

29 November 2023

Gas Malaysia

Earnings Normalising

By Teh Kian Yeong | tehky@kenanga.com.my

GASMSIA's 9MFY23 results beat our forecast but only met market expectation. Its earnings are normalising (from bumper pandemic years due to the spike in gas prices). We raise our FY23-24F net profit forecasts by 6% and 2%, respectively, lift our TP by 1% to RM3.33 (from RM3.30) but maintain our MARKET PERFORM call. The stock offers a dividend yield of >6%.

GASMSIA's 9MFY23 core profit of RM278.6m beat our forecast at 80% of our full-year forecast but only met market expectations at 76% of full-year consensus estimate. The variance against our forecast came largely from a higher-than-expected sales volume and better retail margins as its gas selling prices fell less than expected. No dividend was declared as expected as it usually pays half-yearly dividend.

YoY, although its sales volume contracted 13% to 109.9m GJ, its 9MFY23 turnover jumped 16% to RM6.28b on the back of higher gas selling prices. The Malaysia Reference Price (MRP) soared 35% to RM49.31/mmbtu in 9MFY23. However, its 9MFY23 core profit fell 5% to RM278.6m largely due to a lower gas volume as mentioned above.

QoQ, its 3QFY23 revenue fell 10% mainly due to lower gas selling prices (MRP -13% to RM37.20/mmbtu), partially mitigated by a 4% increase in its sales volume to 37.2m GJ. Meanwhile, its core profit declined 12% to RM86.0m largely due to lower gas selling prices as mentioned above.

The key takeaways from the results briefing are as follows:

1. During 9MFY23, GASMSIA had a net addition of 14 industrial accounts (26 new accounts, partially offset by the non-renewal of 12 existing accounts). Four customers requested for increased supply. Nonetheless, 9MFY23 sales volume fell 13% to 109.9m GJ from 126.7m GJ previously as mentioned.
2. The 4% increase in 3QFY23 sales volume was mainly driven by glove manufacturers. GASMSIA believe that the earlier demand downtrend from glove manufacturers has bottomed.
3. It expects a sequential increase in sales volume in 4QFY23 due to seasonality. On expectation of flattish gas selling prices, its 4QFY23 performance is likely to improve QoQ.

Forecasts. We raise our FY23-24F earnings forecasts by 6% and 2%, respectively, as we raise our sales volume assumption by 1% and lift our margin assumption to RM2.80/mmbtu (from RM2.70/mmbtu previously) for FY23. We keep our margin assumption of RM2.50/mmbtu in FY24.

Consequently, we upgrade our DCF-derived TP by 1% to RM3.33 (from RM3.30) based on an unchanged WACC of 6.5% and TG of 2%. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by use (see Page 4).

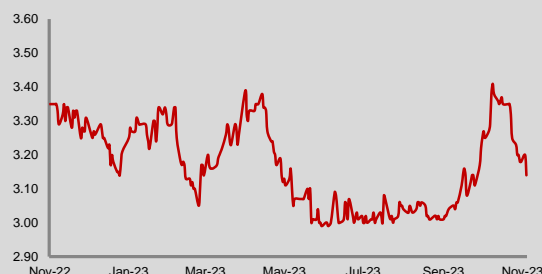
We like GASMSIA for its: (i) strong market position, being a key natural gas retailer in Malaysia, (ii) strong earnings visibility underpinned by its ability to retain customers, typically, via 3-year contract, and (iii) strong free cash flows generation anchoring a dividend yield of >6%. However, there is a lack of catalyst given that its earnings have already peaked in FY22 with gas prices easing.

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.

MARKET PERFORM ↔

Price: **RM3.14**
Target Price: **RM3.33** ↑

Share Price Performance



KLCI 1,448.02
YTD KLCI chg -3.2%
YTD stock price chg -3.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	GMB MK Equity
Market Cap (RM m)	4,031.8
Shares Outstanding	1,284.0
52-week range (H)	3.46
52-week range (L)	2.97
3-mth avg daily vol:	914,636
Free Float	16%
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)	2022A	2023F	2024F
Turnover	7649.4	8221.2	7430.5
EBIT	540.4	482.2	425.7
PBT	546.7	489.4	440.4
Net Profit (NP)	389.5	367.0	330.3
Core Net Profit	393.2	367.0	330.3
Consensus (NP)	-	367.8	352.7
Earnings Revision (%)	-	+5.5	+1.9
Core EPS (sen)	30.6	28.6	25.7
Core EPS growth (%)	56.4	-6.6	-10.0
NDPS (sen)	23.8	20.0	20.6
NTA/Share (RM)	1.00	1.08	1.13
BV/Share (RM)	1.00	1.08	1.13
Core PER (x)	10.3	11.0	12.2
Price/NTA (x)	3.2	2.9	2.8
PBV (x)	3.2	2.9	2.8
Gearing (x)	N Cash	N Cash	N Cash
Dividend Yield (%)	7.3	6.4	6.6

29 November 2023

Income Statement								
	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Turnover	1816.8	2020.8	-10%	1864.8	-3%	6277.4	5426.1	16%
EBITDA	136.2	157.5	-14%	162.8	-16%	443.3	476.1	-7%
Depreciation	-27.6	-26.8	3%	-25.6	7%	-80.8	-75.8	7%
EBIT	108.7	130.7	-17%	137.1	-21%	362.5	400.3	-9%
Interest income	4.9	4.5	9%	2.8	79%	14.4	6.8	112%
Interest expense	-3.0	-2.1	46%	-2.7	11%	-7.8	-7.6	2%
Share of JV results	1.9	-1.3	-254%	1.6	22%	2.0	3.7	-48%
Exceptional items	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pre-tax profit	112.5	131.9	-15%	138.8	-19%	371.0	403.2	-8%
Zakat expenses	-0.9	-0.9	0%	-0.9	0%	-2.6	-2.6	0%
Taxation	-25.5	-33.2	-23%	-42.3	-40%	-89.3	-106.2	-16%
Profit after tax	86.2	97.8	-12%	95.7	-10%	279.1	294.3	-5%
Minority interest	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Net profit	86.2	97.8	-12%	95.7	-10%	279.1	294.3	-5%
Core net profit	86.0	97.6	-12%	95.0	-9%	278.6	293.7	-5%
EPS (sen)	6.7	7.6	-12%	7.4	-9%	21.7	22.9	-5%
NDPS (sen)	0.0	5.7	N/A	0.0	0%	5.7	5.9	-3%
NTA/share (RM)	0.98	0.98	1%	0.92	7%	0.98	0.92	7%
EBITDA margin	7%	8%		9%		7%	9%	
EBIT margin	6%	6%		7%		6%	7%	
Pre-tax margin	6%	7%		7%		6%	7%	
Effective tax rate	23%	26%		31%		25%	27%	
Total Sales Volume (m GJ)	37.20	35.80	4%	39.50	-6%	109.90	126.70	-13%
MRP (RM/mmbtu)	41.74	48.15	-13%	40.17	4%	49.31	36.46	35%

Source: Company

29 November 2023

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	3.14	3.33	6.1%	4,031.8	Y	12/2023	28.6	25.7	-6.6%	-10.0%	11.0	12.2	2.9	27.5%	20.0	6.4%
MALAKOFF CORP BHD	MP	0.615	0.600	-2.4%	3,005.5	Y	12/2023	(10.9)	4.0	-226.8%	-63.6%	N.A.	15.4	0.6	-10.5%	3.0	4.9%
PETRONAS GAS BHD	MP	16.84	17.45	3.6%	33,321.8	Y	12/2023	95.8	97.2	9.8%	1.4%	17.6	17.3	2.5	14.3%	81.5	4.8%
SAMAIDEN GROUP BHD	OP	1.12	1.44	28.6%	460.0	Y	06/2024	3.8	5.7	24.8%	50.5%	29.4	19.5	4.0	14.8%	0.0	0.0%
TENAGA NASIONAL BHD	OP	9.89	11.45	15.8%	57,236.7	Y	12/2023	63.3	78.7	-5.6%	24.2%	15.6	12.6	0.9	6.1%	31.7	3.2%
YTL POWER INTERNATIONAL BHD	OP	2.31	2.82	22.1%	18,716.0	N	06/2024	35.3	28.1	45.9%	-20.5%	6.5	8.2	1.0	16.5%	6.0	2.6%
Sector Aggregate					116,771.8					-1.7%	12.6%	14.2	12.6	2.0	11.4%		3.6%

Source: Kenanga Research

29 November 2023

Stock ESG Ratings:

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

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
 Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

