expecting higher capex by RM300m to RM320m. This could signal additional contracts in GMES sales expected in CY24, as well as higher regulated revenue for GMD.

**Tolling fee income up +5%yoy.** The regulated revenue for 1QFY24 represents under-recovery of revenues from the variances between actual and estimate firm capacity reservations used in the determination of tariff rates for the utilisation of the NGDS, recognised under the Incentive Based Regulation, which will be recovered principally through a surcharge to users in the coming months. Following the changes, tolling fee income in 1QFY24 added +4.7%yoy to RM14.9m.

**Offtake highest from commodities.** Industrials dealing with commodities remain the sectors with the most gas offtake, with Rubber topping at 22% offtake, followed by Oleo Chemical (19%) and Steel/Aluminium/Copper (15%). We are expecting this trend to continue following better GDP numbers (MIDFR forecast: +4.7%), barring any major changes to the contracts in the near term.

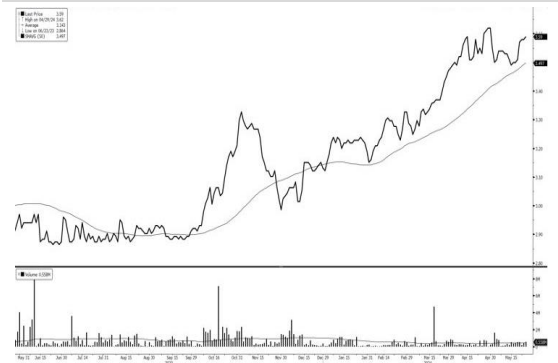
**Maintain BUY**

**Maintain Target Price: RM3.96**

#### RETURN STATISTICS

Price @ 27 <sup>th</sup> May 2024 (RM)	3.58
Expected share price return (%)	+10.3
Expected dividend yield (%)	+6.3
<b>Expected total return (%)</b>	<b>+16.6</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.6	-3.2
3 months	3.5	3.2
12 months	15.4	0.1

#### 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	6.3%	7.4%	8.0%

#### KEY STATISTICS

FBM KLCI	1,618.27
Issue shares (m)	1,284.0
Estimated free float (%)	16.29
Market Capitalisation (RM'm)	4,596.72
52-wk price range	RM2.97-RM3.65
3-mth average daily volume (m)	0.45
3-mth average daily value (RM'm)	1.57
Top Shareholders (%)	
Anglo Oriental Annuities Sdn Bhd	30.93
Tokvo Gas-Mitsui & Co Holdings	18.50
Petronas Gas Bhd	14.80

**MRP expected to move on a plateau.** MRP in 1QCY24 stood at RM41.51 pMMBtu, aligned with the average Brent crude price of USD77-78pb (laggard of approx. 6-months), while 2QCY24 is expected at RM44.12 pMMBtu pegging to the average Brent of USD84pb. GMB is expecting a stagnant slope on MRP at 11.2% in the coming quarters, in line with the anticipation of a stable Brent crude price in CY24. However, this is in the assumption that USD/MYR rate to be within 4.70 in CY24. At an expected appreciation to 4.20, the pricing for MRP may be +10-12% higher, subsequently giving a positive impact on GMB’s financial performance.

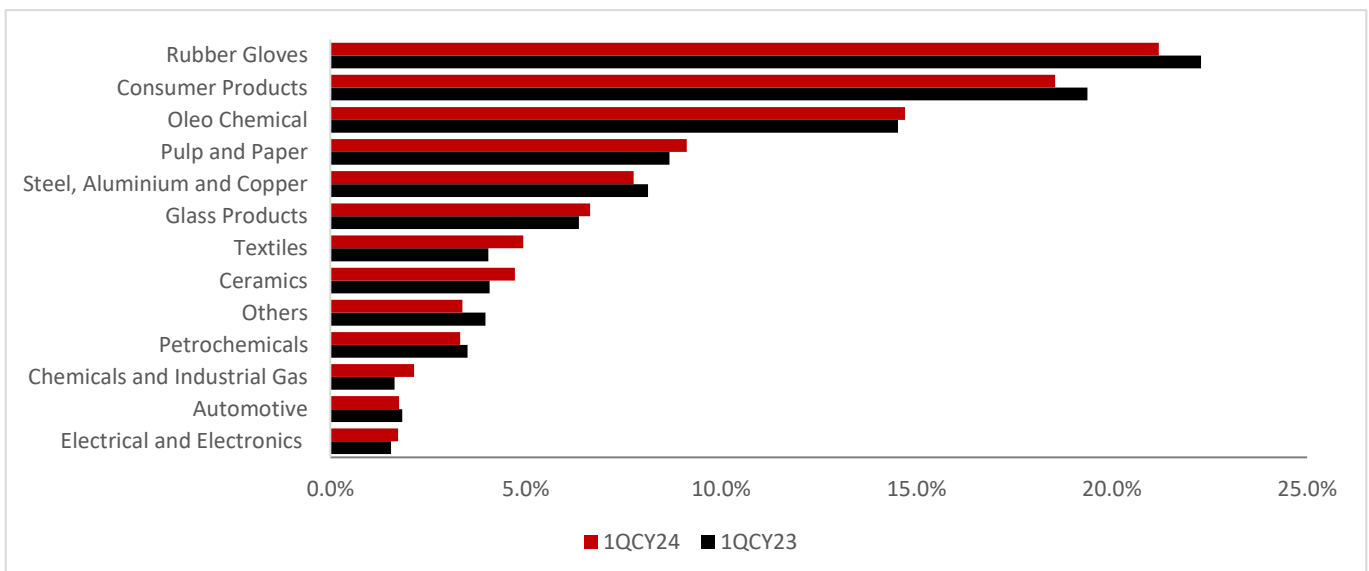
**No changes to earnings estimates.** Post-briefing and in consideration of the positive environment for GMB, we make no changes to our earnings estimates. We maintain a **BUY** call, with a target price of **RM3.96**.

**FORWARD BAND**



Source: Bloomberg, MIDFR

**APPENDIX – Natural Gas Offtake by Sector (mil GJ)**



Source: Company 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
<b>Non-current assets</b>	<b>1,726.6</b>	<b>1,840.8</b>	<b>1,866.5</b>	<b>1,920.3</b>	<b>2,013.5</b>
Cash	591.3	688.9	708.0	731.7	802.4
Trade debtors	824.8	672.3	726.8	806.1	865.2
<b>Current assets</b>	<b>1,420.7</b>	<b>1,364.8</b>	<b>1,434.8</b>	<b>1,537.8</b>	<b>1,667.6</b>
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
<b>Current liabilities</b>	<b>1,560.9</b>	<b>1,526.4</b>	<b>1,578.1</b>	<b>1,677.4</b>	<b>1,810.5</b>
Long-term debt	80.0	80.0	97.9	98.9	108.2
<b>Non-current liabilities</b>	<b>308.1</b>	<b>311.3</b>	<b>337.7</b>	<b>343.0</b>	<b>353.3</b>
Share capital	642.0	642.0	642.0	642.0	643.0
Retained earnings	633.1	726.6	743.6	795.6	874.2
<b>Equity</b>	<b>1,278.3</b>	<b>1,367.9</b>	<b>1,385.6</b>	<b>1,437.6</b>	<b>1,437.6</b>

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
<b>Net cash flow</b>	<b>548.4</b>	<b>97.6</b>	<b>19.1</b>	<b>23.7</b>	<b>70.6</b>
<b>Beginning cash flow</b>	<b>42.9</b>	<b>591.3</b>	<b>688.9</b>	<b>708.0</b>	<b>731.7</b>
<b>Ending cash flow</b>	<b>591.3</b>	<b>688.9</b>	<b>708.0</b>	<b>731.7</b>	<b>802.4</b>

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 <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