

28 May 2024

Gas Malaysia

Buoyed by Demand from Glove Sector

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GASMSIA guided for gas sales volume growth of 4% to 5% in FY24, driven largely by strong demand from the rubber glove, consumer product and F&B sectors. We fine-tune up our FY24-25F net profit forecasts by 1% each, tweak our TP up to **RM3.59** (from RM3.55) but maintain our **MARKET PERFORM** call. The stock offers an attractive yield of >6%.

We came away from GASMSIA's post-1QFY24 results briefing feeling positive about its earnings outlook. The key takeaways are as follows:

1. It guided for gas sales volume growth of 4% to 5% in FY24 (vs. our assumption of 4%), driven largely by strong demand from rubber glove, consumer product and F&B sectors. More specifically, it guided for gas sales volume growth of 5% to the rubber glove sector in FY24.
2. It shared that an 8% YoY rise in 1QFY24 core net profit was largely due to RM9m in reversal of gas cost accrual, despite a 23% plunge in its top line due to a 29% decline in Malaysia Reference Price (MRP).
3. While its overall gas sales volume fell slightly by 1.3% QoQ, its gas sales volume to the rubber glove industry rose 7.5% to 8.1m GJ in 1QFY24 from 7.5m GJ in 4QFY23, a third conservative quarterly growth in the sector, having bottomed at 6.9m GJ in 2QFY23.
4. GASMSIA has budgeted RM320m CAPEX in FY24, out of which RM50m is earmarked for a new 190km gas pipeline.

Forecasts. We fine-tune FY24-25F net profit forecasts by 1% each.

Valuations. Similarly, we tweak our DCF-derived TP up to **RM3.59** (from RM3.55) based on 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 5).

Investment case. 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 flow generation, anchoring a dividend yield of >6%. However, its valuations are fair at the current level. Maintain **MARKET PERFORM**.

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: **RM3.59**
Target Price: **RM3.59** ↑

Share Price Performance



KLCI	1,618.27
YTD KLCI chg	11.2%
YTD stock price chg	11.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	GMB MK Equity
Market Cap (RM m)	4,609.6
Shares Outstanding	1,284.0
52-week range (H)	3.65
52-week range (L)	2.97
3-mth avg. daily vol.	454,162
Free Float	16%
Beta	0.5

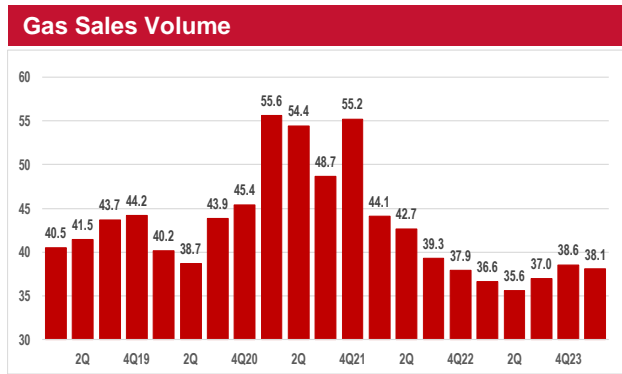
Major Shareholders

Anglo Oriental Annuity	30.9%
Tokyo Gas Mitsui	18.5%
Petronas Gas Bhd	14.8%

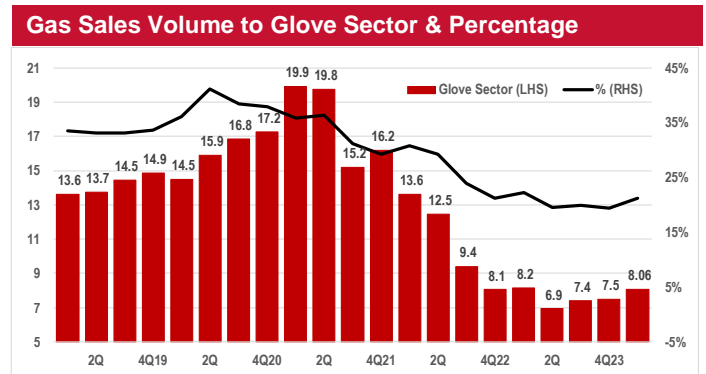
Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	8078.9	7752.7	7428.1
EBIT	501.2	470.6	439.3
PBT	513.7	486.1	465.4
Net Profit (NP)	383.4	364.5	353.7
Core Net Profit	383.3	364.5	353.7
Consensus (NP)	-	374.2	372.9
Earnings Revision (%)	-	+1.2	+1.3
Core EPS (sen)	29.8	28.4	27.5
Core EPS Growth (%)	-2.5	-4.9	-3.0
NDPS (sen)	22.8	22.7	24.8
NTA/Share (RM)	1.07	1.14	1.17
BV/Share (RM)	1.07	1.14	1.17
Core PER (x)	12.0	12.6	13.0
Price/NTA (x)	3.4	3.2	3.1
PBV (x)	3.4	3.2	3.1
Gearing (x)	N Cash	N Cash	N Cash
Dividend Yield (%)	7.1	6.3	6.9

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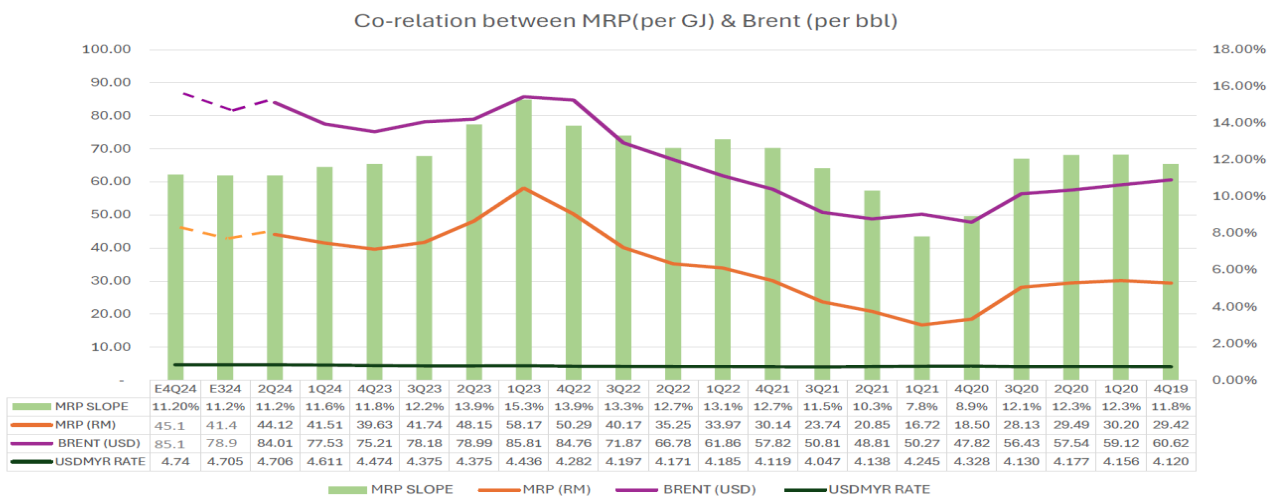


Source: Company



Source: Company

Natural Gas Price Movement



Source: Company

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2021	2022	2023	2024F	2025F	FY Dec	2021	2022	2023	2024F	2025F
Revenue	5852	7649	8079	7753	7428	Growth (%)					
EBITDA	432	647	605	581	557	Turnover	-12.5	30.7	5.6	-4.0	-4.2
Depreciation	-94	-102	-104	-111	-118	EBITDA	13.1	49.7	-6.5	-3.9	-4.2
EBIT	339	545	501	471	439	Op. Profit	14.7	61.0	-8.1	-6.1	-6.7
Other Income	5	12	19	19	27	PBT	13.6	65.5	-6.0	-5.4	-4.3
Interest Expense	-10	-10	-11	-9	-6	Net Profit	17.4	56.1	-1.6	-4.9	-3.0
Associate	-1	5	4	5	5	Core Net Profit	12.7	56.4	-2.5	-4.9	-3.0
Exceptional/FV	-2	-5	0	0	0	Profitability (%)					
PBT	330	547	514	486	465	EBITDA Margin	7.4	8.5	7.5	7.5	7.5
Taxation	-77	-154	-127	-122	-112	Operating Margin	5.8	7.1	6.2	6.1	5.9
Minority Interest	0	0	0	0	0	PBT Margin	5.6	7.1	6.4	6.3	6.3
Net Profit	250	390	383	365	354	Net Profit	4.3	5.1	4.7	4.7	4.8
Core Net Profit	251	393	383	365	354	Core Net Margin	4.3	5.1	4.7	4.7	4.8
						Effective Tax Rate	23.4	28.1	24.7	25.0	24.0
						ROA	9.5	13.4	10.8	10.8	10.6
						ROE	22.2	30.8	28.0	24.9	23.6
						DuPont Analysis					
						Net Margin (%)	4.3	5.1	4.7	4.7	4.8
						Assets T/over (x)	2.04	2.43	2.52	2.26	2.20
						Leverage Factor(x)	2.54	2.46	2.34	2.35	2.25
						ROE (%)	22.2	30.8	28.0	24.9	23.6
						Leverage					
						Debt/Asset (x)	0.12	0.08	0.10	0.06	0.05
						Debt/Equity (x)	0.30	0.19	0.24	0.14	0.12
						Net Cash/(Debt)	-292	348	458	385	305
						Net Debt/Equity (x)	0.26	-0.27	-0.33	-0.26	-0.20
						Valuations					
						Core EPS (sen)	19.6	30.6	29.8	28.4	27.5
						NDPS (sen)	17.7	23.8	22.8	22.7	24.8
						BV (RM)	0.88	1.00	1.07	1.14	1.17
						NTA (RM)	0.88	1.00	1.07	1.14	1.17
						Core PER (x)	18.3	11.7	12.0	12.6	13.0
						Net Yield (%)	6.7	7.3	7.1	6.3	6.9
						PBV (x)	4.08	3.61	3.37	3.15	3.08
						P/NTA (x)	4.08	3.61	3.37	3.15	3.08
						EV/EBITDA	7.9	6.5	6.8	7.9	8.3

Balance Sheet

FY Dec (RM m)	2021	2022	2023	2024F	2025F
Fixed Assets	1533	1616	1734	1801	1884
Intangibles	0	0	0	0	0
Other FA	102	111	107	110	110
Inventories	0	0	0	0	0
Receivables	678	750	600	847	814
Other CA	513	79	76	82	79
Cash	43	591	689	589	488
Total Assets	2868	3147	3206	3429	3374
Payables	985	1150	1050	1274	1224
ST Borrowings	320	161	250	161	161
Other ST Liability	219	250	226	258	247
LT Borrowings	15	82	82	42	22
Other LT Liability	199	226	229	233	223
Minority Int.	0	0	0	0	0
Net Assets	1130	1278	1368	1461	1497
Share Capital	642	642	642	642	642
Reserves	488	636	726	819	855
Equity	1130	1278	1368	1461	1497

Cashflow Statement

FY Dec (RM m)	2021	2022	2023	2024F	2025F
Operating CF	535	654	198	404	438
Investing CF	-456	232	232	-200	-200
Financing CF	-267	-333	-333	-312	-338
Change In Cash	-188	553	98	-107	-101
Free CF	79	886	430	204	238

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.				
Stocks Under Coverage																	
GAS MALAYSIA BHD	MP	3.59	3.59	0.0%	4,609.6	Y	12/2024	28.4	27.5	-4.9%	-3.0%	12.6	13.0	3.2	25.8%	22.7	6.3%
MALAKOFF CORP BHD	MP	0.765	0.680	-11.1%	3,738.5	Y	12/2024	4.7	5.8	-71.9%	24.1%	16.3	13.1	0.8	5.2%	3.8	4.9%
PETRONAS GAS BHD	MP	18.32	17.87	-2.5%	36,250.4	Y	12/2024	98.4	100.7	5.2%	2.4%	18.6	18.2	2.6	14.2%	72.0	3.9%
SAMAIDEN GROUP BHD	MP	1.37	1.51	10.2%	572.6	Y	06/2024	3.5	5.3	26.4%	51.9%	39.4	25.9	5.5	14.9%	0.0	0.0%
SOLARVEST HOLDINGS BHD	OP	1.62	1.91	17.9%	1,121.5	Y	03/2024	3.9	6.8	52.8%	74.4%	41.3	23.7	5.2	13.8%	0.0	0.0%
TENAGA NASIONAL BHD	MP	13.22	11.50	-13.0%	76,508.5	Y	12/2024	73.7	79.5	37.4%	7.9%	17.9	16.6	1.2	7.0%	36.5	2.8%
YTL POWER INTERNATIONAL BHD	MP	4.96	5.22	5.2%	40,385.1	N	06/2024	39.1	37.7	61.6%	-3.5%	12.7	13.2	2.2	18.1%	6.0	1.2%
Sector Aggregate					163,186.2					54.5%	3.4%	16.3	15.8	3.0	14.1%		2.7%

Source: Kenanga Research

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.**

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