Gas Malaysia Berhad

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

***Maintain* BUY**

FY22 earnings lifted on higher gas prices

***Revised* Target Price: RM4.00**

(previously RM3.92)

KEY INVESTMENT HIGHLIGHTS

- **Gas Malaysia's full year FY22 earnings increased +56%yoy to RM390m; comes within expectations**
- **FY22 revenue rise by +31%yoy to RM7.7b**
- **Global gas market expected to remain volatile in FY23**
- **Revised FY23-24 estimates by +2% and -9% respectively**
- **Maintain BUY with revised TP of RM4.00 per share**

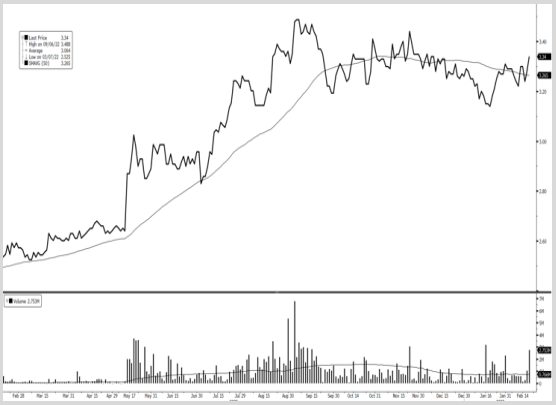
Profit up +37%yoy. For 4QFY22, Gas Malaysia Berhad (GMB) reported an increase in earnings by +37.4%yoy but declined by -0.5%qoq to RM95.2m. For FY22, earnings were up by +56.2%yoy to RM389.5m, which was within our yearly earnings forecast at 96.3% and consensus' at 99.1%. The increased profit was mainly due to: (i) higher gross profit, (ii) higher finance income, and (iii) higher contribution from the Group's joint venture companies, and partially offset by higher administrative expenses and higher finance cost.

Revenue higher by +15%yoy. Revenue-wise, GMB reported an increase by +14.6%yoy and +19.2%qoq to RM2.22b in 4QFY22. For FY22, revenue was up by +30.7%yoy to RM7.65b. The higher revenue was attributed by higher average natural gas selling price, in tandem with global market price, mitigated by lower volume of natural gas sold.

Volatile natural gas prices expected. GMB's earnings had been growing in line with the Henry Hub price in FY22, with an estimate hike of over +60%. However, moving forward, forecast for Henry Hub gas is estimated to hover between USD4.20 to USD5.04 per MMBtu in FY23, which is down by -20%. Geopolitical tensions and shortages of natural gas in Europe, will continue to push prices of natural gas higher globally. However, we expect that this will be mitigated by an anticipated higher demand for gas following China's economic reopening, slowdown in extreme weather events and production freeze-offs, and ending of withdrawal season from natural gas inventories. Additionally, revenue had been improving tremendously in FY22. Earnings had also been on the rise at a 5-year CAGR of +19.5%. While we believe GMB will continue to leverage on the elevated natural gas pricing for its revenue and earnings, in consideration of the laggard effect in the prices, the current volatile gas market could pose unforeseen risks to the supply chain and sales volume for local players.

RETURN STATISTICS	
Price @ 17th February 2023 (RM)	3.34
Expected share price return (%)	+19.8
Expected dividend yield (%)	+6.1
Expected total return (%)	**+25.9**

SHARE PRICE CHART

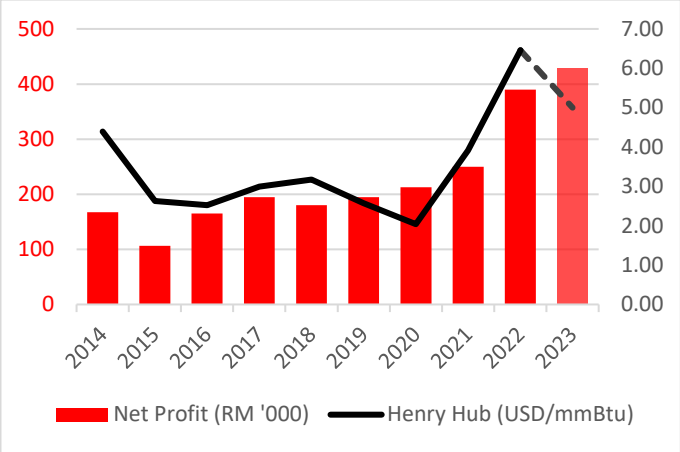


Share price performance (%)	Absolute	Relative
1 month	6.0	7.6
3 months	2.5	-3.6
12 months	23.7	34.4

KEY STATISTICS	
FBM KLCI	1,476.90
Syariah compliant	Yes
FSGBM Index	No
ESG Grading Band	N/A
Issues shares (m)	1284.00
Estimated free float (%)	12.32
Market Capitalisation (RM'm)	4,288.56
52-wk price range	RM2.62 - RM3.65
Beta vs FBM KLCI (x)	0.45
3-mth average daily volume (m)	0.73
3-mth average daily value (RM'm)	2.40
Top Shareholders (%)	
Anglo Oriental Annuities Sdn Bhd	30.93
Tokyo Gas-Mitsuit & Co Holdings	18.50
Petronas Gas Bhd	14.80

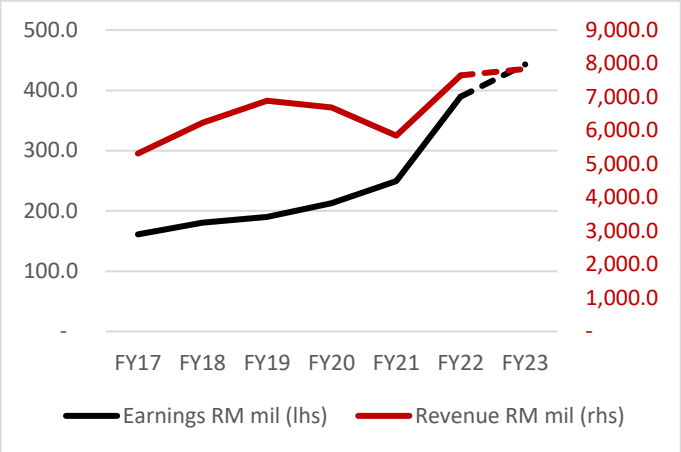
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Chart 1: GMB's FY Earnings v. Henry Hub Gas Price (Forecast)



Source: Macrobond, Company, MIDFR

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



Source: Company, MIDFR

Strong prospects. GMB reportedly has a total commissioned pipeline of 313km of pipeline network for RP1 period (CY20-CY22). To date, the group had served 21,430 residential customers (88%), 1,847 commercial (8%) and 1,021 industrial sectors (4%), with a total volume contribution of 0.03%, 0.29% and 99.68% respectively. With the anticipation that Malaysia's economic growth will range from 4% to 5% in CY23, on the strength of domestic demand and improvements in the labour market, we believe GMB will continue on its upward trajectory. Nevertheless, headwinds in the likes of inflationary pressures, rising manpower cost, Overnight Policy Rate (OPR) movement and global economic slowdown are expected to remain key challenges to the group. Barring unforeseen events, we opine that GMB is well-equipped to deliver a reasonable financial year in FY23.

Second interim dividend declared. In line with the positive financial year, GMB declared a dividend of 8.24 sen per share, amounting to RM105.8m in respect of FY22.

Revised FY23-24 earnings estimate. Considering that GMB's earnings was in line with our projection, and as we shifted to our forecast in FY23, we revise our earnings forecast for FY23 upward by +2% from previous numbers, but we revise FY24's estimates down by -9%, in line with the global downtrend of the natural gas prices and the laggard in selling contracts expected post-FY23. As such, we revise our **target price to RM4.00** (previously RM3.92) per share; based on pegging a PER of 11.6x to revised EPS23 of 34.5sen. The PER is the gas utilities sector's 5-year average.

Maintain BUY with TP:RM4.00. We are maintaining our **BUY** recommendation on GMB with the revised **target price of RM4.00**. With the elevated natural gas prices contributing to the average selling price, in addition to the long-term interest in natural gas as part of the clean energy transition, we opine that GMB will continue to post a positive financial performance in FY23. Nevertheless, risks geopolitical tensions in Europe and East Asia, tight natural gas supply, tanker traffic disruptions and unusual weather in key gas production areas, are likely to remain obstacles to the natural gas pricing and overall sales volume, as well as the demand from the industrial sector.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless otherwise stated)	2021A	2022A	2023E	2024F	2025F
Revenue	5,851.6	7,649.4	7,841.1	7,997.0	8,155.9
EBIT	400.4	540.4	519.9	614.3	696.8
Pretax Profit	330.4	546.7	526.7	621.1	704.1
Normalised Net Profit	249.6	389.5	443.2	517.6	600.6
EPS (sen)	19.4	30.3	34.5	40.3	46.8
EPS Growth (%)	17.1%	56.4%	13.8%	16.8%	16.0%
PER (x)	20.6	13.2	11.6	9.9	8.6
Net Dividend (sen)	15.1	27.0	24.4	29.0	34.4
Net Dividend (%)	3.8%	6.8%	6.1%	7.3%	8.6%

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			
	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)
Revenue	**1,940.5**	**1,864.8**	**2,223.3**	19.2	14.6	**5,851.6**	**7,649.4**	30.7
Cost of Sales	(1,831.7)	(1,709.8)	(2,056.3)	20.3	12.3	(5,451.2)	(7,031.5)	29.0
Gross Profit	**108.8**	**155.0**	**166.9**	7.7	53.4	**400.4**	**617.9**	54.3
Finance income	1.0	2.8	5.1	84.1	388.1	5.2	11.9	127.6
Other operating income	0.8	1.4	0.4	(72.2)	(48.1)	2.4	2.7	14.7
Admin. expenses	(15.6)	(19.0)	(26.9)	41.6	72.5	(65.8)	(79.2)	20.3
Selling & distribution expenses	(0.2)	(0.3)	(0.3)	3.8	74.7	(0.6)	(1.1)	70.9
Finance costs	(2.4)	(2.7)	(2.6)	(4.6)	8.3	(10.4)	(10.2)	(2.4)
Share of results in JV	(0.4)	1.6	0.9	(40.6)	(327.6)	(0.7)	4.7	(797.9)
Profit before zakat & taxation	**92.0**	**138.8**	**143.5**	3.4	56.0	**330.4**	**546.7**	65.5
Tax expenses	(21.8)	(42.3)	(47.4)	12.3	117.1	(77.3)	(153.7)	98.9
Profit after tax	**69.3**	**95.7**	**95.2**	(0.5)	37.4	**249.6**	**389.5**	56.1
PATANCI	**69.3**	**95.7**	**95.2**	(0.5)	37.4	**249.5**	**389.5**	56.2
Exceptional Items	**0.3**	**(0.8)**	0.1	(113.7)	(68.2)	**0.6**	(0.2)	(140.0)
PATANCI Ex-EI	**69.6**	**94.9**	**95.3**	0.5	36.9	**250.1**	**389.3**	55.7
Basic EPS (sen)	5.4	7.5	7.4	(0.4)	37.4	19.4	30.3	56.0
DPS (sen)	4.5	6.0	4.8	(20.0)	6.7	15.1	27.0	79.4
				+/(-) ppts				*+/(-) ppts*
Gross Profit Margin (%)	5.6	8.3	7.5	(0.8)	1.9	6.8	8.1	1.2
Pretax Profit Margin (%)	4.7	7.4	6.5	(1.0)	1.7	5.6	7.1	1.5
Net Margin (%)	3.6	5.1	4.3	(0.8)	0.7	4.3	5.1	0.8
Tax rate (%)	23.7	30.4	33.0	2.6	9.3	23.4	28.1	4.7

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