

Gas Malaysia Berhad

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

Maintain BUY

Mild impact on gas off-take due to MCO

Unchanged Target Price: RM3.11

KEY INVESTMENT HIGHLIGHTS

- **Proactive cost measures to cushion impact from implementation of MCO due to Covid19**
- **Lower sales volume anticipated in 2QFY20 arising from implementation of MCO**
- **Remains cost neutral despite the current low natural gas price**
- **Joint venture (JV) with oil palm mills still in early stage**
- **FY20-21F earnings maintained**
- **Maintain BUY with an unchanged TP of RM3.11 per share**

Proactive cost management to cushion MCO impact on earnings. We attended the conference call with Gas Malaysia Berhad's (GMB) management last Friday and came away feeling reassured of its earnings trajectory. This is despite its current operation being affected by the movement control order (MCO) currently enforced by the Malaysian government. While the imposition of MCO has resulted in lower off-take of gas by GMB's customers due to closure of businesses nationwide, the management is committed to reducing its OPEX in order to cushion the impact from the implementation of MCO. In 1QFY20, GMB has managed to reduce its OPEX by -14.0%yoy. For FY20, the management expects to reduce OPEX by 9-10%. Furthermore, we understand that it is also currently re-evaluating its FY20 CAPEX and this will likely result in lower CAPEX spending for the year. That said, the CAPEX for maintenance and repairs allocated for the year will remain.

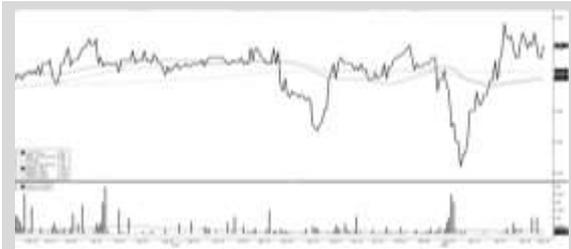
Lower sales volume anticipated in 2QFY20. Due to the MCO which was implemented from 18th March until 2nd May 2020 causing businesses nationwide to close down to prevent the spread of novel coronavirus (Covid19) pandemic; GMB has recorded lower sales volume in the month of April. It was disclosed that sales volume had declined by about mid-single digit year-over-year during the month due to the closures. Recall that in 1QFY20, GMB recorded about +1.0% growth in sales volume year-over-year. That said, sales volume has since been picking up beginning early-May with the gradual resumption of businesses since mid-April 2020. Hence, we opine that the low sales volume will be temporary in nature as we anticipate businesses to fully resume operations by end-May.

Remains cost neutral despite low price of natural gas. We note that the price of natural gas is currently on the low side. However, GMB will remain cost neutral despite the current low gas price. This is attributable to its fixed gas off-take agreement with its supplier Petronas which was inked in December last year and the take-or-pay contracts it has signed with its customers. Recall that, GMB has recently signed new contracts with its customers post implementation of the third-party access (TPA) by the Energy Commission which started last year.

RETURN STATISTICS

Price @ 15 th May 2020 (RM)	2.81
Expected share price return (%)	+10.7
Expected dividend yield (%)	+4.9
Expected total return (%)	+15.6

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.43	-2.16
3 months	8.08	8.37
12 months	-1.40	12.78

KEY STATISTICS

FBM KLCI	1403.44
Syariah compliant	Yes
Issue shares (m)	1284.00
Estimated free float (%)	10.65
Market Capitalisation (RM'm)	3608.04
52-wk price range	RM2.3 - RM2.96
Beta vs FBM KLCI (x)	0.70
Monthly velocity (%)	0.00
Monthly volatility (%)	2.49
3-mth average daily volume (m)	0.23
3-mth average daily value (RM'm)	0.61
Top Shareholders (%)	
Anglo Oriental Annuities Sdn Bhd	30.93
Tokyo Gas- Mitsui & Co Holdings	18.50
Petronas Gas Bhd	14.80

Analyst(s)
 Noor **ATHILA** Mohd Razali
 Noor.athila@midf.com.my
 03-2772 1679

The newly signed contracts, which will last until 2022, guarantees off-take of gas from its customers at the price stipulated in the contracts and the price will also reflect the current market price set by the Energy Commission. While customers are free to engage with other suppliers/shippers to benefit from the low natural gas price; GMB is also insulated from customers rescinding their contracts due to the heavy penalty stipulated in the contracts. Hence, the take-or-pay condition it has with both Petronas and its customers will limit the downside risk arising from the low natural gas price.

JV with palm oil mills still in early stage. Management also shared during the conference call that it has signed joint-venture (JV) contracts with two to three palm oil mills to extract biomethane gas from palm oil waste known as palm oil mill effluent (POME). It envisages to sign more contracts with palm oil mills nationwide going forward which will then enable it to produce 50,000mmBtu to 60,000mmBtu of natural gas per annum. This, we opine will bode well for promoting clean energy usage and reducing dependence on fossil gas. That said, the JV is currently still at an early stage and have yet to start contributing to GMB's financials.

Impact on earnings. After assessing the impact from the implementation of MCO and low natural gas price, we made no changes to our earnings estimate at this juncture as we are expecting Gas Malaysia to meet our FY20F earnings projection. We reiterate our view that, while Covid19 will have some impact on the volume of gas sold to GMB's customers in the 2Q; our assumption of 4.0% volume growth for FY20 remains for now as some of GMB's customers in the rubber and consumer industries are still doing well and have been operating non-stop during the MCO. We believe that once all the companies are allowed to resume operations this month by the Ministry of International Trade and Industry (MITI); there will be pent-up demand for gas supply given that there will be delayed orders to be fulfilled as production had to be stopped due to the MCO. This, we opine will cushion the impact from the loss in off-take from the companies that had to close down during the MCO.

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) Well-diverse customer base; (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	6,354.8	7,309.1	7,805.3
EBIT	253.8	234.8	253.1	266.9	269.3
Pretax Profit	248.2	234.1	235.2	250.1	250.5
Normalised Net Profit	194.6	180.4	183.5	195.0	195.4
EPS (sen)	15.2	14.1	14.3	15.2	15.2
EPS Growth (%)	17.9%	-7.3%	1.7%	6.3%	2.1%
PER (x)	18.5	20.0	19.7	18.5	18.2
Dividend per share (sen)	13.0	9.0	12.9	13.7	14.0
Dividend yield (%)	4.6%	3.2%	4.6%	4.9%	5.0%

Source: Company, MIDFR

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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.