

19 August 2022

Gas Malaysia Bhd

Strong Gas Prices Lift Retail Margins

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1HFY22 results beat expectations as strong gas prices lifted retail margins. We expect 2HFY22 earnings to remain strong given the sustained high margins, albeit partially mitigated by a slowdown in volume (we believe due to lower production by glove makers that typically contribute a third to its business). Looking into FY23, we expect earnings to ease as gas prices normalise. We raise our FY22F net profit forecast by 15%, tweak our DCF-derived TP up slightly to RM3.43 (WACC: 6.5%; TG: 2%) from RM3.40.

Beat expectations. 1HFY22 net profit beat expectations at 65% and 64% of our and consensus full-year forecasts, respectively. The key variance against our forecast came largely from stronger-than-expected gas prices that lifted retail margins (which are a function of percentage based on gas cost). It declared a first interim NDPS of 5.9 sen in 2QFY22 compared to 4.8 sen in 2QFY21.

Higher gas price fuelled earnings jump. 1HFY22 net profit jumped 68% YoY to RM198.7m from RM118.0m, as 2QFY22 hit another record quarter net profit of RM107.3m from RM91.3m in 1QFY22, thanks largely to continued rising gas prices. Based on Petronas' latest Malaysia Preference Price (MRP), price for Mar 2022 to May 2022 was RM40.174/mmbtu against RM35.254/mmbtu in Dec 2021 to Feb 2022 while GASMSIA charges its customer based on MRP + beta. Given the strong gas price, though sales volume fell 4% QoQ, earnings were still 18% higher.

We raise our FY22 earnings by 15%, after increasing our margin spread assumption to RM2.90/mmbtu from RM2.60/mmbtu, assuming gas prices stay elevated in 2HFY22. This should offset a slowdown in volume as guided by the company (we believe, on the back of lower production by glove makers that typically contribute a third of its business). We keep our FY23 margin spread assumption of RM2.40/mmbtu as we expect gas prices to normalise. Accordingly, FY22 NDPS forecast is also upgraded proportionally based on unchanged earnings payout of 90%.

Expect FY23 earnings to normalise but still well above FY21. While the market liberalisation which started in Jan this year had put off buying interest previously, we see the new tariff setting strategy addressing earnings risk - at least the 1HFY22 results showed that it worked. The company guided for stronger gas prices in 2HFY22 than the already solid gas price in 1HFY22. However, the company believes gas price should normalise in FY23.

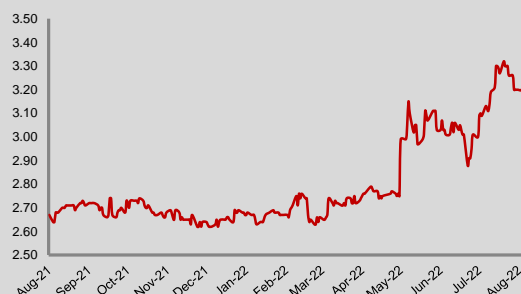
Keep OUTPERFORM. We remain optimistic on GASMSIA's earnings prospects given the expected resilient earnings for the next three years supported by favourable retail margins arising from the better deal in contract renegotiation. With economic reopening, we believe volume growth is back on track of which we projected at 3% annually. As such, we reiterate our OUTPERFORM rating for its earnings defensiveness and above average dividend yield of >7%. Post earnings revision, our new DCF-driven TP is raised slightly to RM3.43 from RM3.40 previously. There is no adjustment to our TP based on ESG of which it is given a 3-star rating as appraised by us (see Page 4).

Risks to our recommendation: (i) volatility in margin spread; and (ii) economic slowdown hurting demand for gas.

OUTPERFORM ↔

Price: RM3.25
Target Price: RM3.43 ↑

Share Price Performance



KLCI 1,516.62
YTD KLCI chg -3.2%
YTD stock price chg 22.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	GMB MK
Market Cap (RM m)	4,173.0
Shares Outstanding	1,284.0
52-week range (H)	3.40
52-week range (L)	2.61
3-mth avg daily vol:	1,135,832
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	6296.8	6815.5
EBIT	336.3	493.4	435.6
PBT	330.4	486.7	428.7
Net Profit (NP)	249.6	350.4	325.8
Core Net Profit	251.4	350.4	325.8
Consensus (NP)		312.3	312.1
Earnings Revision (%)		+15.2	0.0
Core EPS (sen)	19.6	27.3	25.4
Core EPS growth (%)	12.7	39.4	-7.0
NDPS (sen)	17.7	24.6	22.8
NTA/Share (RM)	0.88	0.91	0.93
BV/Share (RM)	0.88	0.91	0.93
Core PER (x)	16.6	11.9	12.8
Price/NTA (x)	3.7	3.6	3.5
PBV (x)	3.7	3.6	3.5
Gearing (x)	0.26	0.27	0.25
Dividend Yield (%)	6.7	7.6	7.0



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Income Statement

	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
FY Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Turnover	1777.1	1784.2	0%	1375.3	29%	3561.3	2528.0	41%
EBITDA	168.0	145.2	16%	108.1	56%	313.3	203.6	54%
Depreciation	-25.3	-24.9	2%	-22.9	10%	-50.2	-45.4	11%
EBIT	142.7	120.4	19%	85.1	68%	263.1	158.2	66%
Interest income	2.5	1.6	61%	1.5	71%	4.0	3.1	30%
Interest expense	-2.1	-2.9	-28%	-2.4	-15%	-4.9	-5.3	-7%
Share of JV results	0.9	1.2	-29%	-1.4	>100%	2.1	-1.1	>100%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	144.1	120.3	20%	82.8	74%	264.4	155.0	71%
Zakat expenses	-0.9	-0.9	0%	-0.9	0%	-1.8	-1.8	0%
Taxation	-35.9	-28.1	27%	-19.6	83%	-64.0	-35.2	82%
Profit after tax	107.3	91.3	18%	62.3	72%	198.7	118.0	68%
Minority interest	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Net profit	107.3	91.3	18%	62.3	72%	198.7	118.0	68%
Core net profit	107.3	91.3	18%	62.3	72%	198.7	118.0	68%
EPS (sen)	8.4	7.1	18%	4.9	72%	15.5	9.2	68%
NDPS (sen)	5.9	0.0	>100%	4.8	23%	5.9	4.8	23%
NTA/share (RM)	0.91	0.82	10%	0.83	10%	0.91	0.83	10%
EBITDA margin	9.5%	8.1%		7.9%		8.8%	8.1%	
EBIT margin	8.0%	6.7%		6.2%		7.4%	6.3%	
Pretax margin	8.1%	6.7%		6.0%		7.4%	6.1%	
Effective tax rate	25.5%	24.1%		24.7%		24.9%	23.9%	

Source: Company

Valuation

	RM m	RM/Share	%	Valuation Basic
PV of FCF for FY22-FY31	2,093.5	1.63	47.5%	6.5% WACC
PV of FCF in perpetuity	2,627.4	2.05	59.6%	6.5% WACC, g = 2%
Net Cash/(Debt)	-314.3	-0.24	-7.1%	estimated FY22F
Total DCF value	4,406.6	3.43	100.0%	
Issued share (m)	1,284.0			
DCF value per share	RM3.43			

Source: Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GAS MALAYSIA BHD	OP	3.25	3.43	5.54%	4,173.0	Y	12/2022	27.3	25.4	39.4%	-7.0%	11.9	12.8	3.6	30.6%	24.6	7.6%
MALAKOFF CORP BHD	OP	0.685	0.980	43.07%	3,347.6	Y	12/2022	5.6	6.3	-12.6%	11.8%	12.2	10.9	0.6	5.2%	4.5	6.6%
PESTECH INTERNATIONAL BHD	OP	0.380	0.660	73.68%	374.1	Y	06/2022	5.3	5.5	-30.1%	3.8%	7.2	6.9	0.6	8.2%	0.0	0.0%
PETRONAS GAS BHD	MP	17.30	17.51	1.21%	34,232.1	Y	12/2022	98.6	103.0	-3.7%	4.5%	17.5	16.8	2.6	14.8%	83.8	4.8%
SAMAIDEN GROUP BHD	OP	0.690	0.740	7.25%	265.7	Y	06/2022	3.9	4.7	101.7%	21.8%	17.8	14.6	3.5	21.8%	0.0	0.0%
TENAGA NASIONAL BHD	OP	8.78	10.27	16.97%	50,512.0	Y	12/2022	83.3	94.3	-0.8%	13.1%	10.5	9.3	0.9	8.3%	41.7	4.7%
YTL POWER INTERNATIONAL BHD	OP	0.725	1.11	53.10%	5,874.1	N	06/2022	2.2	4.5	-61.4%	104.7%	33.1	16.2	0.5	1.4%	5.0	6.9%
Simple Average								32.3	34.8	4.7%	21.8%	15.8	12.5	1.7	12.9%		4.4%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★			
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Resource Efficiency	★	★	★		
	Renewable Products & Services	★	★	★		
	Supply Chain Auditing	★	★	★		
	Waste Disposal/Pollution Control	★	★	★		
	Work Site Safety	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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