

13 May 2022

# Gas Malaysia Bhd

## Another Record Quarter

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**GASMSIA surprised us with a strong set of 1QFY22 results which saw profit jumping 28% QoQ despite the market liberalisation which started from Jan 2022. This was largely thanks to better margin from GMES, arising from better deal in contract renegotiation coupled with higher retail market as gas price spiked. Going forth, earnings should stay elevated given the high gas prices. Maintain OP with a higher TP of RM3.10.**

**1QFY22 results beat expectations.** At 39%/37% of house/street's FY22 forecast, 1QFY22 core profit of RM91.3m came above expectations given the better-than-expected margin spread from GMES despite the market liberalisation which started in Jan 2022. No dividend was declared during the quarter as expected as it usually pays half-yearly dividends.

**Improved margin propelled earnings higher...** 1QFY22 core profit grew another 28% QoQ to RM91.3m from RM71.5m in 4QFY21 thanks largely to higher-than-expected margin spread from GMES where its earnings accounted for 40% from 30%-35% previously owing to: (i) improved margin from newly renegotiated contracts where tariff setting strategy set for pricing to be determined by tenure of contract (3, 5 and 8 years) and volume signed; as well as (ii) rising gas price lifting retail margin which is a function of percentage based on gas cost. On the other hand, GMD's volume measurement was also changed to Reserved Firm Capacity (RFC), a.k.a. booking volume in GJ term as compared to actual volume transmitted which was measured in mmbtu.

**... helped by newly renegotiated contracts and higher retail margin.** YoY, 1QFY22 core profit surged 64% to RM91.3m from RM55.6m, attributable to the abovementioned profit margin coupled with higher revenue by 55% which was partly due to higher RFC. Given that the change in volume measurement and demand volume is sensitive information in the market liberalisation environment, GASMSIA is no longer sharing gas volume data. Based on the earnings mix, a lower contribution mix from GMD could mean a lower sales volume. In addition, GMES lost 21 customers in 1QFY22 with a total of 15 new customers. However, with new contract tenure, GASMSIA could at least lock in its customers for minimum three years.

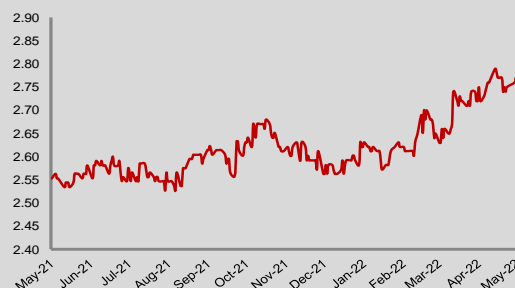
**New tariff setting strategy seems working.** While the market liberalisation started in Jan this year had put off buying interest previously, we are pleased to see its new tariff setting strategy addressing the earnings risk, at least the 1QFY22 results showed that it worked. This is despite GASMSIA losing 6 customers net, but it still produced commendable results. With RFC in place, all shippers have to "take-or-pay" their booked volume, hence volume growth may not be the only earnings determinant while GMES margin, both profit margin and retail margin, will also be important contributors as witnessed in 1QFY22 results. As such, with rising gas price environment, GASMSIA should continue to enjoy strong earnings. Given the strong GMES margin, we raise FY22E/FY23E earnings by 14%/7% based on total margin spread of RM2.50/RM2.40 mmbtu from RM2.30/mmbtu previously. Accordingly, we also raise NDPS proportionally based on unchanged 90% payout ratio.

**OUTPERFORM maintained.** We feel comfortable after seeing the good set of 1QFY22 results as the market liberalisation may not be bad for GASMSIA as it managed to improve its profitability. Post earnings revision, we raised our DCF-driven TP to RM3.10 from RM3.00 previously. As such, we continue to rate the stock an OUTPERFORM which is also supported by its above average dividend yield of >6%. Risk to our call is lower-than-expected margin spread in the future.

**OUTPERFORM** ↔

Price: **RM2.75**  
Target Price: **RM3.10** ↑

### Share Price Performance



KLCI	1,538.80
YTD KLCI chg	-1.8%
YTD stock price chg	3.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	GMB MK
Market Cap (RM m)	3,531.0
Shares Outstanding	1,284.0
52-week range (H)	2.80
52-week range (L)	2.61
3-mth avg daily vol:	143,667
Free Float	12%
Beta	0.4

### Major Shareholders

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

### Summary Earnings Table

FY Dec (RM m)	2021	2022F	2023F
Turnover	5851.6	6395.9	6926.9
EBIT	336.3	374.2	357.9
PBT	330.4	367.1	349.9
<b>Net Profit (NP)</b>	<b>249.6</b>	<b>264.3</b>	<b>265.9</b>
<b>Core Net Profit</b>	<b>251.4</b>	<b>264.3</b>	<b>265.9</b>
Consensus (NP)		247.4	251.3
Earnings Revision (%)		+13.6	+6.9
Core EPS (sen)	19.6	20.6	20.7
Core EPS growth (%)	12.7	5.1	0.6
NDPS (sen)	17.7	18.5	18.6
NTA/Share (RM)	0.88	0.90	0.92
BV/Share (RM)	0.88	0.90	0.92
Core PER (x)	14.0	13.4	13.3
Price/NTA (x)	3.1	3.1	3.0
PBV (x)	3.1	3.1	3.0
Gearing (x)	0.26	0.29	0.28
Dividend Yield (%)	6.7	6.7	6.8

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Income Statement								
	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
FY Dec (RM m)	FY22	FY21	Chg	FY21	Chg	FY22	FY21	Chg
Turnover	1784.2	1940.5	-8%	1152.7	55%	1784.2	1152.7	55%
EBITDA	145.2	118.5	23%	95.5	52%	145.2	95.5	52%
Depreciation	-24.9	-24.7	1%	-22.5	11%	-24.9	-22.5	11%
EBIT	120.4	93.8	28%	73.1	65%	120.4	73.1	65%
Interest income	1.6	1.0	50%	1.7	-6%	1.6	1.7	-6%
Interest expense	-2.9	-2.4	20%	-2.9	0%	-2.9	-2.9	0%
Share of JV results	1.2	-0.4	-399%	0.2	428%	1.2	0.2	428%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	120.3	92.0	31%	72.1	67%	120.3	72.1	67%
Zakat expenses	-0.9	-0.9	0%	-0.9	0%	-0.9	-0.9	0%
Taxation	-28.1	-21.8	29%	-15.6	80%	-28.1	-15.6	80%
Profit after tax	91.3	69.3	32%	55.6	64%	91.3	55.6	64%
Minority interest	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Net profit	91.3	69.3	32%	55.6	64%	91.3	55.6	64%
Core net profit	91.3	71.5	28%	55.6	64%	91.3	55.6	64%
EPS (sen)	7.1	5.6	28%	4.3	64%	7.1	4.3	64%
NDPS (sen)	0.0	12.9	N/A	0.0	0%	0.0	0.0	0%
NTA/share (RM)	0.82	0.88	-7%	0.78	6%	0.82	0.78	6%
EBITDA margin	8.1%	6.1%		8.3%		8.1%	8.3%	
EBIT margin	6.7%	4.8%		6.3%		6.7%	6.3%	
Pretax margin	6.7%	4.7%		6.3%		6.7%	6.3%	
Effective tax rate	24.1%	24.7%		22.9%		24.1%	22.9%	
Total sales volume (m mmbtu)	51.09	53.90	-5%	54.28	-6%	51.09	54.28	-6%

Source: Company

Valuation - New				
	RM m	RM/Share	%	Valuation Basic
PV of FCF for FY22-FY31	1,867.4	1.45	46.9%	6.7% WACC
PV of FCF in perpetuity	2,445.2	1.90	61.4%	6.7% WACC, g = 2%
Net Cash/(Debt)	-329.8	-0.26	-8.3%	estimated FY21E
<b>Total DCF value</b>	<b>3,982.8</b>	<b>3.10</b>	<b>100.0%</b>	
Issued share (m)	1,284.0			
<b>DCF value per share</b>	<b>RM3.10</b>			

Source: Kenanga Research

Valuation - Old				
	RM m	RM/Share	%	Valuation Basic
PV of FCF for FY22-FY31	1,793.3	1.40	46.5%	6.7% WACC
PV of FCF in perpetuity	2,390.0	1.86	62.0%	6.7% WACC, g = 2%
Net Cash/(Debt)	-326.9	-0.25	-8.5%	estimated FY21E
<b>Total DCF value</b>	<b>3,856.4</b>	<b>3.00</b>	<b>100.0%</b>	
Issued share (m)	1,284.0			
<b>DCF value per share</b>	<b>RM3.00</b>			

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	2.75	3,531.0	Y	12/2022	9.3%	8.3%	5.1%	0.6%	14.0	13.4	13.3	3.1	3.1	23.1%	6.7%	3.10	OP
MALAKOFF CORP BHD	0.625	3,054.4	Y	12/2022	-10.3%	-5.5%	-6.4%	6.0%	9.7	10.4	9.8	0.6	0.6	5.6%	7.7%	1.01	OP
PESTECH INTERNATIONAL BHD	0.490	484.7	Y	06/2022	12.4%	5.0%	4.7%	14.9%	6.5	6.2	5.4	0.8	0.7	12.2%	0.0%	1.11	OP
PETRONAS GAS BHD	16.96	33,559.3	Y	12/2022	1.0%	-0.8%	-3.7%	4.5%	16.6	17.2	16.5	2.6	2.5	14.8%	4.9%	17.44	MP
TENAGA NASIONAL BHD	8.89	50,905.0	Y	12/2022	-3.3%	1.8%	6.5%	5.4%	10.5	9.9	9.4	0.9	0.8	8.7%	4.8%	10.52	OP
YTL POWER INTERNATIONAL BHD	0.745	6,036.1	N	06/2022	32.4%	1.5%	-49.9%	78.2%	13.1	26.2	14.7	0.5	0.5	1.8%	6.7%	0.87	OP
<b>Simple Average</b>					<b>6.9%</b>	<b>1.7%</b>	<b>-7.3%</b>	<b>18.3%</b>	<b>11.7</b>	<b>13.9</b>	<b>11.5</b>	<b>1.4</b>	<b>1.4</b>	<b>11.0%</b>	<b>5.1%</b>		

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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