

Gas Malaysia Berhad

(5209 | GMB MK) Utilities | Gas, Water & Multi-Utilities

Maintain BUY

Earnings cushioned by higher volume and tariff

Unchanged Target Price: RM3.11

KEY INVESTMENT HIGHLIGHTS

- **Gas Malaysia's 4QFY19 reported earnings met expectations at RM57.9m**
- **Both revenue and earnings were mainly driven by higher volume of natural gas sold and higher natural gas tariff**
- **Better margins and expansion of new customers will drive growth in FY20**
- **FY20F earnings maintained**
- **Maintain BUY with an unchanged TP of RM3.11 per share**

4QFY19 reported earnings grew +13.4%yoy to RM57.9m. Gas Malaysia Berhad's (GMB) reported 4QFY19 earnings came in at RM57.9m. That said, earnings excluding exceptional items of RM28.2m came in at RM29.7m. This brings its FY19 cumulative earnings to RM172.4 which was within our and consensus' full-year FY19 earnings expectations at 95% and 97% respectively. During the quarter, revenue contracted by -3.5%yoy due to an adjustment made based on Gas Cost pass Through (GCPT) mechanism during the current quarter to correct the accruals for under recovery of gas cost. Meanwhile, earnings after excluding the one-offs dipped by -31.3%yoy. On a quarterly sequential basis, revenue declined marginally by -4.4% whilst earnings contracted by -29.2%qoq. This was mainly attributable to higher operating expenses and higher finance costs booked during the quarter.

Gas sales volume expected to continue to expand in FY20. We reiterate our view that gas sales volume for FY20 will continue to sustain and register year-over-year growth. Our current gas volume growth projection remains between 4.5-5.0% similar to that of FY19. Our assumption is premised on resilient national GDP growth of 4.5% for 2020.

New tariff and better margins to drive growth. Our recent meeting with the Management signals that earnings growth for GMB going forward will mainly be driven by: (i) expansion of existing customers' volume and; (ii) better margins resulting from the recently implemented Third Party Access (TPA) regulation. Management also guided that FY20F will see growth coming in partially from the increase in volume of gas sold in-line with its recently acquired customers. We also note that, growth in the gas sales volume will continue to be steered primarily by rubber, oleo-chemical, consumer products and glass manufacturing industries. Notably, GMB is also in progress to build more facilities up in the north between Kedah and Perlis which would further increase the gas off take from GMB.

RETURN STATISTICS

Price @ 13 th February 2019 (RM)	2.82
Expected share price return (%)	+10.2
Expected dividend yield (%)	+4.8
Expected total return (%)	+15.0

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.71	3.69
3 months	2.55	3.41
12 months	-0.35	9.11


KEY STATISTICS

FBM KLCI	1,539.16
Syariah compliant	Yes
Issue shares (m)	1,284
Estimated free float (%)	10.7
Market Capitalisation (RM'm)	3,620.88
52-wk price range	2.57 – 2.96
Beta vs FBM KLCI (x)	0.55
Monthly velocity (%)	11.0
Monthly volatility (%)	2.50
3-mth average daily volume (m)	0.16
3-mth average daily value (RM'm)	0.4
Top Shareholders (%)	
Anglo Oriental Annuities Sdn Bhd	30.93
Tokyo Gas- Mitsui & Co Holdings	18.5
Petronas Gas Bhd	14.8

Analyst(s)

Noor **ATHILA** Mohd Razali
Noor.athila @midf.com.my
03-2772 1679

Impact on earnings. We made no changes to our earnings estimate at this juncture as we are expecting Gas Malaysia to meet our FY20F earnings projection. We have also introduced our FY21F numbers in this report.

Maintain BUY. We are maintaining our **BUY** recommendation on GMB with an unchanged target price of **RM3.11** per share. Our TP valuation is based on Gordon Growth Model with risk-free rate (rfr) assumption of 3.2%, market risk premium of 6.1%, beta of 0.6x and a terminal growth rate of 4%. We remain positive on GMB given that: (i) we expect that Malaysia's GDP will continue to expand, at 4.5% in 2020; (ii) GMB's effort in acquiring new customers and; (iii) growing pressure on manufacturers nationwide on the usage of clean energy such as natural gas in their operations which we opine will assist in pushing up the volume for GMB. Key risks to our earnings outlook and dividend payout are: (i) high capex requirement; (ii) higher future gearing and; (iii) structural changes to the local gas pricing and consumption. 

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless otherwise stated)	2017A	2018A	2019A	2020E	2021F
Revenue	5,348.8	6,233.2	6,886.5	7,309.1	7,805.3
EBIT	253.8	234.8	232.0	265.1	269.3
Pretax Profit	248.2	219.3	220.9	245.2	250.5
Normalised Net Profit	194.6	165.5	172.4	191.3	195.4
EPS (sen)	15.2	12.9	13.4	14.9	15.2
EPS Growth (%)	17.9%	-15.0%	4.1%	11.0%	2.1%
PER (x)	18.6	21.9	21.0	18.9	18.5
Net Dividend (sen)	13.0	9.0	9.6	10.0	11.0
Net Dividend (%)	4.6%	3.2%	3.4%	3.5%	3.9%

Source: Company, MIDFR

GAS MALAYSIA BERHAD: 4QFY19 RESULTS SUMMARY

Financial year ending 31st Dec (in RM'm unless stated otherwise)	Quarterly Results					Cumulative results		
	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)
Revenue	1,738.5	1,755.9	1,678.3	(4.4)	(3.5)	6,233.2	6,886.5	10.5
Cost of Sales	(1,665.7)	(1,678.1)	(1,613.0)	(3.9)	(3.2)	(5,940.5)	(6,595.2)	11.0
Gross Profit	72.8	77.8	65.3	(16.1)	(10.4)	292.7	291.3	(0.5)
Finance income	2.0	0.8	1.0	36.9	(48.1)	6.8	4.2	(38.0)
Other operating income	0.4	0.3	(0.0)	(106.8)	(104.6)	1.5	2.0	32.7
Admin. expenses	(11.8)	(17.9)	(16.3)	(9.2)	38.6	(58.2)	(59.7)	2.5
Selling & distribution expenses	(0.4)	(0.3)	(0.4)	20.2	(6.6)	(1.3)	(1.6)	27.3
Finance costs	(2.6)	(4.8)	(4.1)	(14.4)	56.7	(12.3)	(15.4)	24.8
Share of results in JV	0.7	(2.7)	22.7	(952.3)	3,023.1	4.9	21.2	337.5
Profit before zakat & taxation	61.2	53.2	68.2	28.4	11.4	234.1	242.1	3.4
Zakat expenses	(0.9)	(0.9)	(0.9)	-	-	(3.5)	(3.5)	-
Tax expenses	(9.3)	(10.3)	(9.4)	(8.2)	1.7	(50.2)	(48.5)	(3.4)
Profit after tax	51.1	42.0	57.9	37.9	13.4	180.4	190.1	5.4
Non-controlling interests	-	-	-	nm	nm	-	-	nm
PATANCI	51.1	42.0	57.9	37.9	13.4	180.4	190.1	5.4
Exceptional Items	7.8	-	28.2	nm	261.9	15.0	18.1	20.7
PATANCI Ex-EI	43.3	42.0	29.7	(29.2)	(31.3)	165.4	172.0	4.0
Basic EPS (sen)	4.0	3.3	4.5	37.9	13.4	14.0	14.8	5.4
DPS (sen)	4.5	-	4.8	nm	6.7	4.5	4.8	6.7
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross Profit Margin (%)	4.2	4.4	3.9	(0.5)	(0.3)	4.7	4.2	(0.5)
Pretax Profit Margin (%)	3.5	3.0	4.1	1.0	0.5	3.8	3.5	(0.2)
Net Margin (%)	2.9	2.4	3.5	1.1	0.5	2.9	2.8	(0.1)
Tax rate (%)	15.2	19.3	13.8	(5.5)	(1.3)	21.5	20.0	(1.4)
Segmental:								
<i>Revenue:</i>								
Natural Gas & LPG	1,738.5	1,755.9	1,678.3	(4.4)	(3.5)	4,494.7	5,208.2	15.9
<i>EBITDA</i>								
Natural Gas & LPG	75.9	74.9	64.9	(13.4)	(14.5)	288.9	295.7	2.4

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 - X)).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD 197501002077 (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.