

13 November 2020

Gas Malaysia Bhd

9MFY20 Above; Volume Back to Normal

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9MFY20 core profit of RM147.9m beat expectations on higher-than-expected sales volume as 3QFY20 volume rebounded back to pre-MCO level. This led us to upgrade FY20E earnings by 7% on higher sale volume but we keep FY21E earnings unchanged. As we believe most if not all near-term catalysts are already priced in, we keep our MP rating and TP of RM2.85/DCF share.

9MFY20 results beat expectations. At 82%/79% of house/street's FY20 estimates, 9MFY20 core profit of RM147.9m came above expectations where the variance between our forecast and actual was due to stronger-than-expected sales volume rebounding back to pre-MCO level. 9MFY20 gas sales volume of 146.5m mmbtu forms 77% of our full-year assumption. There is no dividend declared during the period as expected as it usually pays half-yearly dividend.

Sequential earnings rebounded strongly as sales volume was back to pre-MCO level. Total sales volume including gas, NGV and LPG surged 12% QoQ to 53.2m mmbtu in 3QFY20 from 47.6m mmbtu after the MCO lockdown in 2QFY20 which led to similar proportion of percentage increase in revenue to RM1.72b. As such, 3QFY20 core profit leapt 23% to RM55.3m from RM44.8m in the preceding quarter. The core earnings were adjusted mainly for RM3.3m PPE write-off arising from stations for dismantled terminated client and upgraded stations. Meanwhile, share of associate incomes turned profitable at RM0.2m from loss of RM0.2m previously.

Improved YoY earnings on new retail margin. YoY, 3QFY20 core profit jumped 38% from RM40.2m, despite revenue dipping 2% on lower average natural gas tariff, solely attributable to higher margin spread after the inclusion of retail margin this year. Similarly, YTD 9MFY20 core earnings grew 13% to RM147.9m from RM130.4m in 9MFY19, although revenue contracted 7% to RM4.87b, due to the abovementioned new retail margin. Besides a lower average natural gas tariff, the decline in revenue was also partly attributed to a 3% drop in total sales volume to 150.6m mmbtu from 155.8m mmbtu previously.

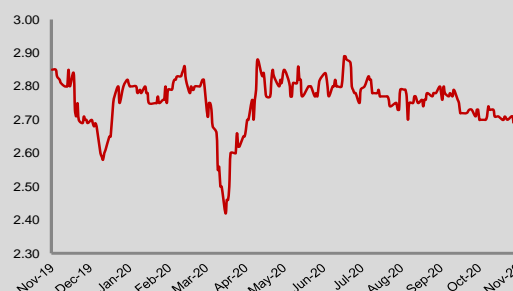
Business as usual; volume growth to lead earnings higher. With 3QFY20 sales volume which is back to pre-MCO level, our earlier gas sales volume assumption for FY20 of -5% is deemed too conservative at 191.1m mmbtu. As such, we revised our FY20 gas volume growth assumption to -2% to 197.2m mmbtu but keep FY21 volume assumption at 213.5m mmbtu. Hence, we upgrade FY20 earnings by 7% while keep FY21 forecast unchanged. Correspondingly, FY20 NDPS is also raised proportionally based on unchanged 90% earnings pay-out ratio.

Positives priced in; keep MARKET PERFORM. We remain positive on its long-term earnings prospects given the margin spread of above RM2.00/mmbtu that will keep its earnings growing on the back of volume growth. However, we reiterate our MARKET PERFORM rating with unchanged DCF-derived target price of RM2.85, as we believe positives are already reflected in the share price. Our recommendation is supported by attractive dividend yield of c.5%. Upside risk to our call is a higher-than-expected volume growth.

MARKET PERFORM ↔

Price: **RM2.72**
Target Price: **RM2.85** ↔

Share Price Performance



KLCI 1,590.78
YTD KLCI chg 0.1%
YTD stock price chg -1.1%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker GMB MK
Market Cap (RM m) 3,492.5
Shares Outstanding 1,284.0
52-week range (H) 2.90
52-week range (L) 2.30
3-mth avg daily vol: 81,051
Free Float 12%
Beta 0.5

Major Shareholders

Anglo Oriental Annuity 30.9%
Tokyo Gas Mitsui 18.5%
Petronas Gas Bhd 14.8%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	6886.5	6770.6	7647.7
EBIT	213.4	254.3	273.8
PBT	242.1	245.8	264.4
Net Profit (NP)	190.1	191.7	206.3
Core Net Profit	171.5	191.7	206.3
Consensus (NP)		188.3	197.7
Earnings Revision (%)		6.6	-
Core EPS (sen)	13.4	14.9	16.1
Core EPS growth (%)	1.0	11.8	7.6
NDPS (sen)	14.1	13.4	14.5
NTA/Share (RM)	0.81	0.83	0.84
BV/Share (RM)	0.81	0.83	0.84
Core PER (x)	20.4	18.2	16.9
Price/NTA (x)	3.3	3.3	3.2
PBV (x)	3.3	3.3	3.2
Gearing (x)	0.22	0.35	0.38
Dividend Yield (%)	5.1	4.9	5.3

13 November 2020

Income Statement								
	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
FY Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	1722.1	1539.6	12%	1755.9	-2%	4867.9	5208.2	-7%
EBITDA	98.7	83.7	18%	78.0	27%	271.8	240.4	13%
Depreciation	-22.4	-21.6	3%	-19.9	12%	-65.1	-58.8	11%
EBIT	76.4	62.1	23%	58.0	32%	206.7	181.7	14%
Interest income	2.5	1.6	58%	0.8	234%	6.6	3.2	106%
Interest expense	-4.9	-4.2	18%	-4.8	4%	-12.2	-11.3	8%
Associates	0.2	-0.2	>100%	-2.7	-107%	-0.3	-1.5	-82%
Exceptional items	-4.3	-0.1	N/M	1.8	N/M	-4.5	1.8	N/M
Pretax profit	69.8	59.2	18%	53.2	31%	196.4	173.9	13%
Zakat expenses	-0.9	-0.9	0%	-0.9	0%	-2.6	-2.6	0%
Taxation	-18.0	-13.7	31%	-10.3	75%	-50.4	-39.1	29%
Profit after tax	50.9	44.6	14%	42.0	21%	143.4	132.2	8%
Minority interest	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Net profit	50.9	44.6	14%	42.0	21%	143.4	132.2	8%
Core net profit	55.3	44.8	23%	40.2	38%	147.9	130.4	13%
EPS (sen)	4.3	3.5	23%	3.1	38%	11.5	10.2	13%
NDPS (sen)	0.0	4.3	N/A	0.0	0%	4.3	4.8	-11%
NTA/share (RM)	0.8	0.8	0%	0.8	3%	0.8	0.8	3%
EBITDA margin	5.7%	5.4%		4.4%		5.6%	4.6%	
EBIT margin	4.4%	4.0%		3.3%		4.2%	3.5%	
Pretax margin	4.1%	3.8%		3.0%		4.0%	3.3%	
Effective tax rate	27.1%	24.7%		21.0%		27.0%	24.0%	
Gas volume (m mmbtu)	51.8	46.2	12%	53.0	-2%	146.5	151.0	-3%
NPV volume (m mmbtu)	1.3	1.3	-2%	1.4	-8%	4.0	4.5	-12%
LPG volume (m mmbtu)	0.1	0.0	117%	0.1	25%	0.2	0.2	-9%
Total sales volume (m mmbtu)	53.2	47.6	12%	54.5	-2%	150.6	155.8	-3%
CapCon	0.9	0.9	0%	0.9	0%	2.6	2.6	0%
Tolling fees	2.2	2.2	2%	2.6	-16%	7.5	8.5	-12%

Source: Company

Valuation				
	RM m	RM/Share	%	Valuation Basic
PV of FCF for FY20-FY29	1,442.6	1.12	39.1%	5.7% WACC
PV of FCF in perpetuity	2,599.8	2.02	71.4%	5.7% WACC, g = 2%
Net Cash/(Debt)	-378.6	-0.29	-10.4%	estimated FY20E
Total DCF value	3,663.8	2.85	100.0%	
Issued share (m)	1,284.0			
DCF value per share	RM2.85			Round to the nearest RM0.05

Source: Kenanga Research

13 November 2020

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
GAS MALAYSIA BHD	2.72	3,492.5	Y	12/2020	-1.7%	13.0%	11.8%	7.6%	20.4	18.2	16.9	3.3	3.3	18.2%	4.9%	2.85	MP
MALAKOFF CORP BHD	0.940	4,593.7	Y	12/2020	7.4%	0.3%	75.7%	1.9%	22.4	12.7	12.5	0.9	0.8	6.7%	6.3%	1.15	OP
PESTECH INTERNATIONAL BHD	0.725	551.8	Y	06/2021	19.2%	5.3%	33.5%	8.3%	9.9	7.4	6.9	1.1	0.9	13.2%	0.0%	1.15	OP
PETRONAS GAS BHD	16.30	32,253.3	Y	12/2020	2.3%	0.7%	4.7%	-1.5%	17.1	16.4	16.6	2.4	2.5	15.1%	7.5%	16.85	MP
TENAGA NASIONAL BHD	11.48	65,489.4	Y	12/2020	4.0%	1.8%	-14.5%	19.3%	11.7	14.7	12.3	1.0	1.1	7.5%	3.4%	13.95	OP
YTL POWER INTERNATIONAL BHD	0.700	5,710.7	N	06/2021	5.9%	-5.4%	55.8%	-12.2%	24.1	15.5	17.6	0.4	0.4	2.7%	7.1%	0.640	MP
Simple Average					6.2%	2.6%	27.8%	3.9%	17.6	14.1	13.8	1.5	1.5	10.6%	4.9%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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