

20 September 2022

Gas Malaysia Bhd

Share Price Has Run Its Course

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We are turning neutral on GASMSIA following its strong share price performance of late, while a key re-rating catalyst, i.e., soaring global gas prices boosting the retail margins of its non-regulated business, appear to have run its course. Not helping either is the softening demand from glove makers that typically contribute to a third of its business. Maintain our forecasts and DCF-derived TP of RM3.43 (WACC: 6.5%; TG: 2%) but cut our recommendation to MARKET PERFORM from OUTPERFORM.

We are turning neutral on GASMSIA following its strong share price performance of late. On the other hand, its key re-rating catalyst, i.e., soaring gas prices globally, have come off their peak significantly, which means the expanding margins of GASMSIA's non-regulated business have run their course.

We see plenty of signs pointing towards GASMSIA's peaking share price including:

- Signs of trend reversal in gas prices.** GASMSIA charges its customers in accordance with Malaysia Reference Price (MRP) + beta (i.e., operating costs plus profit margin). While the latest MRP for Mar to May 2022 period was 14% higher at RM40.174/mmbtu against RM35.254/mmbtu in Dec 2021 to Feb 2022, we expect the next MRP to come in lower, taking our cue from LNG Japan/Korea Marker (Platts) Swap futures, where prices have already come off about 40% from its all-time-high of USD69.955/mmbtu on 25 Aug 2022 to USD42.16/mmbtu on 16 Sep 2022 (see chart on Pg 2).
- Retail margins to taper off.** Amidst falling gas prices, GASMSIA's retail margins (from non-regulated business) will fall as the margins are a function (i.e., 1%-2%) of gas cost. We estimate that the non-regulated business contributed 50% of group earnings in 1HFY22 amidst abnormally high gas prices vs. only 25% under a more stable gas price environment in the past.
- Demand softening in 2HFY22.** While GASMSIA no longer share gas volume data since 1QFY22 for competitive reasons under the more liberalized market environment, the company has guided for a slowdown in volume which we believe could be attributable to lower production by glove makers that typically contribute to a third of GASMSIA's business volume.

Forecasts. No changes in FY22F/FY23F earnings forecast which is based on 3% demand growth with total margin spread of RM2.90/mmbtu and RM2.40/mmbtu, respectively.

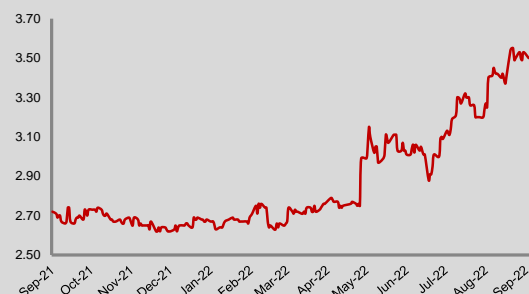
Downgrade to MARKET PERFORM from OUTPERFORM as we believe its earnings are peaking in FY22 as gas prices ease. Nonetheless, GASMSIA's long-term earnings remain defensive backed by its regulated business which will anchor its dividend yield of >6%. Our DCF-driven TP is maintained at RM3.43 (WACC: 6.5%; TG: 2%). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

Risks to our recommendation: (i) regulatory risk, (ii) volatility in margin spread of non-regulated business, and (ii) economic slowdown hurting demand for gas.

MARKET PERFORM ↓

Price: **RM3.50**
Target Price: **RM3.43** ↔

Share Price Performance



KLCI 1,451.52
YTD KLCI chg -7.4%
YTD stock price chg 32.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	GMB MK
Market Cap (RM m)	4,494.0
Shares Outstanding	1,284.0
52-week range (H)	3.65
52-week range (L)	2.61
3-mth avg daily vol:	1,368,134
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)		364.6	346.9
Earnings Revision (%)		0.0	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)	17.9	12.8	13.8
Price/NTA (x)	4.0	3.9	3.8
PBV (x)	4.0	3.9	3.8
Gearing (x)	0.26	0.27	0.25
Dividend Yield (%)	6.7	7.0	6.5

LNG Japan/Korea Marker (Platts) Swap Futures



Source: Bloomberg

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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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2019	2020	2021	2022F	2023F	FY Dec	2019	2020	2021	2022F	2023F
Revenue	6886	6687	5851.6	6296.8	6815.5	Growth (%)					
EBITDA	311	382	430.1	590.8	539.9	Turnover	10.5	-2.9	-12.5	7.6	8.2
Depreciation	-79	-87	-93.8	-97.3	-104.3	EBITDA	3.2	22.9	12.4	37.4	-8.6
EBIT	232	295	336.3	493.4	435.6	Op. Profit	-1.3	27.2	13.9	46.7	-11.7
Other Income	4	12	5.2	3.1	3.3	PBT	3.3	20.1	13.6	47.3	-11.9
Interest Expense	-15	-17	-10.4	-10.8	-11.2	Net Profit	5.2	11.8	17.4	40.4	-7.0
Associate	21	0	-0.7	1.0	1.0	Core Net Profit	1.8	26.8	12.7	39.4	-7.0
Exceptional/FV	0	0	0.0	0.0	0.0	Profitability (%)					
PBT	242	291	330.4	486.7	428.7	EBITDA Margin	4.5	5.7	7.4	9.4	7.9
Taxation	-49	-75	-77.3	-136.3	-102.9	Operating Margin	3.4	4.4	5.7	7.8	6.4
Minority Interest	0	0	0.0	0.0	0.0	PBT Margin	3.5	4.3	5.6	7.7	6.3
Net Profit	190	213	249.6	350.4	325.8	Net Profit	2.8	3.2	4.3	5.6	4.8
Core Net Profit	176	223	251.4	350.4	325.8	Core Net Margin	2.6	3.3	4.3	5.6	4.8
Balance Sheet						Effective Tax Rate	20.0	25.7	23.4	28.0	24.0
FY Dec (RM m)	2019	2020	2021	2022F	2023F	ROA	7.4	9.1	9.5	12.0	10.9
Fixed Assets	1361	1448	1533	1635	1731	ROE	16.9	20.7	22.2	30.1	27.2
Intangibles	0	0	0	0	0	DuPont Analysis					
Other FA	172	105	102	102	102	Net Margin (%)	2.6	3.3	4.3	5.6	4.8
Inventories	0	0	0	0	0	Assets T/over (x)	2.63	2.52	2.04	2.09	2.15
Receivables	660	645	678	690	747	Leverage Factor(x)	2.51	2.46	2.54	2.59	2.64
Other CA	260	225	513	518	525	ROE (%)	16.9	20.7	22.2	30.1	27.2
Cash	169	233	43	71	63	Leverage					
Total Assets	2622	2657	2868	3016	3167	Debt/Asset (x)	0.15	0.15	0.12	0.13	0.12
Payables	873	790	985	1016	1118	Debt/Equity (x)	0.38	0.38	0.30	0.33	0.30
ST Borrowings	202	286	320	320	320	Net Cash/(Debt)	-227	-176	-292	-314	-302
Other ST Liability	146	203	219	236	255	Net Debt/Equity (x)	0.22	0.16	0.26	0.27	0.25
LT Borrowings	195	123	15	65	45	Valuations					
Other LT Liability	164	175	199	214	232	Core EPS (sen)	13.7	17.4	19.6	27.3	25.4
Minority Int.	0	0	0	0	0	NDPS (sen)	14.1	15.1	17.7	24.6	22.8
Net Assets	1043	1080	1130	1165	1198	BV (RM)	0.81	0.84	0.88	0.91	0.93
Share Capital	642	642	642	642	642	NTA (RM)	0.81	0.84	0.88	0.91	0.93
Reserves	401	438	488	523	556	Core PER (x)	25.5	20.1	17.9	12.8	13.8
Equity	1043	1080	1130	1165	1198	Net Yield (%)	5.1	5.5	6.7	7.0	6.5
Cashflow Statement						PBV (x)	3.82	4.31	4.16	3.98	3.86
FY Dec (RM m)	2019	2020	2021	2022F	2023F	P/NTA (x)	4.31	4.16	3.98	3.86	3.75
Operating CF	104	347	533	493	506	EV/EBITDA	12.3	10.3	7.9	8.1	8.9
Investing CF	-88	-123	-456	-200	-200						
Financing CF	-79	-160	-267	-265	-313						
Change In Cash	-64	64	-190	28	-8						
Free CF	15	224	77	293	306						

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. (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	3.50	3.43	-2.00%	4,494.0	Y	12/2022	27.3	25.4	39.4%	-7.0%	12.8	13.8	3.9	30.6%	24.6	7.0%
MALAKOFF CORP BHD	OP	0.710	0.900	26.76%	3,469.7	Y	12/2022	5.6	6.3	-12.6%	11.8%	12.6	11.3	0.6	5.2%	4.5	6.3%
PESTECH INTERNATIONAL BHD	MP	0.285	0.350	22.81%	280.6	Y	06/2023	3.5	4.7	368.1%	32.0%	8.1	6.1	0.4	5.2%	0.0	0.0%
PETRONAS GAS BHD	MP	16.82	17.00	1.07%	33,282.3	Y	12/2022	90.1	95.4	-11.9%	5.8%	18.7	17.6	2.3	13.1%	76.6	4.6%
SAMAIDEN GROUP BHD	OP	0.710	0.860	21.13%	273.4	Y	06/2023	4.7	5.5	16.9%	15.9%	15.1	13.0	2.2	15.5%	0.0	0.0%
TENAGA NASIONAL BHD	OP	8.69	10.17	17.03%	49,994.2	Y	12/2022	76.0	91.5	-9.5%	20.5%	11.4	9.5	0.8	7.5%	38.0	4.4%
YTL POWER INTERNATIONAL BHD	OP	0.705	0.970	37.59%	5,712.0	N	06/2023	4.5	4.8	41.3%	7.9%	15.7	14.6	0.4	2.8%	5.0	7.1%
Simple Average								30.2	33.4	61.7%	12.4%	13.5	12.3	1.5	11.4%		4.2%

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		★	★	★		

Stock Ratings are defined as follows:

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

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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