

15 July 2024

Gas Malaysia

Feeling Heat from CHP Plants, Literally

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We visited and learned first-hand about GASMSIA's combined heat and power (CHP) plants in Prai last week. Despite their immaterial contributions to group earnings, these CHP plants provide a boost to GASMSIA's ESG profile given their role in reducing carbon dioxide emission. We maintain our forecasts, TP of RM3.59 and our MARKET PERFORM rating.

We visited GASMSIA's two CHP plants in Prai, one supplying to Toray Plastics (Malaysia) Sdn Bhd, Penfibre Sdn Bhd and Penfabric Sdn Bhd (Toray cogeneration plant commissioned in Jan 2017 with a power generation capacity of 33MW and steam generation capacity of 130 tonnes per hour or tph), while the other to Fatty Chemical (M) Sdn Bhd (FCM cogeneration plant commissioned in Dec 2023 with a power generation capacity of 6.7MW and steam generation capacity of 35 tph).

The key takeaways from the visits are as follows:

- The CHP business is housed under Gas Malaysia Energy Advance Sdn Bhd (GMEA), a 66:34 joint-venture between GASMSIA and Tokyo Gas Engineering Solutions Co. Ltd. It currently operates three plants with a combined capacity to generate 41.7MW of electricity, 165 tph of steam and 1,684kW of hot water. In FY22A and FY23A, this JV unit contributed 1.5% to group profit after taxation.
- A CHP plant uses gas engine or gas turbine to generate electricity and heat at the same time, powered by a single fuel source. The key benefits of the system are:
 - energy efficiency of 75% (vs. 45% of the single-generation system) as it also captures heat from electricity generation;
 - it reduces carbon dioxide emission by 72,261 tonnes per annum; and
 - c.1 sen per MWh cheaper vs. the industrial tariff charged by **TENAGA's (MP; TP: RM14.50)** and it also produces steam.

Conclusion. Despite their immaterial contributions to group earnings, these CHP plants provide a boost to GASMSIA's ESG profile given their role in reducing carbon dioxide emission.

Forecasts. Maintained.

Valuations. We also maintain our DCF-derived TP of RM3.59 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).

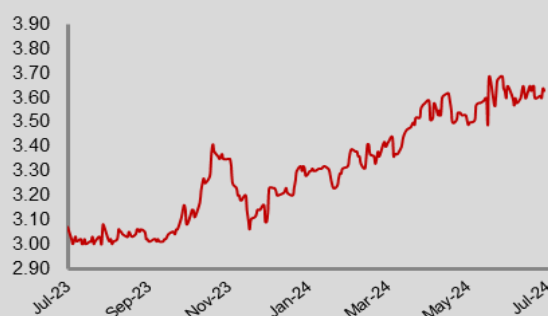
Investment case. We like GASMSIA for its: (i) strong market position, being a key natural gas retailer in Malaysia, (ii) strong earnings visibility underpinned by its ability to retain customers, typically, via 3-year contract, and (iii) strong free cash flow generation, anchoring a dividend yield of >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: RM3.63
Target Price: RM3.59 ↔

Share Price Performance



KLCI	1,619.06
YTD KLCI chg	11.3%
YTD stock price chg	13.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	GMB MK Equity
Market Cap (RM m)	4,660.9
Shares Outstanding	1,284.0
52-week range (H)	3.70
52-week range (L)	2.99
3-mth avg. daily vol.	437,185
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)	-	359.8	368.3
Earnings Revision (%)	-	-	-
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)	12.2	12.8	13.2
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	6.8

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Exhibit 1: Toray Cogeneration Plant



Source: Kenanga Research

Exhibit 2: Control Room



Source: Kenanga Research

Exhibit 3: Cooling Tower



Source: Kenanga Research

Exhibit 4: Gas Turbine Generation Set



Source: Kenanga Research

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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
Balance Sheet						Effective Tax Rate	23.4	28.1	24.7	25.0	24.0
FY Dec (RM m)	2021	2022	2023	2024F	2025F	ROA	9.5	13.4	10.8	10.8	10.6
Fixed Assets	1533	1616	1734	1801	1884	ROE	22.2	30.8	28.0	24.9	23.6
Intangibles	0	0	0	0	0	DuPont Analysis					
Other FA	102	111	107	110	110	Net Margin (%)	4.3	5.1	4.7	4.7	4.8
Inventories	0	0	0	0	0	Assets T/over (x)	2.04	2.43	2.52	2.26	2.20
Receivables	678	750	600	847	814	Leverage Factor(x)	2.54	2.46	2.34	2.35	2.25
Other CA	513	79	76	82	79	ROE (%)	22.2	30.8	28.0	24.9	23.6
Cash	43	591	689	589	488	Leverage					
Total Assets	2868	3147	3206	3429	3374	Debt/Asset (x)	0.12	0.08	0.10	0.06	0.05
Payables	985	1150	1050	1274	1224	Debt/Equity (x)	0.30	0.19	0.24	0.14	0.12
ST Borrowings	320	161	250	161	161	Net Cash/(Debt)	-292	348	458	385	305
Other ST Liability	219	250	226	258	247	Net Debt/Equity (x)	0.26	-0.27	-0.33	-0.26	-0.20
LT Borrowings	15	82	82	42	22	Valuations					
Other LT Liability	199	226	229	233	223	Core EPS (sen)	19.6	30.6	29.8	28.4	27.5
Minority Int.	0	0	0	0	0	NDPS (sen)	17.7	23.8	22.8	22.7	24.8
Net Assets	1130	1278	1368	1461	1497	BV (RM)	0.88	1.00	1.07	1.14	1.17
Share Capital	642	642	642	642	642	NTA (RM)	0.88	1.00	1.07	1.14	1.17
Reserves	488	636	726	819	855	Core PER (x)	18.5	11.9	12.2	12.8	13.2
Equity	1130	1278	1368	1461	1497	Net Yield (%)	6.7	7.3	7.1	6.3	6.8
Cashflow Statement						PBV (x)	4.12	3.65	3.41	3.19	3.11
FY Dec (RM m)	2021	2022	2023	2024F	2025F	P/NTA (x)	4.12	3.65	3.41	3.19	3.11
Operating CF	535	654	198	404	438	EV/EBITDA	7.9	6.5	6.8	8.0	8.4
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	3.63	3.59	-1.1%	4,660.9	Y	12/2024	28.4	27.5	-4.9%	-3.0%	12.8	13.2	3.2	25.8%	22.7	6.3%
MALAKOFF CORP BHD	MP	0.830	0.680	-18.1%	4,056.2	Y	12/2024	4.7	5.8	-71.9%	24.1%	17.7	14.2	0.9	5.2%	3.8	4.5%
PETRONAS GAS BHD	MP	18.22	17.87	-1.9%	36,052.5	Y	12/2024	98.4	100.7	5.2%	2.4%	18.5	18.1	2.6	14.2%	72.0	4.0%
SAMAIDEN GROUP BHD	OP	1.24	1.51	21.8%	519.0	Y	06/2024	3.5	5.3	26.4%	51.9%	35.6	23.5	5.0	14.9%	0.0	0.0%
SOLARVEST HOLDINGS BHD	OP	1.70	1.91	12.4%	1,185.7	Y	03/2025	6.8	8.5	62.5%	24.2%	24.8	20.0	4.3	19.5%	0.0	0.0%
TENAGA NASIONAL BHD	MP	14.46	14.50	0.3%	84,055.2	Y	12/2024	75.2	81.9	40.1%	8.9%	19.2	17.7	1.3	7.1%	37.2	2.6%
YTL POWER INTERNATIONAL BHD	MP	4.95	5.44	9.9%	40,587.7	N	06/2024	39.1	37.9	61.6%	-3.2%	12.7	13.1	2.2	18.1%	6.0	1.2%
SECTOR AGGREGATE					171,117.3					55.8%	3.9%	16.9	16.3	2.8	15.0%		2.6%

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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