

# Gas Malaysia (GMB MK)

## Another beat

### Hampered by poor predictability

4Q21 results were again ahead of our/street expectations on post-MCO volume recovery and further revenue-cap adjustments. We believe the lack of accompanying share price appreciation is in part due to the opaque (and not improving) regulatory disclosures. Maintain HOLD with a higher DCF-based MYR2.90 TP (+4%). GMB is our relative preference among the gas utilities.

### Results above expectation

GMB's 4Q21 net profit of MYR69m (stable YoY, +11% QoQ) brings FY21 net profit to MYR250m (+17% YoY), 5%/13% above our/consensus full-year forecasts respectively. 4Q21 earnings were boosted by QoQ volume recovery and further revenue-cap adjustments (clawback for revenue shortfall). A 6sen interim DPS was declared, with a final DPS likely to come upon the release of audited accounts (consistent with past practice). We expect GMB to maintain a 90% payout ratio for FY21.

### Commendable spreads

4Q21 gas volume of 53.8 tn BTU was up 14% QoQ (-2% YoY) following the easing of movement restrictions. FY21 volume was ultimately up 1.5% YoY, below reference. We estimate GMB accrued c.MYR45-50m of revenue cap adjustment for FY21. Excluding the accrual, we estimate GMB's FY21 spread at a very commendable c.MYR2.45/mmBTU, possibly from improved retail margins. FY21 capex of MYR178m was again below budget, with management expecting to catch up in FY22.

### Maintain HOLD

We raise our FY22/23E net profit by 6%/7% to reflect latest run rates and introduce FY24 forecasts. Our TP (DCF-based assuming 8.1% WACC and 2% long-term growth) is raised to MYR2.90 (+4%). Gas tariffs are now completely liberalised beginning 2022, and management expects to, at least, maintain margins. Every 5sen/mmBTU change to our spread assumption (MYR2.45/mmBTU) would move our FY22E net profit by 3.4%.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	6,687	5,852	8,252	8,580	8,922
EBITDA	382	430	435	454	475
Core net profit	213	250	241	258	266
Core EPS (sen)	16.6	19.4	18.7	20.1	20.7
Core EPS growth (%)	11.8	17.4	(3.6)	7.4	3.0
Net DPS (sen)	15.1	17.5	16.9	18.1	18.7
Core P/E (x)	16.4	13.6	14.4	13.4	13.0
P/BV (x)	3.2	3.0	3.0	2.9	2.9
Net dividend yield (%)	5.5	6.6	6.3	6.7	6.9
ROAE (%)	20.0	22.6	21.1	22.1	22.3
ROAA (%)	8.1	9.1	7.7	7.5	7.5
EV/EBITDA (x)	9.4	7.6	7.5	7.3	7.2
Net gearing (%) (incl perps)	8.0	net cash	net cash	net cash	net cash
Consensus net profit	-	-	243	261	na
MKE vs. Consensus (%)	-	-	(1.1)	(1.0)	na

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# HOLD

Share Price	MYR 2.69
12m Price Target	MYR 2.90 (+14%)
Previous Price Target	MYR 2.80

### Company Description

Gas Malaysia supplies and sells reticulated natural gas and LPG in Peninsular Malaysia.

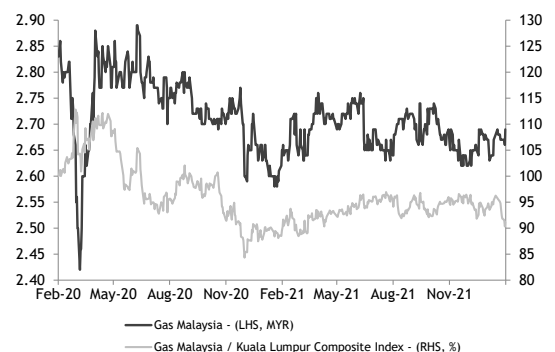
### Statistics

52w high/low (MYR)	2.76/2.62
3m avg turnover (USDm)	0.0
Free float (%)	30.8
Issued shares (m)	1,284
Market capitalisation	MYR3.5B USD825M

### Major shareholders:

MMC Corp. Bhd.	30.9%
Tokyo Gas Co., Ltd.	18.5%
Petronas Gas Bhd.	14.8%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	0	0	2
Relative to index (%)	(2)	(4)	2

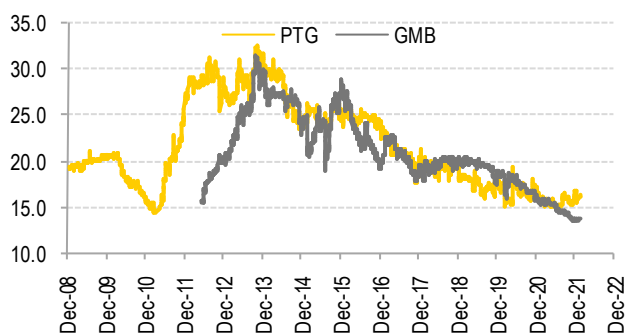
Source: FactSet

Fig 1: Gas Msia: Summary results table

FY Dec (MYR m)	Quarterly					Cumulative		
	4Q21	4Q20	%YoY	3Q21	%QoQ	FY21	FY20	%YoY
Revenue	1,940.5	1,818.9	6.7	1,383.2	40.3	5,851.6	6,686.9	(12.5)
EBITDA	118.5	115.2	2.9	108.0	9.6	430.1	382.5	12.4
EBIT	93.8	92.9	0.9	84.3	11.3	336.3	295.2	13.9
Net interest	(1.3)	0.8	N/A	(1.7)	(22.7)	(5.2)	(4.8)	9.4
Associate & JV income	(0.4)	0.7	N/A	0.9	N/A	(0.7)	0.4	N/A
<b>Pre-tax profit</b>	<b>92.0</b>	<b>94.4</b>	<b>(2.6)</b>	<b>83.4</b>	<b>10.3</b>	<b>330.4</b>	<b>290.8</b>	<b>13.6</b>
Tax	(22.7)	(25.2)	(9.9)	(21.1)	7.9	(80.8)	(78.2)	3.3
Minority Interests	0.0	0.0	N/A	0.0	N/A	0.0	0.0	N/A
<b>Net Profit</b>	<b>69.3</b>	<b>69.2</b>	<b>0.1</b>	<b>62.4</b>	<b>11.1</b>	<b>249.6</b>	<b>212.6</b>	<b>17.4</b>
EPS (sen)	5.40	5.39	0.1	4.86	11.1	19.44	16.56	17.4
Net DPS (sen)	6.00	10.80	(44.4)	0.00	N/A	10.80	15.05	(28.2)
Net cash/(debt)	124.7	(86.9)	N/A	49.8	150.5	124.7	(86.9)	N/A
Gearing (%)	net cash	8.0		net cash		net cash	8.0	
Capex	(70.6)	(52.3)	34.9	(21.0)	236.8	(178.9)	(168.6)	6.1
Sale of natural gas & LPG	1,912.5	1,784.4	7.2	1,354.8	41.2	5,788.6	6,642.3	(12.9)
Tolling fee	26.1	33.7	(22.5)	27.0	(3.0)	58.1	41.2	41.1
Pipeline contribution	1.8	0.8	125.0	1.4	28.6	4.9	3.4	44.1
<b>Total revenue</b>	<b>1,940.5</b>	<b>1,818.9</b>	<b>6.7</b>	<b>1,383.2</b>	<b>40.3</b>	<b>5,851.6</b>	<b>6,686.9</b>	<b>(12.5)</b>
Volume (tn BTU)	53.8	55.0	(2.2)	47.3	13.7	208.7	205.7	1.5

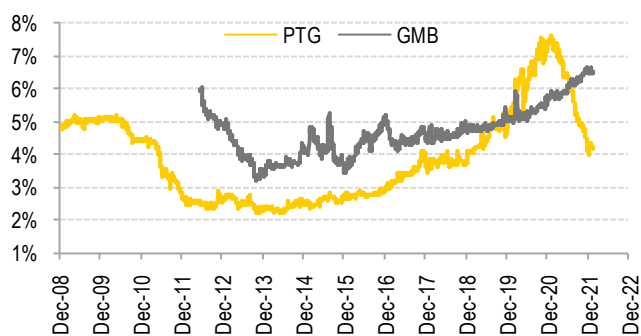
Source: Company, Maybank IBG Research

Fig 2: Trailing PER



Source: Company, Maybank IBG Research

Fig 3: Trailing net yield



Source: Company, Maybank IBG Research

## Risk statement

There are several risk factors for our earnings estimates, price target, and rating for GMB. Regulatory developments, particularly in relation to regulated return, capex and retail margin, have direct impacts on earnings. GMB also bears some degree of volume risk.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	16.6	13.8	14.4	13.4	13.0
Core P/E (x)	16.4	13.6	14.4	13.4	13.0
P/BV (x)	3.2	3.0	3.0	2.9	2.9
P/NTA (x)	3.2	3.0	3.0	2.9	2.9
Net dividend yield (%)	5.5	6.6	6.3	6.7	6.9
FCF yield (%)	5.3	12.3	8.8	4.4	4.9
EV/EBITDA (x)	9.4	7.6	7.5	7.3	7.2
EV/EBIT (x)	12.1	9.7	9.7	9.7	9.6
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	6,686.9	5,851.6	8,251.7	8,580.2	8,921.8
EBITDA	382.5	430.1	434.8	454.3	474.7
Depreciation	(87.3)	(93.8)	(100.7)	(111.5)	(120.2)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	295.2	336.3	334.0	342.8	354.5
Net interest income / (exp)	(4.8)	(5.2)	(5.8)	(4.2)	(5.9)
Associates & JV	0.4	(0.7)	1.0	1.1	1.2
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	290.8	330.4	329.3	339.8	349.8
Income tax	(78.2)	(80.8)	(88.6)	(81.3)	(83.7)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	212.6	249.6	240.6	258.5	266.1
Core net profit	212.6	249.6	240.6	258.5	266.1
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	309.8	455.9	537.2	452.4	377.7
Accounts receivable	788.3	767.4	1,017.3	1,057.8	1,099.9
Inventory	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,450.5	1,550.0	1,769.2	1,907.8	2,037.6
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	66.3	66.4	67.6	68.9	70.2
Other assets	23.8	28.7	28.7	28.7	28.7
<b>Total assets</b>	<b>2,638.7</b>	<b>2,868.4</b>	<b>3,420.0</b>	<b>3,515.6</b>	<b>3,614.2</b>
ST interest bearing debt	285.7	320.2	320.2	320.2	320.2
Accounts payable	946.4	1,191.9	1,719.4	1,789.1	1,861.1
LT interest bearing debt	111.0	11.0	11.0	11.0	11.0
Other liabilities	216.0	215.0	215.0	215.0	215.0
<b>Total Liabilities</b>	<b>1,558.6</b>	<b>1,738.4</b>	<b>2,265.9</b>	<b>2,335.6</b>	<b>2,407.6</b>
Shareholders Equity	1,080.1	1,130.0	1,154.1	1,180.0	1,206.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>1,080.1</b>	<b>1,130.0</b>	<b>1,154.1</b>	<b>1,180.0</b>	<b>1,206.6</b>
<b>Total liabilities and equity</b>	<b>2,638.7</b>	<b>2,868.4</b>	<b>3,420.0</b>	<b>3,515.6</b>	<b>3,614.2</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	290.8	330.4	329.3	339.8	349.8
Depreciation & amortisation	87.3	93.8	100.7	111.5	120.2
Adj net interest (income)/exp	4.8	5.2	5.8	4.2	5.9
Change in working capital	27.1	244.6	277.6	29.2	29.9
Cash taxes paid	(70.7)	(79.8)	(88.6)	(81.3)	(83.7)
Other operating cash flow	13.4	3.0	(1.0)	(1.1)	(1.2)
Cash flow from operations	352.7	597.2	623.8	402.3	420.9
Capex	(168.6)	(178.3)	(320.0)	(250.0)	(250.0)
Free cash flow	184.1	418.9	303.8	152.3	170.9
Dividends paid	(174.0)	(200.3)	(216.6)	(232.6)	(239.5)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	15.0	(65.0)	0.0	0.0	0.0
Other invest/financing cash flow	(6.4)	(6.1)	(6.0)	(4.3)	(6.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	18.7	147.5	81.2	(84.7)	(74.7)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(2.9)	(12.5)	41.0	4.0	4.0
EBITDA growth	22.9	12.4	1.1	4.5	4.5
EBIT growth	27.2	13.9	(0.7)	2.6	3.4
Pretax growth	20.1	13.6	(0.3)	3.2	2.9
Reported net profit growth	11.8	17.4	(3.6)	7.4	3.0
Core net profit growth	11.8	17.4	(3.6)	7.4	3.0
<b>Profitability ratios (%)</b>					
EBITDA margin	5.7	7.4	5.3	5.3	5.3
EBIT margin	4.4	5.7	4.0	4.0	4.0
Pretax profit margin	4.3	5.6	4.0	4.0	3.9
Payout ratio	90.9	90.0	90.0	90.0	90.0
<b>DuPont analysis</b>					
Net profit margin (%)	3.2	4.3	2.9	3.0	3.0
Revenue/Assets (x)	2.5	2.0	2.4	2.4	2.5
Assets/Equity (x)	2.4	2.5	3.0	3.0	3.0
ROAE (%)	20.0	22.6	21.1	22.1	22.3
ROAA (%)	8.1	9.1	7.7	7.5	7.5
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	45.0	47.9	38.9	43.5	43.5
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	55.7	70.6	66.8	77.4	77.4
Dividend cover (x)	1.1	1.1	1.1	1.1	1.1
Current ratio (x)	0.9	0.8	0.8	0.7	0.7
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.7	1.7	1.5	1.5	1.5
Net gearing (%) (incl perps)	8.0	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	8.0	net cash	net cash	net cash	net cash
Net interest cover (x)	61.9	64.4	57.7	82.4	60.5
Debt/EBITDA (x)	1.0	0.8	0.8	0.7	0.7
Capex/revenue (%)	2.5	3.0	3.9	2.9	2.8
Net debt/ (net cash)	86.9	(124.7)	(206.0)	(121.2)	(46.5)

Source: Company; Maybank

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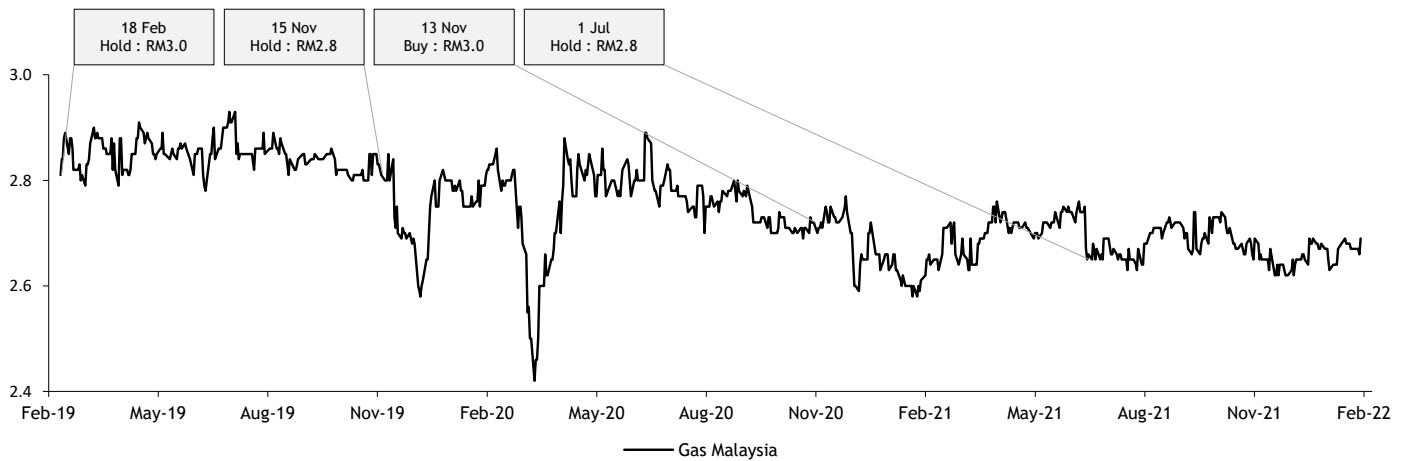
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## Historical recommendations and target price: Gas Malaysia (GMB MK)



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