

Gas Malaysia (GMB MK)

A decent shelter

No deterioration in fundamentals

We estimate GMB's average tariffs likely climbed further in 1Q22. With gas prices now fully liberalised, higher spreads is a possibility in our view. Maintain HOLD with an unchanged DCF-based MYR2.90 TP. The gas utilities have thus far proven to be good shelters amid the market rout. GMB is our relative preference among the gas utilities.

Gas tariffs likely climbed further

Gas tariffs are now completely liberalised beginning 2022, meaning GMB no longer publishes its tariff at the start of the quarter. GMB announced last week that its distribution tariff for 2022 has been set at MYR 1.715/GJ/day. We estimate this equates to c.MYR2.05/mmBTU, unchanged QoQ. Meanwhile, PETRONAS' reference gas price is up 13% QoQ in 1Q22. Assuming retail margin remains at 2021 levels, we estimate GMB's average selling price could have increased by c.12% QoQ to c.MYR40-41/mmBTU.

Watching out for the new normal

We expect PETRONAS' reference gas price to rise further in tandem with crude oil prices. Apart from directly impacting end tariff, higher gas cost also raises retail profit (derived from an undisclosed percentage of gas cost) and is thus positive for GMB all else equal. With gas prices now fully liberalised, GMB has discretion on pricing. 1Q22 results should provide a good barometer on whether this translates to improved margins / spreads.

A non-crowded trade

We believe the lack of material share price movement in recent years is in part due to the opaque regulatory disclosures (although terms have not proven to be detrimental). Our earnings forecasts and MYR2.90 TP (DCF-based assuming 8.1% WACC and 2% long-term growth) are unchanged. 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	14.0	13.1	12.7
P/BV (x)	3.2	3.0	2.9	2.9	2.8
Net dividend yield (%)	5.5	6.6	6.4	6.9	7.1
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	7.3	7.2	7.0
Net gearing (%) (incl perps)	8.0	net cash	net cash	net cash	net cash
Consensus net profit	-	-	243	259	270
MKE vs. Consensus (%)	-	-	(1.1)	(0.0)	(1.5)

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HOLD

Share Price	MYR 2.63
12m Price Target	MYR 2.90 (+17%)
Previous Price Target	MYR 2.90

Company Description

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

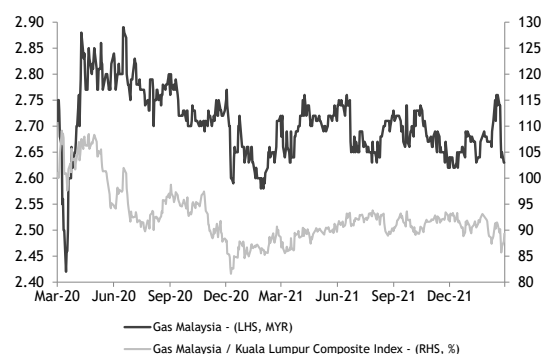
Statistics

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	MYR3.4B USD807M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(0)	(3)
Relative to index (%)	(4)	(5)	(1)

Source: FactSet

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Risk Rating & Score ¹	na
Score Momentum ²	na
Last Updated	na
Controversy Score ³	na

Business Model & Industry Issues

- Midstream/downstream energy companies are viewed as enablers of fossil fuels, and thus face some degree of environmental scrutiny. Nevertheless, gas is the cleanest of fossil fuels and is thus deemed as more palatable for the environment.
- The main uses of gas in Malaysia are for electricity generation and industrial heating. Given the limited developmental potential of renewables and the prevailing structure of PPAs, gas will continue to feature very prominently in Malaysia for at least the next decade. The risk of stranded assets is thus low. Given its almost monopolistic position in gas distribution, we do not expect GMB to deviate from its gas-centric business in the foreseeable future.
- GMB is proactive with capital management, having consistently maintained a dividend payout above its stated policy since listing. There have not been any questionable related-party transactions of note, with GMB sourcing its gas at regulated prices from PETRONAS, the parent of strategic shareholder Petronas Gas.

Material E issues

- Within the energy space, gas is the cleanest of fossil fuels and is thus deemed more palatable for the environment relative to other fuel types (such as coal or oil).
- As part of its renewable push, GMB is presently exploring the possibility of off-taking bio-methane from palm oil mill effluent.
- GMB also promotes energy efficiency through the provision of Combined Heat and Power systems, which simultaneously produces electricity and steam.
- GMB also participates in environmental conservation initiatives, such as river terrapin conservation and mangrove tree-planting.
- GMB began disclosing its fuel, electricity and water consumption data in 2020, but has not publicly disclosed any efficiency targets. Note that YoY comparisons are skewed by the >2 months of FMCO in 2020.

Material S issues

- As a downstream provider, GMB's pipelines are mostly located in industrial areas. Thus the typical native land encroachment issues faced by pipeline companies do not apply.
- There have not been major health and safety mishaps (no fatalities) in recent years. Just a single lost-time incident was recorded in 2020.
- GMB has implemented various CSR programmes in the areas of community, environment, education and sports, mainly through the form of financial assistance.
- The male-female split of GMB's 545 strong workforce stood at 71%-29% as at 2020.

Key G metrics and issues

- GMB has 3 strategic shareholders, with the largest being MMC Corporation (controlled by tycoon Syed Mokhtar Albukhary), and the remaining being Tokyo Gas-Mitsui and Petronas Gas. Each strategic shareholder has board representation.
- The Board currently has 8 Directors, comprising of 3 Non-Independent Non-Executive Directors and 5 Independent Non-Executive Directors (including the Chairman).
- There is presently only 1 woman on the Board (12.5% representation). GMB is open to adding more female Directors, but has not provided a timeline to achieve the recommended 30% female representation target.
- The cumulative remuneration of the 5 highest-paid top executives represents c.3% of GMB's 2020 net profit.
- GMB has been audited by PricewaterhouseCoopers for at least the past decade.
- GMB has not undertaken any material M&As since listing.
- There have not been any questionable related-party transactions of note. While GMB sources its gas entirely from PETRONAS, the parent of strategic shareholder Petronas Gas, gas prices are regulated by the Energy Commission.
- GMB's stated dividend policy is a minimum of 75% payout ratio. Nevertheless, it has consistently maintained a payout of >90% since listing.

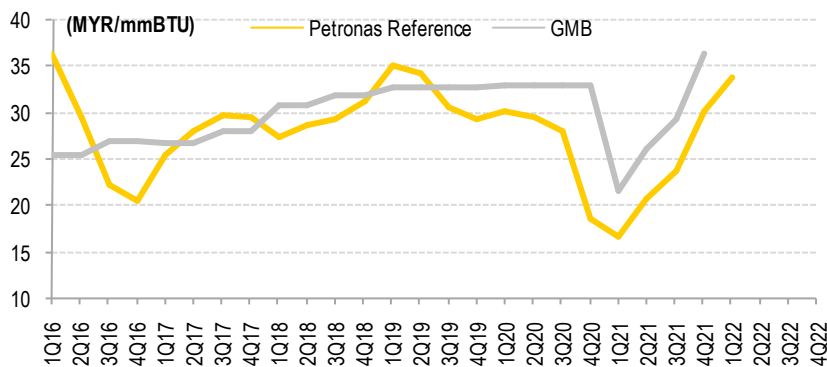
¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Historical tariff schedule

Period	Base tariff		Surcharge/rebate	Net tariff	
	(MYR/mmBTU)	% change		(MYR/mmBTU)	(MYR/mmBTU)
1H16	25.53	17.1%		25.53	17.1%
2H16	27.05	6.0%		27.05	6.0%
1H17	26.71	-1.3%	-0.40	26.31	-2.7%
2H17	28.05	5.0%	-1.59	26.46	0.6%
1H18	30.90	10.2%	+1.62	32.52	22.9%
2H18	31.92	3.3%	+0.77	32.69	0.5%
1H19	32.69	2.4%	+0.23	32.92	0.7%
2H19	32.74	0.2%	+1.92	34.66	5.3%
2020	33.03	0.9%	+0.62	33.65	-2.9%
1Q21	21.52	-34.8%	+0.62	22.14	-34.2%
2Q21	26.23	21.9%	+0.62	26.85	21.3%
3Q21	29.41	12.1%	+0.62	30.03	11.8%
4Q21	36.42	23.8%	0.00	36.42	21.3%

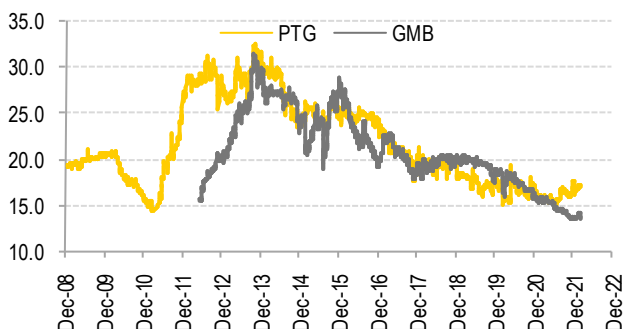
Source: Company, Maybank IBG Research

GMB's base tariff vs. PETRONAS reference price



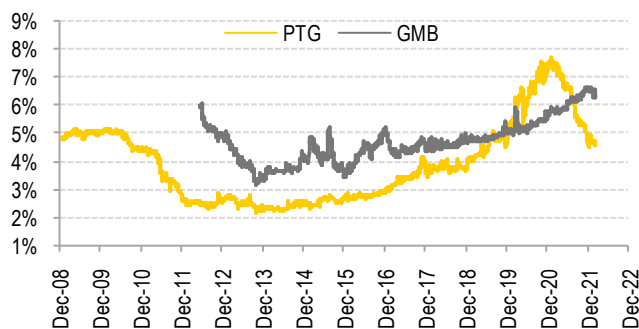
Source: Company, PETRONAS

Trailing PER



Source: Company, Maybank IBG Research

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, such as the determination of regulated returns and retail margins, have direct impact on earnings. A breakdown of the pass-through mechanism will shift the earnings profile of GMB, resulting in a possible de-rating.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	16.6	13.8	14.0	13.1	12.7
Core P/E (x)	16.4	13.6	14.0	13.1	12.7
P/BV (x)	3.2	3.0	2.9	2.9	2.8
P/NTA (x)	3.2	3.0	2.9	2.9	2.8
Net dividend yield (%)	5.5	6.6	6.4	6.9	7.1
FCF yield (%)	5.3	12.3	9.0	4.5	5.1
EV/EBITDA (x)	9.4	7.6	7.3	7.2	7.0
EV/EBIT (x)	12.1	9.7	9.5	9.5	9.4
INCOME STATEMENT (MYR m)					
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
BALANCE SHEET (MYR m)					
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
Total assets	2,638.7	2,868.4	3,420.0	3,515.6	3,614.2
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
Total Liabilities	1,558.6	1,738.4	2,265.9	2,335.6	2,407.6
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
Total shareholder equity	1,080.1	1,130.0	1,154.1	1,180.0	1,206.6
Total liabilities and equity	2,638.7	2,868.4	3,420.0	3,515.6	3,614.2
CASH FLOW (MYR m)					
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
Key Ratios					
Growth ratios (%)					
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
Profitability ratios (%)					
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
DuPont analysis					
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
Liquidity & Efficiency					
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
Leverage & Expense Analysis					
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 IBG Research

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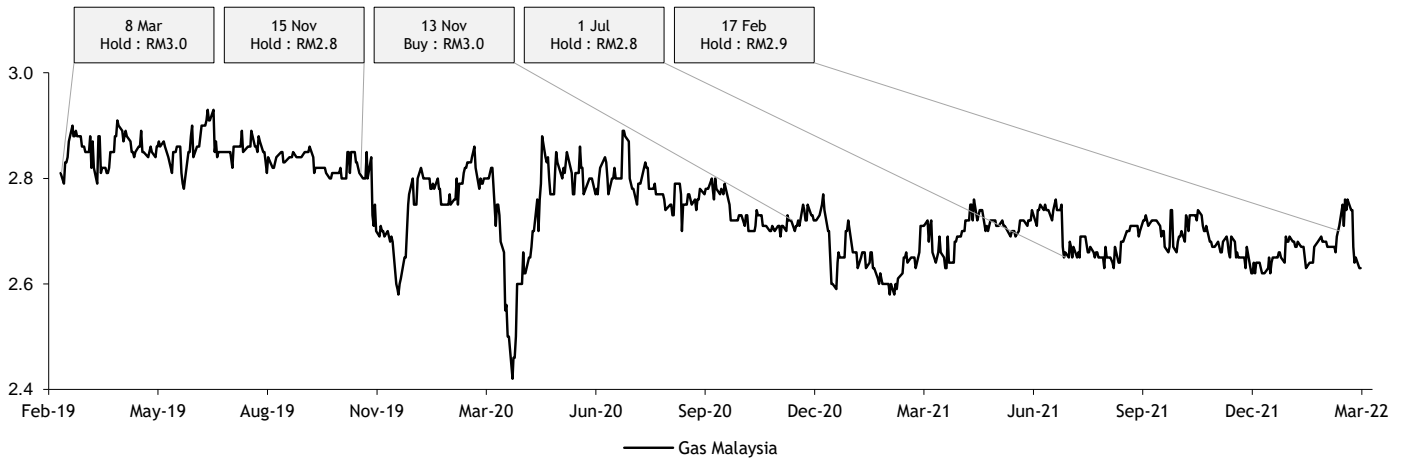
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