

19 May 2023

## Gas Malaysia

### Gas Prices, Earnings Peak in 1QFY23

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**GASMSIA's 1QFY23 results met expectations. We expect a sequential decline in earnings in coming quarters as gas prices normalise. However, its earnings visibility remains strong as most of its customers are locked in 3-year contracts. We maintain our earnings forecast, TP of RM3.54 and MARKET PERFORM rating. Its dividend yield is attractive at c.6%.**

**1QFY23 results in line.** 1QFY23 core profit of RM95.0m accounted for 27%/26% of our/street's FY23 estimate. We consider the results to be within expectation as we expect sequential quarterly decline in earnings given the downtrend in gas prices. Expectedly, no dividend was declared as it usually pays half-yearly dividend.

**YoY**, 1QFY23 core profit rose by 4% to RM95.0m from RM91.3m in 1QFY22, on the back of 37% jump in revenue attributable to higher gas selling price of Malaysia Reference Price (MRP) which surged 71% to c.RM58/mmbtu from c.RM34/mmbtu last year, despite gas sales volume which declined 17% to 37m GJ. Given the strong ASP, earnings mix between shipper and distribution has improved further to 60:40 from 55:45. To refresh, shipper earnings are derived from retail margin which is based on gas selling price. However, higher repair and maintenance costs capped its earnings and dragged operating margin lower to 5.0% from 6.7%.

**QoQ**, despite its sales volume falling slightly by 3% to 37m GJ, 1QFY23 revenue rose 10% to RM2.44b on higher gas selling price as MRP grew further to new high of c.RM58/mmbtu from c.RM50/mmbtu. However, core profit fell 5% to RM95.0m from RM99.5m due to higher repair and maintenance costs as mentioned above.

The key takeaways from the results briefing are as follows:

1. It guided for higher gas selling prices during the first three quarters of FY23 from a year ago, but lower in 4QFY23 (vs. c.RM50/mmbtu recorded in 4QFY22). Gas selling prices hit a record c.RM58/mmbtu in 1QFY23 but it expects them to ease to c.RM48/mmbtu in 2QFY23. Recall, GASMSIA charges customer based on MRP + beta (operating cost + retail margin).
2. Sales volume fell 3% QoQ / 17% YoY to 37m GJ in 1QFY23, dragged down by lower demand from the glove sector. In 4QFY21, glove makers contributed 33% of total sales volume. It declined to 28% in 3QFY22, 27% in 4QFY22 and 22% in 1QFY23. GASMSIA did not share sector data for 1QFY22 and 2QFY22.
3. High repair and maintenance costs during the past three quarters were due to emergency repair work as opposed to less repair and maintenance works in 1HFY22 as it was unable to source certain parts during the pandemic. However, the costs in FY23 will be similar to that of FY22.

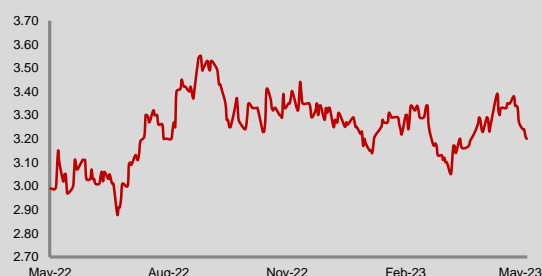
We maintain our FY23 and FY24 earnings forecasts based on margin assumptions of RM2.70/mmbtu and RM2.50/mmbtu, respectively.

We like GASMSIA for: (i) its strong market position, being a key natural gas retailer in Malaysia, (ii) its strong earnings visibility underpinned by its ability to retain customers, typically, via 3-year contract, and (iii) its strong free cash flows generation anchoring a dividend yield of >5%. However, there is a lack of catalyst given that its earnings have already peaked in FY22 with gas prices abating.

## MARKET PERFORM ↔

**Price:** RM3.20  
**Target Price:** RM3.54 ↔

### Share Price Performance



KLCI 1,428.04  
YTD KLCI chg -4.5%  
YTD stock price chg -1.8%

### Stock Information

Shariah Compliant Yes  
Bloomberg Ticker GMB MK Equity  
Market Cap (RM m) 4,108.8  
Shares Outstanding 1,284.0  
52-week range (H) 3.65  
52-week range (L) 2.87  
3-mth avg daily vol: 561,238  
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)	2022A	2023F	2024F
Turnover	7649.4	6704.8	7245.7
EBIT	540.4	458.6	420.7
PBT	546.7	463.9	432.2
<b>Net Profit (NP)</b>	<b>389.5</b>	<b>348.0</b>	<b>324.2</b>
<b>Core Net Profit</b>	<b>393.2</b>	<b>348.0</b>	<b>324.2</b>
Consensus (NP)	-	360.3	349.3
Earnings Revision (%)	-	-	-
Core EPS (sen)	30.6	27.1	25.2
Core EPS growth (%)	56.4	-11.5	-6.8
NDPS (sen)	23.8	19.0	20.2
NTA/Share (RM)	1.00	1.08	1.13
BV/Share (RM)	1.00	1.08	1.13
Core PER (x)	10.5	11.8	12.7
Price/NTA (x)	3.2	3.0	2.8
PBV (x)	3.2	3.0	2.8
Gearing (x)	-0.27	-0.19	-0.22
Dividend Yield (%)	7.3	5.9	6.3

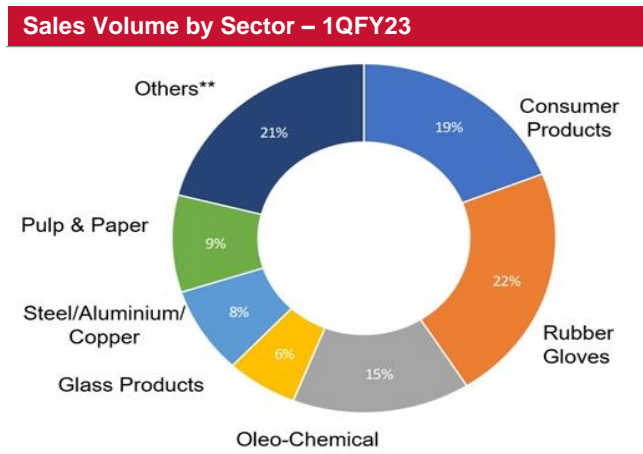
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We maintain our DCF-derived TP of RM3.54 (WACC: 6.5%; TG: 2%). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by use (see Page 4).

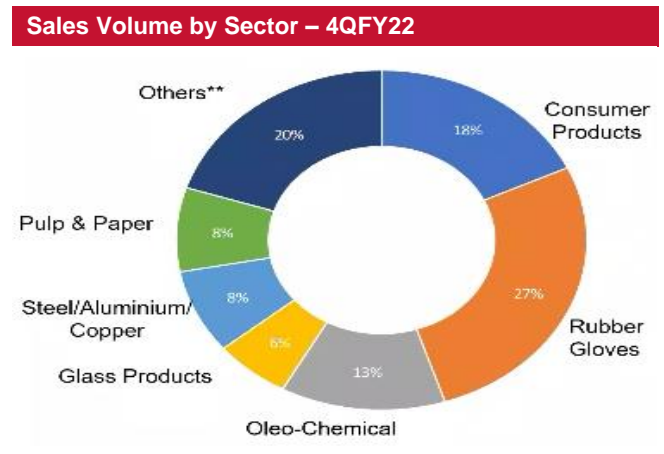
**Risks to our recommendation include:** (i) regulatory risk, (ii) volatility in margin spread of non-regulated business, and (ii) economic slowdown hurting demand for gas.

Income Statement								
	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Turnover	2439.8	2223.3	10%	1784.2	37%	2439.8	1784.2	37%
EBITDA	149.5	166.3	-10%	145.2	3%	149.5	145.2	3%
Depreciation	-26.4	-26.2	1%	-24.9	6%	-26.4	-24.9	6%
EBIT	123.1	140.1	-12%	120.4	2%	123.1	120.4	2%
Interest income	5.0	5.1	-2%	1.6	219%	5.0	1.6	219%
Interest expense	-2.7	-2.6	6%	-2.9	-5%	-2.7	-2.9	-5%
Share of JV results	1.3	0.9	34%	1.2	2%	1.3	1.2	2%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pre-tax profit	126.6	143.5	-12%	120.3	5%	126.6	120.3	5%
Zakat expenses	-0.9	-0.9	0%	-0.9	0%	-0.9	-0.9	0%
Taxation	-30.7	-47.4	-35%	-28.1	9%	-30.7	-28.1	9%
Profit after tax	95.1	95.2	0%	91.3	4%	95.1	91.3	4%
Minority interest	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Net profit	95.1	95.2	0%	91.3	4%	95.1	91.3	4%
Core net profit	95.0	99.5	-5%	91.3	4%	95.0	91.3	4%
EPS (sen)	7.4	7.7	-5%	7.1	4%	7.4	7.1	4%
NDPS (sen)	0.0	17.9	N/A	0.0	0%	0.0	0.0	0%
NTA/share (RM)	0.90	1.00	-9%	0.82	10%	0.90	0.82	10%
EBITDA margin	6.1%	7.5%		8.1%		6.1%	8.1%	
EBIT margin	5.0%	6.3%		6.7%		5.0%	6.7%	
Pre-tax margin	5.2%	6.5%		6.7%		5.2%	6.7%	
Effective tax rate	24.9%	33.7%		24.1%		24.9%	24.1%	

Source: Company



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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.
<b>Stocks Under Coverage</b>																	
GAS MALAYSIA BHD	MP	3.20	3.54	10.63%	4,108.8	Y	12/2023	27.1	25.2	-11.5%	-6.8%	11.8	12.7	3.0	26.2%	19.0	5.9%
MALAKOFF CORP BHD	OP	0.680	0.950	39.71%	3,323.1	Y	12/2023	6.5	7.1	3.7%	8.4%	10.4	9.6	0.6	5.9%	5.2	7.7%
PETRONAS GAS BHD	MP	16.92	17.13	1.24%	33,480.1	Y	12/2023	95.8	97.2	9.8%	1.4%	17.7	17.4	2.5	14.3%	81.5	4.8%
SAMAIDEN GROUP BHD	OP	0.915	1.15	25.68%	354.5	Y	06/2023	4.7	5.5	16.9%	15.9%	19.4	16.8	2.8	15.5%	0.0	0.0%
TENAGA NASIONAL BHD	MP	9.79	10.64	8.68%	56,322.6	Y	12/2023	83.2	84.4	24.1%	1.4%	11.8	11.6	0.9	8.0%	41.6	4.2%
YTL POWER INTERNATIONAL BHD	OP	1.10	1.09	-0.91%	8,912.4	N	06/2023	9.8	10.6	207.9%	8.9%	11.3	10.4	0.6	5.5%	5.0	4.5%
<b>Sector Aggregate</b>					<b>106,501.5</b>					<b>24.4%</b>	<b>2.1%</b>	<b>13.1</b>	<b>12.8</b>	<b>1.7</b>	<b>12.6%</b>		<b>4.5%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	★	
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
<b>SPECIFIC</b>	Transition to Renewables	★	★	★		
	Reliable Energy & Fair Tariff	★	★	★		
	Effluent/Waste Management	★	★	★		
	Ethical Practices	★	★	★		
	Supply Chain Management	★	★	★		
	Customer Satisfaction	★	★	★		
<b>OVERALL</b>		★	★	★		

☆ 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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