Gas Malaysia Berhad

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

***Maintain* BUY**

Elevated NG selling price adds into performance

***Unchanged* Target Price: RM3.92**

KEY INVESTMENT HIGHLIGHTS

- **Gas Malaysia's 3QFY22 earnings increased +54%yoy to RM96m; within expectations**
- **Revenue rises by +35%yoy to RM1.85b**
- **No changes to earnings forecast**
- **Maintain BUY with unchanged TP of RM3.92 per share**

RETURN STATISTICS	
Price @ 17th November 2022 (RM)	3.40
Expected share price return (%)	+15.3
Expected dividend yield (%)	+5.7
Expected total return (%)	**+21.0**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	2.1	-2.3
3 months	4.6	8.9
12 months	27.8	34.5

KEY STATISTICS	
FBM KLCI	1,449.32
Syariah compliant	Yes
FSGBM Index	No
ESG Grading Band	N/A
Issues shares (m)	1284.00
Estimated free float (%)	12.26
Market Capitalisation (RM'm)	4,365.60
52-wk price range	RM2.61 - RM3.65
Beta vs FBM KLCI (x)	0.49
Monthly velocity (%)	0.00
Monthly volatility (%)	2.49
3-mth average daily volume (m)	1.44
3-mth average daily value (RM'm)	4.91
Top Shareholders (%)	
Anglo Oriental Annuities Sdn Bhd	30.93
Tokyo Gas-Mitsuit & Co Holdings	18.50
Petronas Gas Bhd	14.80

Profit up +54%yoy. Gas Malaysia Berhad (GMB) reported an increase in earnings by +53.8%yoy but declined by -10.9%qoq to RM95.7m. For the cumulative 9 months, earnings were up by +63.4%yoy to RM294.3m, which is within our and consensus expectations at 73% and 79% of full-year earnings forecasts respectively. The increased profit was mainly due to higher gross profit, higher finance income, lower finance cost and higher contribution from the Group's joint venture companies, and partially offset by higher administrative expenses.

Revenue higher by +35%yoy. Revenue-wise, GMB reported an increase by +34.8%yoy and +4.9%qoq to RM1.85b. For the cumulative 9 months, revenue was up by +38.7%yoy to RM5.43b. 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.

Resiliency to continue. As Malaysia's economy is expected to improve and recover until the end-year, and that activities within the industrial and domestic premises continue to normalise post-pandemic, we believe GMB will continue to operate efficiently. Additionally, the group will remain competitive and opportunistic to expand its operations in the near term.

Uptrend expected. GMB's earnings had been growing in line with the Henry Hub 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 upcoming winter season in the Northern Hemisphere and recovery of China's economy, continue to push prices of natural gas higher globally. In line with the hiking prices, we believe GMB will continue to remain follow the uptrend earnings-wise (see Chart 1).

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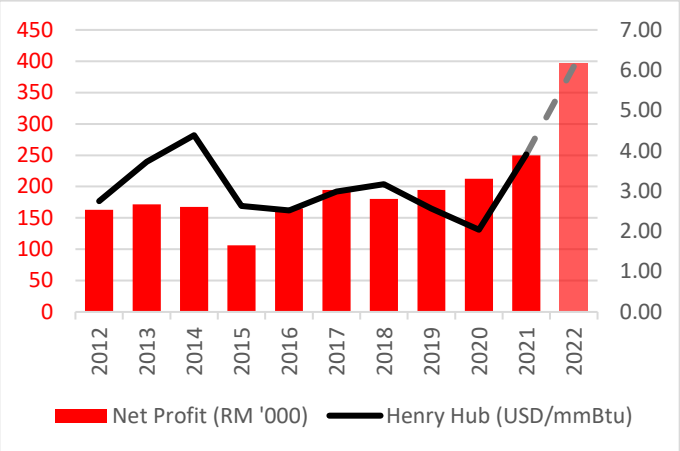
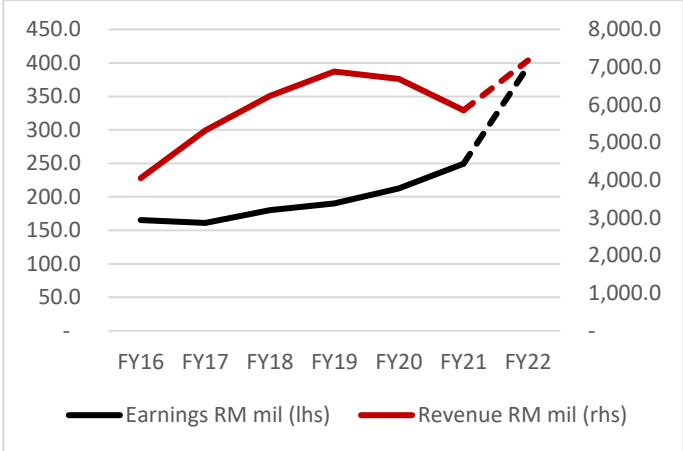
Additionally, revenue had been improving in the 9 months period of FY22. Earnings had also been on the rise at a 5-year CAGR of +8.6% (see Chart 2). Observing GMB's recent financial performance, we opine that its revenue and earnings will continue to see an uptrend. However, it should be noted that the risks of hiking freight rates, one-off refinery taxes and lower sale volume for natural gas locally and regionally remain.

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



Source: Macrobond, Company, MIDFR

Chart 2: GMB's FY Earnings and Revenue Movement Projection



Source: Company, MIDFR

No changes earnings estimate. Considering that GMB's earnings is in line with our projection, we make no changes to our earnings estimates. As such, we maintain our target price for the group at RM3.92 per share; based on pegging PER of 11.5x to revised EPS23 of 34sen.

Maintain BUY with TP:RM3.92. We maintain our **BUY** recommendation on GMB with the **target price of RM3.92**. We reiterate our positive stance with GMB. With the easing of border restrictions post-pandemic, and the long-term interest in natural gas as part of the clean energy transition, we opine that the elevated prices for natural gas will continue to have a positive impact on GMB's financial performance in FY22. Nevertheless, risks such as the current geopolitical tensions, demand slowdown, tanker traffic disruptions and unusual weather in key gas production areas, are likely to remain obstacles.

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			
	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)
Revenue	**1,383.2**	**1,777.1**	**1,864.8**	4.9	34.8	**3,911.1**	**5,426.1**	38.7
Cost of Sales	(1,284.0)	(1,617.6)	(1,709.8)	5.7	33.2	(3,619.6)	(4,975.2)	37.5
Gross Profit	**99.2**	**159.5**	**155.0**	(2.8)	56.4	**291.6**	**450.9**	54.7
Finance income	1.1	2.5	2.8	10.3	160.4	4.2	6.8	62.9
Other operating income	0.9	0.5	1.4	206.7	62.1	1.6	2.3	44.3
Admin. expenses	(15.6)	(17.0)	(19.0)	12.1	21.6	(50.2)	(52.3)	4.1
Selling & distribution expenses	(0.1)	(0.3)	(0.3)	17.7	209.9	(0.4)	(0.8)	69.3
Finance costs	(2.8)	(2.1)	(2.7)	31.7	(3.3)	(8.1)	(7.6)	(5.6)
Share of results in JV	0.9	0.9	1.6	79.6	82.2	(0.3)	3.7	(1,570.1)
Profit before zakat & taxation	**83.4**	**144.1**	**138.8**	(3.7)	66.4	**238.4**	**403.2**	69.1
Tax expenses	(0.9)	(0.9)	(0.9)	-	-	(2.6)	(2.6)	-
Profit after tax	(20.2)	(35.9)	(42.3)	17.8	109.2	(55.4)	(106.2)	91.7
PATANCI	**62.4**	**107.3**	**95.7**	(10.9)	53.4	**180.3**	**294.3**	63.2
Exceptional Items	**0.2**	**-**	**-**	-	(100.0)	0.2	-	(100.0)
PATANCI Ex-EI	**62.2**	**107.3**	**95.7**	(10.9)	53.8	**180.2**	**294.3**	63.4
Basic EPS (sen)	4.9	8.4	7.5	(10.9)	53.3	14.0	22.9	63.2
DPS (sen)	4.5	6.9	4.8	(30.1)	6.7	9.7	18.8	94.5
				+/(-) ppts				*+/(-) ppts*
Gross Profit Margin (%)	7.2	9.0	8.3	(0.7)	1.1	7.5	8.3	0.9
Pretax Profit Margin (%)	6.0	8.1	7.4	(0.7)	1.4	6.1	7.4	1.3
Net Margin (%)	4.5	6.0	5.1	(0.9)	0.6	4.6	5.4	0.8
Tax rate (%)	24.2	24.9	30.4	5.6	6.2	23.3	26.4	3.1
Segmental:								
Revenue:								
Natural Gas & LPG	3,911.1	3,561.3	5,426.1	52.4	38.7	7,591.8	10,771.5	41.9
EBITDA								
Natural Gas & LPG	303.5	308.4	468.2	51.8	54.3	560.6	918.9	63.9

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