

21 November 2022

Gas Malaysia

Retail Margins Lifted by High Gas Price

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GASMSIA's 9MFY22 results beat expectations as its retail margins were lifted by stronger-than-expected gas prices. With the latest reference prices at record high, the gas selling price is expected to remain elevated till 1QFY23. However, it should normalise from 2HFY23, leading to a weaker full-year FY23F numbers vs. FY22F's. We raise our FY22-23F net profit by 11-7%, lift our TP by 3% to RM3.54 (from RM3.43) and maintain our MARKET PERFORM call.

9MFY22 core profit of RM293.7m beat expectations at 84% and 79% of our full-year forecast and the full-year consensus estimates, respectively. The key variance against our forecast came largely from stronger-than-expected gas prices that lifted retail margins (which are calculated based on a fixed percentage on the gas cost).

YoY, 9MFY22 core profit jumped 63% to RM293.7m on the back of a 39% jump in revenue due to higher gas selling price as Malaysia Reference Price (MRP) soared 65% to RM43.575/mmbtu in 9MFY22 against RM26.368/mmbtu last year.

QoQ, 3QFY22 turnover grew 5%, again mainly driven by higher gas selling prices that more than offset a 7% decline in sales volume as demand from rubber glove sector continued to slide. However, weaker overhead absorption resulting from a significant fall in sales volume led to an 11% decline in core profit to RM95.0m.

The key takeaways from the results briefing are as follows:

1. The company expects upcoming gas selling prices to be higher QoQ in both 4QFY22 and 1QFY23 given the solid MRP, as GASMSIA charges customer based on MRP + beta (operating cost + retail margin). Petronas posted the highest MRP price (since its inception in 2013) of RM50.287/mmbtu in Jun-Aug 2022 vs. RM40.174/mmbtu in Mar-May 2022 and RM35.254/mmbtu in Dec 2021 to Feb 2022. GASMSIA's gas selling price has 3-month lag against MRP.
2. The company acknowledged the importance of demand from the rubber glove sector to its future growth prospects. Despite the uncertain outlook of the rubber glove industry, it expects 4QFY22 volume to remain stable, if not slightly higher QoQ, as the industrial customers always ramp up production in the 4Q. While the company does not provide guidance, we have projected sales volume growth of 3% in FY23. This is backed by the "take-or-pay" clause that took effect in 4QFY22, and also on improved utilisation rate for certain customers' new plants after a slow start in FY22.

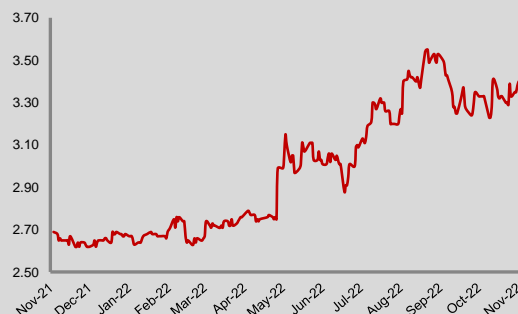
To recap, GASMSIA lost one top rubber glove client in Dec 2021 which is also the main reason for its declining volume trend this year. Gas sales volume fell another 7% QoQ in 3QFY22 after a 4% QoQ decline in 2QFY22. This was largely owing to declining contribution from the rubber glove sector which fell to 28% in 3QFY22 (see Page 2) from 33% in 4QFY21 (GASMSIA did not share the volume contribution details by sector in 1QFY22 and 2QFY22).

Raise FY22-23F earnings by 11-7% to reflect higher margin assumption to RM3.10-RM2.70/mmbtu from RM2.90-RM2.60/mmbtu given the solid gas prices in 2HFY22 and 1QFY22. However, we keep our long-term margin spread assumption of RM2.30/mmbtu unchanged as we expect gas price to normalise from 2HFY23 onwards. Accordingly, FY22-FY23F NDPS are also upgraded proportionally based on unchanged earnings payout of 90%.

MARKET PERFORM ↔

Price: RM3.40
Target Price: RM3.54 ↑

Share Price Performance



KLCI 1,449.32
YTD KLCI chg -7.5%
YTD stock price chg 28.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	GMB MK Equity
Market Cap (RM m)	4,365.6
Shares Outstanding	1,284.0
52-week range (H)	3.65
52-week range (L)	2.61
3-mth avg daily vol:	1,423,845
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)	2021	2022F	2023F
Turnover	5851.6	7263.3	6704.8
EBIT	336.3	533.5	458.1
PBT	330.4	537.7	457.8
Net Profit (NP)	249.6	387.2	348.0
Core Net Profit	251.4	387.2	348.0
Consensus (NP)		380.3	357.4
Earnings Revision (%)		10.5	6.8
Core EPS (sen)	19.6	30.2	27.1
Core EPS growth (%)	12.7	54.0	-10.1
NDPS (sen)	17.7	27.1	24.4
NTA/Share (RM)	0.88	0.91	0.94
BV/Share (RM)	0.88	0.91	0.94
Core PER (x)	17.4	11.3	12.5
Price/NTA (x)	3.9	3.7	3.6
PBV (x)	3.9	3.7	3.6
Gearing (x)	0.26	0.17	0.26
Dividend Yield (%)	6.7	8.0	7.2

21 November 2022

Maintain MARKET PERFORM as we believe GAMSIA's earnings are peaking in FY22 as gas prices ease going into FY23. However, its long-term earnings remain defensive backed by its regulated business which will anchor its dividend yield of >7%. Post earnings revision, our DCF-driven TP is upgraded to RM3.54 (WACC: 6.5%; TG: 2%) from RM3.43. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by use (see Page 4).

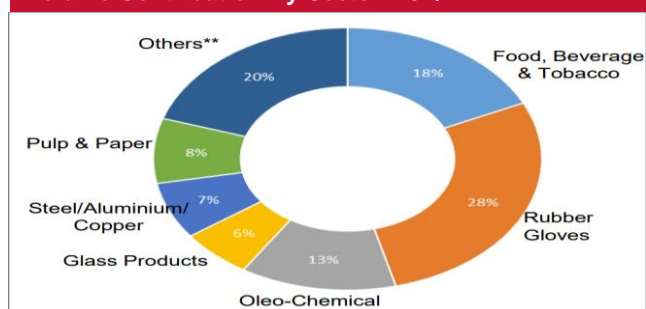
Risks to our recommendation include: (i) regulatory risk, (ii) volatility in margin spread of non-regulated business, and (ii) economic slowdown hurting demand for gas.

Income Statement

	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
FY Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Turnover	1864.8	1777.1	5%	1383.2	35%	5426.1	3911.1	39%
EBITDA	162.8	168.0	-3%	108.0	51%	476.1	311.6	53%
Depreciation	-25.6	-25.3	1%	-23.7	8%	-75.8	-69.1	10%
EBIT	137.1	142.7	-4%	84.3	63%	400.3	242.5	65%
Interest income	2.8	2.5	10%	1.1	160%	6.8	4.2	63%
Interest expense	-2.7	-2.1	32%	-2.8	-3%	-7.6	-8.1	-6%
Share of JV results	1.6	0.9	80%	0.9	82%	3.7	-0.3	-1570%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	138.8	144.1	-4%	83.4	66%	403.2	238.4	69%
Zakat expenses	-0.9	-0.9	0%	-0.9	0%	-2.6	-2.6	0%
Taxation	-42.3	-35.9	18%	-20.2	109%	-106.2	-55.4	92%
Profit after tax	95.7	107.3	-11%	62.4	53%	294.3	180.3	63%
Minority interest	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Net profit	95.7	107.3	-11%	62.4	53%	294.3	180.3	63%
Core net profit	95.0	107.3	-11%	62.0	53%	293.7	180.0	63%
EPS (sen)	7.4	8.4	-11%	4.8	53%	22.9	14.0	63%
NDPS (sen)	0.0	5.9	N/A	0.0	0%	5.9	4.8	23%
NTA/share (RM)	0.92	0.91	2%	0.83	12%	0.92	0.83	12%
EBITDA margin	8.7%	9.5%		7.8%		8.8%	8.0%	
EBIT margin	7.4%	8.0%		6.1%		7.4%	6.2%	
Pretax margin	7.4%	8.1%		6.0%		7.4%	6.1%	
Effective tax rate	31.1%	25.5%		25.3%		27.0%	24.4%	

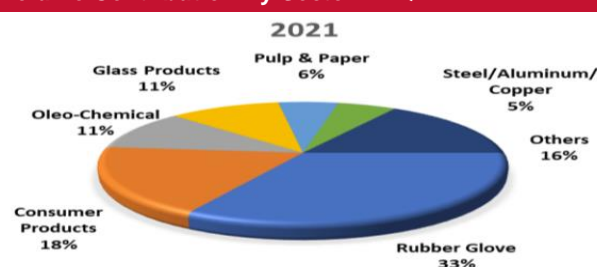
Source: Company

Volume Contribution By Sector – 3QFY22



Source: Company

Volume Contribution By Sector – 4QFY21



Source: Company

Valuation

	RM m	RM/Share	%	Valuation Basic
PV of FCF for FY22-FY31	2,093.5	1.63	46.0%	6.5% WACC
PV of FCF in perpetuity	2,651.7	2.07	58.3%	6.5% WACC, g = 2%
Net Cash/(Debt)	-194.5	-0.15	-4.3%	estimated FY22F
Total DCF value	4,550.7	3.54	100.0%	
Issued share (m)	1,284.0			
DCF value per share	RM3.54			

Source: Kenanga Research

21 November 2022

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	MP	3.40	3.54	4.12%	4,365.6	Y	12/2022	30.2	27.1	54.0%	-10.1%	11.3	12.5	3.7	33.7%	27.1	8.0%
MALAKOFF CORP BHD	OP	0.620	0.900	45.16%	3,029.9	Y	12/2022	5.6	6.3	-12.6%	11.8%	11.0	9.9	0.6	5.2%	4.5	7.3%
PESTECH INTERNATIONAL BHD	MP	0.295	0.350	18.64%	290.4	Y	06/2023	3.5	4.7	368.1%	32.0%	8.4	6.3	0.4	5.2%	0.0	0.0%
PETRONAS GAS BHD	MP	17.06	17.00	-0.35%	33,757.2	Y	12/2022	90.1	95.4	-11.9%	5.8%	18.9	17.9	2.4	13.1%	76.6	4.5%
SAMAIDEN GROUP BHD	OP	0.720	0.860	19.44%	277.2	Y	06/2023	4.7	5.5	16.9%	15.9%	15.3	13.2	2.2	15.5%	0.0	0.0%
TENAGA NASIONAL BHD	OP	8.38	10.17	21.36%	48,210.8	Y	12/2022	76.0	91.5	-9.5%	20.5%	11.0	9.2	0.8	7.5%	38.0	4.5%
YTL POWER INTERNATIONAL BHD	OP	0.665	0.970	45.86%	5,387.9	N	06/2023	4.5	4.8	41.3%	7.9%	14.8	13.8	0.4	2.8%	5.0	7.5%
Simple Average								30.7	33.6	63.8%	12.0%	13.0	11.8	1.5	11.9%		4.5%

Source: Kenanga Research

21 November 2022

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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