Gas Malaysia Berhad

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

Maintain BUY

High gas price continues to push earnings up

Revised Target Price: RM3.92

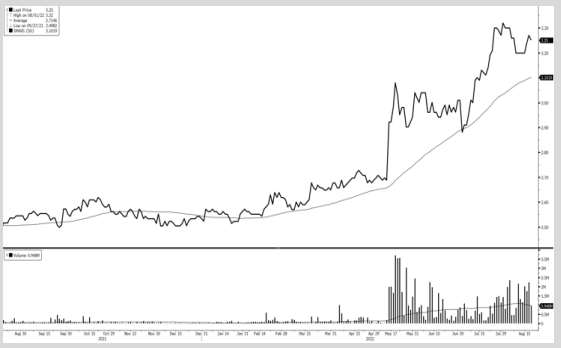
(previously RM3.46)

KEY INVESTMENT HIGHLIGHTS

- **Gas Malaysia's 2QFY22 earnings surpassed expectations by +29%; increased +72%yoy to RM107m**
- **Revenue rise by +29%yoy to RM1.78b**
- **First interim dividend of 6.9 sen per share declared**
- **FY23-24 earnings forecast revised upward +8% and +4%**
- **Maintain BUY with revised TP of RM3.92 per share**

RETURN STATISTICS	
Price @ 18th August 2022 (RM)	3.25
Expected share price return (%)	+20.62
Expected dividend yield (%)	+5.70
Expected total return (%)	**+26.32**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.8	-2.2
3 months	8.0	8.9
12 months	21.3	21.1

KEY STATISTICS	
FBM KLCI	1,516.62
Syariah compliant	Yes
FSGBM Index	No
ESG Grading Band	N/A
Issues shares (m)	1284.00
Estimated free float (%)	11.56
Market Capitalisation (RM'm)	4,173.00
52-wk price range	RM2.61 - RM3.4
Beta vs FBM KLCI (x)	0.43
Monthly velocity (%)	0.00
Monthly volatility (%)	2.49
3-mth average daily volume (m)	1.14
3-mth average daily value (RM'm)	3.55
Top Shareholders (%)	
Anglo Oriental Annuities Sdn Bhd	30.93
Tokyo Gas-Mitsuit & Co Holdings	18.50
Petronas Gas Bhd	14.80

Profit up +72%yoy. Gas Malaysia Berhad (GMB) reported an increase in earnings by +72.2%yoy and +17.5%qoq to RM107.3m in 2QFY22. For the cumulative first half, earnings were up by +68.4%yoy to RM198.7m, which surpassed our yearly earnings forecast by +29.2% and consensus' by +27.2%.

Revenue higher by +29%yoy. Revenue-wise, GMB reported an increase by +29.2%yoy but a decrease by -0.4%qoq to RM1.78b in 2QFY22. For the cumulative half year, revenue was up by +40.9%yoy to RM3.56b. This was attributed by higher average natural gas selling price, in tandem with global market price, mitigated by lower volume of natural gas sold during the current quarter. Higher firm capacity reservations by shippers for the utilisation of the Natural Gas Distribution System (NGDS) also contributed to the improved revenue.

Dividend of 5.9 sen per share. GMB had declared its first interim dividend of 5.9 sen per share, amounting to RM75.76m in respect to FY22.

Performance expected to remain robust. Moving forward, GMB is expecting a resilient economy until the end of 2022, supported by improving domestic demand as economic activity continued to normalise with the easing of restrictions posed by Covid-19 containments. The group will continue to take prudent measures to maintain its operational efficiency, to remain competitive and seek opportunity to grow its business.

Business efficiency is key. GMB's earnings had been growing in line with the natural gas price, with an estimate hike of over +50%, which could bode well for the group in FY22. Geopolitical tensions and shortages of natural gas in Europe, as well as the one-off upcoming winter season in the Northern Hemisphere, continue to push prices of natural gas higher. Hence, we opine that GMB will continue to remain resilient (see Chart 1).

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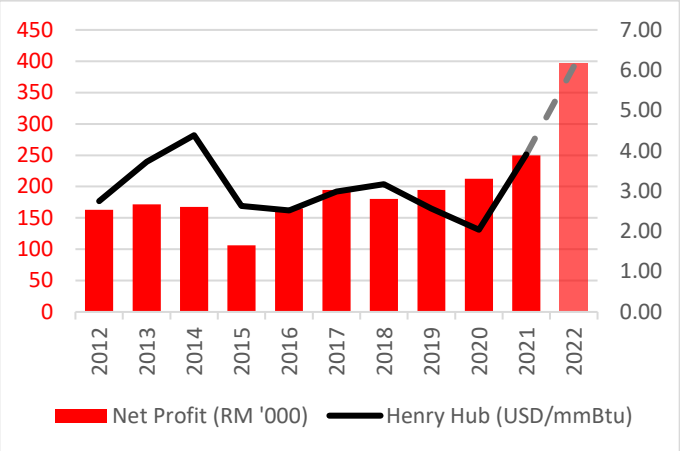
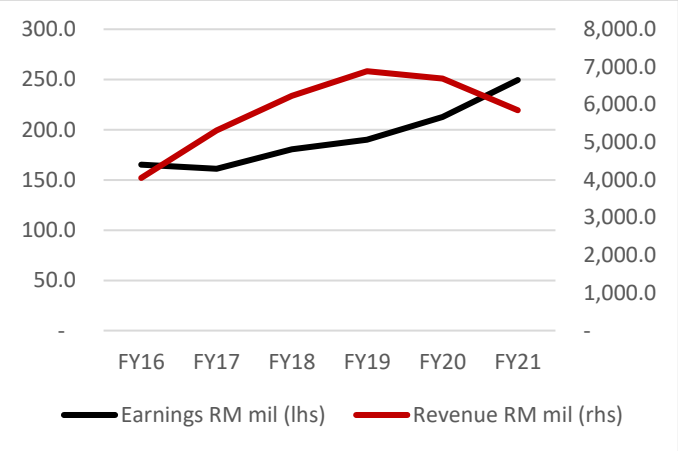
Additionally, despite the higher recorded revenue for 1HFY22, revenue had been declining since FY19 by -15%. However, earnings had been on the rise at a 5-year CAGR of +8.6% (see Chart 2). We believe, apart from the higher natural gas prices, business efficiency plays a role in GMB's financial performance, amidst the risks of hiking freight rates and lower sale volume for natural gas locally and regionally.

Chart 1: GMB's FY Earnings v. Henry Hub Gas Price



Source: Macrobond, Company, MIDFR

Chart 2: GMB's FY Earnings and Revenue Movement



Source: Company, MIDFR

Revised FY23-24 earnings estimate. In line with GMB's 2QFY22 result, we revise our earnings forecast for FY23 and FY24 upwards by +8% and +4% respectively. Subsequently, we also revised our target price to RM3.92 per share (previously RM3.46); based on pegging PER of 11.5x to revised EPS23 of 34sen. The PER is based on a 5-year average PER of natural gas distribution subindustry.

Maintain BUY with revised TP:RM3.92. We are maintaining our **BUY** recommendation on GMB with the revised **target price of RM3.92**. We reiterate our positive stance with GMB. We believe the high commodity price for natural gas will continue to contribute to GMB's FY22 financial performance, as demand for the fossil fuel is expected to grow with the lifting of border restrictions and long-term interest in natural gas as part of the clean energy initiative. However, external challenges – including the ongoing geopolitical tensions and unprecedented weather change in major gas production sites – are likely to intimidate natural gas prices and transportation.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless otherwise stated)	2020A	2021A	2022E	2023F	2024F
Revenue	6,686.9	5,851.6	7,278.6	7,674.9	8,055.7
EBIT	295.2	400.4	485.3	516.8	649.0
Pretax Profit	290.8	330.4	487.8	519.3	651.5
Normalised Net Profit	205.0	249.6	404.3	435.8	568.0
EPS (sen)	16.6	19.4	31.5	33.9	44.2
EPS Growth (%)	11.3%	17.1%	62.3%	7.8%	30.3%
PER (x)	19.6	16.8	12.4	11.5	8.9
Net Dividend (sen)	9.7	15.1	20.7	22.4	29.4
Net Dividend (%)	3.0%	4.6%	5.3%	5.7%	7.5%

Source: Company, MIDFR

Table 1: Gas Malaysia's quarterly earnings review

Financial year ending 31st Dec (in RM'm unless stated otherwise)	Quarterly Results				Cumulative results			
	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	1HFY21	1HFY22	YoY (%)
Revenue	**1,375.3**	**1,784.2**	**1,777.1**	(0.4)	29.2	**2,528.0**	**3,561.3**	40.9
Cost of Sales	(1,275.3)	(1,647.8)	(1,617.6)	(1.8)	26.8	(2,335.6)	(3,265.4)	39.8
Gross Profit	**100.0**	**136.4**	**159.5**	16.9	59.5	**192.4**	**295.9**	53.8
Finance income	1.5	1.6	2.5	60.7	71.1	3.1	4.0	29.8
Other operating income	0.4	0.4	0.5	4.5	20.6	0.7	0.9	23.2
Admin. expenses	(15.0)	(16.3)	(17.0)	4.1	12.8	(34.6)	(33.2)	(3.8)
Selling & distribution expenses	(0.2)	(0.2)	(0.3)	55.6	49.4	(0.3)	(0.4)	27.8
Finance costs	(2.4)	(2.9)	(2.1)	(28.2)	(14.7)	(5.3)	(4.9)	(6.8)
Share of results in JV	(1.4)	1.2	0.9	(28.6)	(165.1)	(1.1)	2.1	(288.9)
Profit before zakat & taxation	**82.8**	**120.3**	**144.1**	19.7	73.9	**155.0**	**264.4**	70.6
Tax expenses	(19.6)	(28.1)	(35.9)	27.5	82.8	(35.2)	(64.0)	81.6
Profit after tax	**62.3**	**91.3**	**107.3**	17.5	72.2	**118.0**	**198.7**	68.4
PATANCI	**62.3**	**91.3**	**107.3**	17.5	72.2	**118.0**	**198.7**	68.4
Exceptional Items	**-**	0.1	0.6	383.3	nm	**-**	0.7	nm
PATANCI Ex-EI	**62.3**	**91.2**	**106.8**	17.1	71.3	**118.0**	**198.0**	67.8
Basic EPS (sen)	4.9	7.1	8.4	17.6	72.2	9.2	15.5	68.4
DPS (sen)	4.5	6.0	4.8	(20.0)	6.7	4.3	12.9	202.8
				+/(-) ppts				*+/(-) ppts*
Gross Profit Margin (%)	7.3	7.6	9.0	1.3	1.7	7.6	8.3	0.7
Pretax Profit Margin (%)	6.0	6.7	8.1	1.4	2.1	6.1	7.4	1.3
Net Margin (%)	4.5	5.1	6.0	0.9	1.5	4.7	5.6	0.9
Tax rate (%)	23.7	23.4	24.9	1.5	1.2	22.7	24.2	1.5
Segmental:								
Revenue:								
Natural Gas & LPG	1,152.7	1,784.2	3,561.3	99.6	209.0	6,686.9	5,345.4	(20.1)
EBITDA								
Natural Gas & LPG	92.7	142.2	308.4	116.9	232.7	364.6	450.6	23.6

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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology