

01 March 2021

Gas Malaysia Bhd

FY20 Above; Upgrade To OP

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FY20 core profit jumped 27% to RM223.4m, beating expectations on the recognition of revenue cap adjustment as demand volume dipped slightly by 0.6%. The IBR framework ensures earnings certainty while it enjoys extra retail margin under this new GCPT mechanism in RP1. In view of this, we view recent price weakness as a buying opportunity and thus upgrade the stock to OUTPERFORM with a higher DCF-derived target price of RM2.91.

FY20 beat expectation yet again. At 117%/115% of house/street's estimates, FY20 core profit RM223.4m came above expectations which were due to the recognition of revenue cap adjustment under the IBR framework in 4QFY20 to reflect the 0.6% decline in sales volume in FY20. Meanwhile, it declared 2nd interim NDPS of 5.4 sen (ex-date: 12 Mar; payment date: 31 Mar) in 4QFY20, bringing FY20 NDPS to 9.7 sen against a total NDPS of 14.1 sen paid in FY19. We believe it will declare a final NDPS subsequently as historically it usually pays a separate final NDPS following 4Q results announcement. Based on its headline FY20 net profit, we believe it could pay c.16.0 sen in total for FY20 which would be higher than our estimates of 13.4 sen.

Revenue cap boosted sequential results higher... 4QFY20 core profit jumped 41% QoQ to RM76.6m from RM54.3m in the preceding quarter as revenue rose 6% to RM1.82b from RM1.72b owing to the abovementioned adjustment of revenue cap as well as higher gas sales volume by 4% to 55.2m MMBTU during the quarter from 53.1m MMBTU three months ago. In fact, 4QFY20 sales volume had already returned to pre-COVID-19 level. Meanwhile, associate income rose to RM0.7m from RM0.2m previously.

... while new retail margin also helped to push earnings higher. YoY, 4QFY20 core profit soared 70% from RM45.2m one the back of 8% hike in revenue from RM1.68b. The greater percentage of YoY earnings growth was due to higher margin spread after the inclusion of retail margin in FY20 as the start of RP1. Sales volume grew 3% in 4QFY20 from 53.7m MMBTU in 4QFY19. YTD, FY20 core profit leapt 27% to RM223.4m from RM176.0m in FY19, despite revenue dipping 3% which was partly due to the 0.6% decline in sales volume to 205.8m MMBTU from 207.0m MMBTU previously as mentioned above coupled with lower average gas selling price. However, the improvement in bottom-line was due to the same reasons, i.e., revenue cap adjustment and new retail margin.

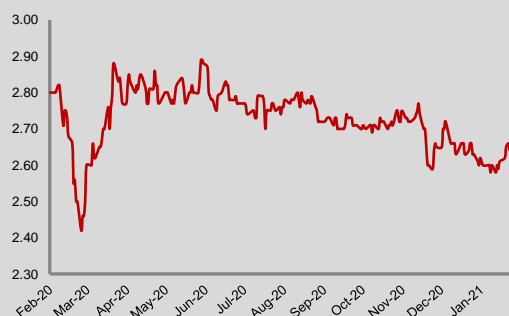
Volume growth to lead earnings higher. With sales volume back to pre-COVID-19 level and any short-fall of demand adjusted under revenue cap which is the same for FY20, GASMSIA's earnings are fairly resilient. As such, it will be a volume play with management guiding GDP-like demand growth for the future. We have forecasted 3.8% demand growth in FY21 and beyond, a flat 3% growth. As such, we keep our FY21 estimates unchanged for now and introduce a new FY22 forecasts with earnings growth of 8%. Our margin spread is maintained at RM2.10/MMBTU while dividend pay-out ratio is 90%.

Upgrade to OUTPERFORM from MARKET PERFORM following price weakness in the past three months. We also raised our DCF-derived target price to RM2.91 from RM2.85 as we roll over our valuation base year to FY21 from FY20. 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. Our recommendation is supported by attractive dividend yield of >5%. Risk to our upgraded call is a lower-than-expected volume growth in the near term.

OUTPERFORM ↑

Price: **RM2.63**
Target Price: **RM2.91** ↑

Share Price Performance



KLCI	1,577.75
YTD KLCI chg	-3.0%
YTD stock price chg	-3.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	GMB MK
Market Cap (RM m)	3,376.9
Shares Outstanding	1,284.0
52-week range (H)	2.90
52-week range (L)	2.30
3-mth avg daily vol:	167,007
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)	2020	2021F	2022F
Turnover	6686.9	7643.6	8202.1
EBIT	295.2	271.2	288.9
PBT	290.8	264.4	285.6
Net Profit (NP)	212.6	206.3	222.8
Core Net Profit	223.4	206.3	222.8
Consensus (NP)	194.9	204.4	215.1
Earnings Revision (%)		-	New
Core EPS (sen)	17.4	16.1	17.4
Core EPF growth (%)	27.0	-7.7	8.0
NDPS (sen)	9.7	14.5	15.6
NTA/Share (RM)	0.84	0.86	0.87
BV/Share (RM)	0.84	0.86	0.87
Core PER (x)	15.1	16.4	15.2
Price/NTA (x)	3.1	3.1	3.0
PBV (x)	3.1	3.1	3.0
Gearing (x)	0.16	0.16	0.20
Dividend Yield (%)	3.5	5.5	5.9

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Income Statement								
	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
FY Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	1818.9	1722.1	6%	1678.3	8%	6686.9	6886.5	-3%
EBITDA	115.2	94.4	22%	69.0	67%	382.5	311.2	23%
Depreciation	-22.2	-22.4	-1%	-20.4	9%	-87.3	-79.2	10%
EBIT	92.9	72.0	29%	48.6	91%	295.2	232.0	27%
Interest income	5.9	2.5	132%	1.0	468%	12.5	4.2	194%
Interest expense	-5.0	-4.9	2%	-4.1	24%	-17.2	-15.4	12%
Associates	0.7	0.2	257%	22.7	-97%	0.4	21.2	-98%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	94.4	69.8	35%	68.2	38%	290.8	242.1	20%
Zakat expenses	-0.9	-0.9	0%	-0.9	0%	-3.5	-3.5	0%
Taxation	-24.3	-18.0	35%	-9.4	158%	-74.7	-48.5	54%
Profit after tax	69.2	50.9	36%	57.9	20%	212.6	190.1	12%
Minority interest	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Net profit	69.2	50.9	36%	57.9	20%	212.6	190.1	12%
Core net profit	76.6	54.3	41%	45.2	70%	223.4	176.0	27%
EPS (sen)	6.0	4.2	41%	3.5	70%	17.4	13.7	27%
NDPS (sen)	5.4	0.0	N/A	9.3	-42%	9.7	14.1	-32%
NTA/share (RM)	0.8	0.8	7%	0.8	4%	0.8	0.8	4%
EBITDA margin	6.3%	5.5%		4.1%		5.7%	4.5%	
EBIT margin	5.1%	4.2%		2.9%		4.4%	3.4%	
Pretax margin	5.2%	4.1%		4.1%		4.3%	3.5%	
Effective tax rate	26.7%	27.1%		15.1%		26.9%	21.5%	
Gas volume (m mmbtu)	55.2	53.1	3.9%	53.6	2.9%	205.6	206.7	-0.5%
LPG volume (m mmbtu)	0.0	0.1	-75.0%	0.1	-68.8%	0.2	0.3	-23.8%
Total sales volume (m mmbtu)	55.2	53.2	3.7%	53.7	2.8%	205.8	207.0	-0.6%

Source: Company

Valuation - New				
	RM m	RM/Share	%	Valuation Basic
PV of FCF for FY21-FY30	1,432.6	1.12	38.3%	5.7% WACC
PV of FCF in perpetuity	2,477.4	1.93	66.3%	5.7% WACC, g = 2%
Net Cash/(Debt)	-173.9	-0.14	-4.7%	estimated FY21E
Total DCF value	3,736.1	2.91	100.0%	
Issued share (m)	1,284.0			
DCF value per share	RM2.91			

Source: Kenanga Research

Valuation - Old				
	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			

Source: Kenanga Research

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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	2.63	3,376.9	Y	12/2021	14.3%	7.3%	-7.7%	8.0%	15.1	16.4	15.2	3.1	3.1	18.9%	5.5%	2.91	OP
MALAKOFF CORP BHD	0.810	3,958.4	Y	12/2021	25.1%	0.3%	26.8%	3.0%	16.0	12.6	12.2	0.8	0.8	6.0%	6.3%	1.05	OP
PESTECH INTERNATIONAL BHD	1.18	898.2	Y	06/2021	19.2%	5.3%	33.5%	8.3%	16.2	12.1	11.2	1.7	1.5	13.2%	0.0%	1.46	OP
PETRONAS GAS BHD	16.40	32,451.2	Y	12/2021	0.6%	0.9%	-2.9%	1.4%	16.2	16.7	16.5	2.6	2.5	15.2%	5.1%	16.97	MP
TENAGA NASIONAL BHD	10.10	57,617.0	Y	12/2021	14.6%	1.0%	27.2%	8.9%	14.1	11.8	10.9	1.0	1.0	8.5%	4.2%	12.72	OP
YTL POWER INTERNATIONAL BHD	0.750	6,076.6	N	06/2021	5.9%	-5.4%	105.3%	-1.6%	25.8	12.6	12.8	0.4	0.4	3.6%	6.7%	0.720	MP
Simple Average					13.3%	1.6%	30.4%	4.7%	17.2	13.7	13.1	1.6	1.5	10.9%	4.6%		

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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