

# Gas Malaysia (GMB MK)

## Another tariff hike

### Price hike possibly offset by volume pressure

GMB's 3Q21 tariff represents another increase (+11.8%) from 2Q21, and is likely due to an increase of its gas cost (from PETRONAS). Higher gas cost would have a positive impact on GMB's spread, all else equal. However, the possible volume shortfall from ongoing movement restrictions would have an offsetting impact on earnings. Maintain HOLD with an unchanged DCF-based MYR2.80 TP. We marginally prefer PTG (PTG MK, HOLD, CP: MYR15.60, TP: MYR17.20) among the gas utilities.

### Higher 3Q21 tariff

GMB announced that net tariff for 3Q21 would be raised to MYR30.03/mmBTU (+11.8% from MYR26.85/mmBTU in 2Q21). The tariff includes a surcharge of MYR0.62/mmBTU (unchanged QoQ) and a distribution tariff of MYR2.05/mmBTU (also unchanged QoQ). Key regulatory inputs such as purchase price, regulatory WACC and retail margin remain undisclosed.

### Likely in tandem with rising cost

The higher gas tariff in 3Q21 was likely due to higher gas cost (from PETRONAS), given both the distribution tariff and tariff surcharge were unchanged QoQ. LNG-indexed gas prices published by the regulator were last updated in Apr 2021, but should have risen further in tandem with crude oil prices. Apart from directly impacting end tariff, higher gas cost also raises retail margin (derived from an undisclosed percentage of gas cost) and is thus positive for GMB all else equal.

### Maintain HOLD

Our earnings forecasts and MYR2.80 TP (DCF-based assuming 7.6% WACC and 2% long-term growth) are unchanged. Every 5sen/mmBTU change to our spread assumption (MYR2.25/mmBTU) would move our FY21 net profit forecast by 3.8%. Gas volume would likely be pressured as the movement restrictions (FMCO and EMCO) drag on, thus the likelihood of positive earnings surprises diminishes in our view.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	6,886	6,687	4,945	5,191	5,449
EBITDA	311	382	386	408	432
Core net profit	190	213	222	233	244
Core EPS (sen)	14.8	16.6	17.3	18.1	19.0
Core EPS growth (%)	5.4	11.8	4.3	5.1	4.7
Net DPS (sen)	14.1	15.1	15.5	16.3	17.1
Core P/E (x)	18.6	16.4	15.5	14.7	14.1
P/BV (x)	3.4	3.2	3.1	3.0	3.0
Net dividend yield (%)	5.1	5.5	5.8	6.1	6.4
ROAE (%)	18.4	20.0	20.3	20.9	21.4
ROAA (%)	7.4	8.1	8.8	9.5	9.7
EV/EBITDA (x)	11.6	9.4	9.3	9.0	8.7
Net gearing (%) (incl perps)	8.5	8.0	15.5	21.8	27.2
Consensus net profit	-	-	223	228	237
MKE vs. Consensus (%)	-	-	(0.4)	2.0	2.9

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# HOLD

Share Price	MYR 2.67
12m Price Target	MYR 2.80 (+10%)
Previous Price Target	MYR 2.80

### Company Description

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

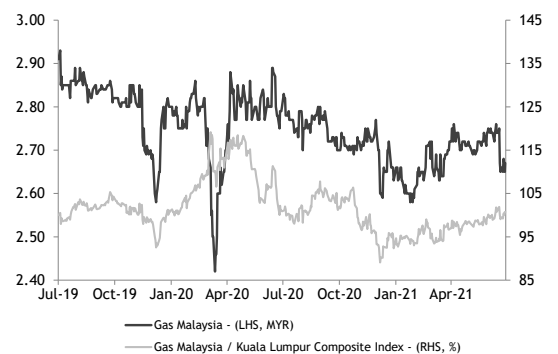
### Statistics

52w high/low (MYR)	2.83/2.58
3m avg turnover (USDm)	0.0
Free float (%)	27.4
Issued shares (m)	1,284
Market capitalisation	MYR3.4B
	USD818M

### Major shareholders:

MMC Corp. Bhd.	30.9%
Tokyo Gas Mitsui & Co. Holdings Sdn. Bhd	18.5%
Petronas Gas Bhd.	14.8%

### Price Performance



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

Source: FactSet

**ESG@MKE**  
Tear Sheet Insert

## 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.

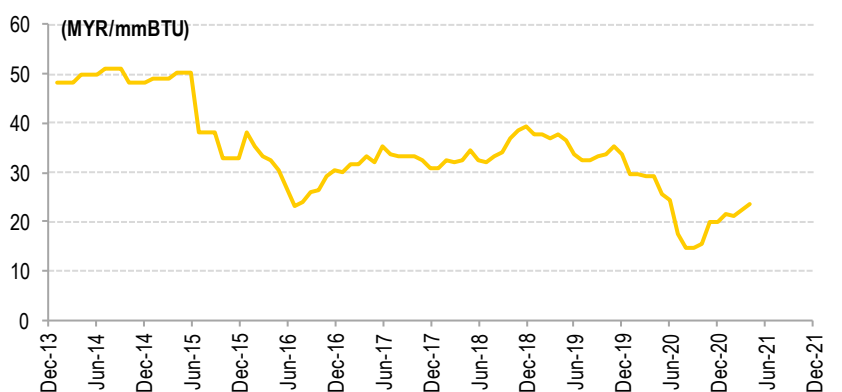
### Tariff schedule

Period	Base tariff (MYR/mmBTU)	% change	Surcharge/rebate (MYR/mmBTU)	Net tariff (MYR/mmBTU)	% change
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	30.9	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%

\*effective 15 Jul 2019

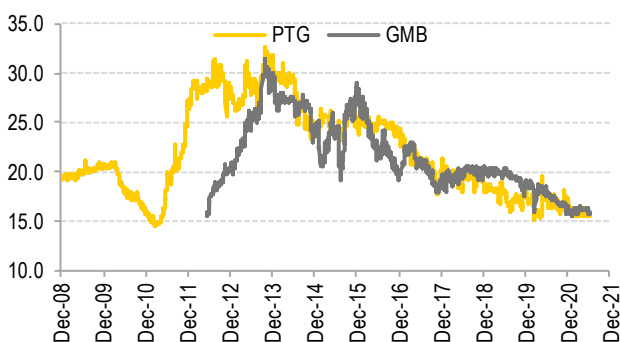
Source: Company, Maybank KE

### GMB's LNG-indexed cost



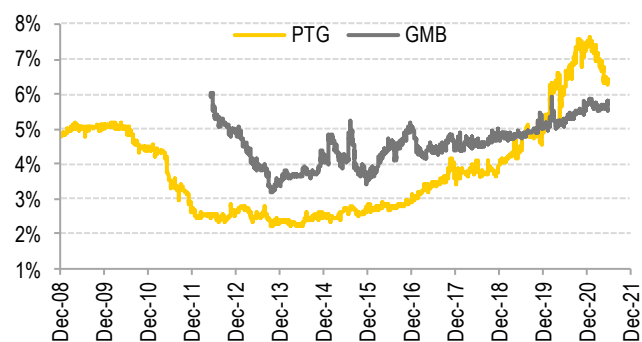
Source: Energy Commission

### Trailing PER



Source: Company, Maybank KE

### Trailing net yield



Source: Company, Maybank KE

### 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	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Metrics</b>					
P/E (reported) (x)	19.1	16.6	15.5	14.7	14.1
Core P/E (x)	18.6	16.4	15.5	14.7	14.1
P/BV (x)	3.4	3.2	3.1	3.0	3.0
P/NTA (x)	3.4	3.2	3.1	3.0	3.0
Net dividend yield (%)	5.1	5.5	5.8	6.1	6.4
FCF yield (%)	nm	5.3	3.6	4.2	4.8
EV/EBITDA (x)	11.6	9.4	9.3	9.0	8.7
EV/EBIT (x)	15.6	12.1	12.2	11.7	11.3
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	6,886.5	6,686.9	4,945.3	5,191.2	5,449.4
EBITDA	311.2	382.5	385.8	408.2	431.7
Depreciation	(79.2)	(87.3)	(89.9)	(94.2)	(100.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	232.0	295.2	295.9	313.9	331.1
Net interest income / (exp)	(11.1)	(4.8)	(5.5)	(8.8)	(11.8)
Associates & JV	21.2	0.4	1.0	1.0	1.1
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	242.1	290.8	291.4	306.2	320.4
Income tax	(52.0)	(78.2)	(69.7)	(73.2)	(76.6)
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	190.1	212.6	221.7	232.9	243.8
Core net profit	190.1	212.6	221.7	232.9	243.8
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	292.4	309.8	226.2	150.8	83.4
Accounts receivable	884.0	788.3	528.4	554.7	582.3
Inventory	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,378.3	1,450.5	1,570.6	1,676.4	1,775.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	67.3	66.3	67.6	69.0	70.5
Other assets	0.0	23.8	23.8	23.8	23.8
<b>Total assets</b>	<b>2,622.1</b>	<b>2,638.7</b>	<b>2,416.6</b>	<b>2,474.6</b>	<b>2,535.7</b>
ST interest bearing debt	200.0	285.7	285.7	285.7	285.7
Accounts payable	1,012.5	946.4	702.1	736.8	773.5
LT interest bearing debt	181.0	111.0	111.0	111.0	111.0
Other liabilities	186.0	216.0	216.0	216.0	216.0
<b>Total Liabilities</b>	<b>1,579.0</b>	<b>1,558.6</b>	<b>1,314.3</b>	<b>1,349.1</b>	<b>1,385.8</b>
Shareholders Equity	1,043.1	1,080.1	1,102.3	1,125.6	1,149.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>1,043.1</b>	<b>1,080.1</b>	<b>1,102.3</b>	<b>1,125.6</b>	<b>1,149.9</b>
<b>Total liabilities and equity</b>	<b>2,622.1</b>	<b>2,638.7</b>	<b>2,416.6</b>	<b>2,474.6</b>	<b>2,535.7</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	242.1	290.8	291.4	306.2	320.4
Depreciation & amortisation	79.2	87.3	89.9	94.2	100.6
Adj net interest (income)/exp	11.1	4.8	5.5	8.8	11.8
Change in working capital	(147.5)	27.1	15.6	8.5	9.1
Cash taxes paid	(54.6)	(70.7)	(69.7)	(73.2)	(76.6)
Other operating cash flow	(15.3)	13.4	(1.0)	(1.0)	(1.1)
Cash flow from operations	115.1	352.7	331.8	343.4	364.2
Capex	(173.2)	(168.6)	(210.0)	(200.0)	(200.0)
Free cash flow	(58.1)	184.1	121.8	143.4	164.2
Dividends paid	(177.2)	(174.0)	(199.5)	(209.6)	(219.4)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	100.0	15.0	0.0	0.0	0.0
Other invest/financing cash flow	25.0	(6.4)	(5.9)	(9.2)	(12.2)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(110.4)	18.7	(83.6)	(75.4)	(67.4)

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	10.5	(2.9)	(26.0)	5.0	5.0
EBITDA growth	3.3	22.9	0.9	5.8	5.8
EBIT growth	(1.2)	27.2	0.2	6.1	5.5
Pretax growth	3.4	20.1	0.2	5.1	4.7
Reported net profit growth	5.4	11.8	4.3	5.1	4.7
Core net profit growth	5.4	11.8	4.3	5.1	4.7
<b>Profitability ratios (%)</b>					
EBITDA margin	4.5	5.7	7.8	7.9	7.9
EBIT margin	3.4	4.4	6.0	6.0	6.1
Pretax profit margin	3.5	4.3	5.9	5.9	5.9
Payout ratio	95.2	90.9	90.0	90.0	90.0
<b>DuPont analysis</b>					
Net profit margin (%)	2.8	3.2	4.5	4.5	4.5
Revenue/Assets (x)	2.6	2.5	2.0	2.1	2.1
Assets/Equity (x)	2.5	2.4	2.2	2.2	2.2
ROAE (%)	18.4	20.0	20.3	20.9	21.4
ROAA (%)	7.4	8.1	8.8	9.5	9.7
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	42.7	45.0	47.9	37.6	37.6
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	55.8	55.7	64.8	53.9	53.9
Dividend cover (x)	1.1	1.1	1.1	1.1	1.1
Current ratio (x)	1.0	0.9	0.8	0.7	0.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.7	1.7	1.8	1.8	1.8
Net gearing (%) (incl perps)	8.5	8.0	15.5	21.8	27.2
Net gearing (%) (excl. perps)	8.5	8.0	15.5	21.8	27.2
Net interest cover (x)	20.8	61.9	54.2	35.7	28.0
Debt/EBITDA (x)	1.2	1.0	1.0	1.0	0.9
Capex/revenue (%)	2.5	2.5	4.2	3.9	3.7
Net debt/ (net cash)	88.6	86.9	170.5	245.9	313.3

Source: Company; Maybank

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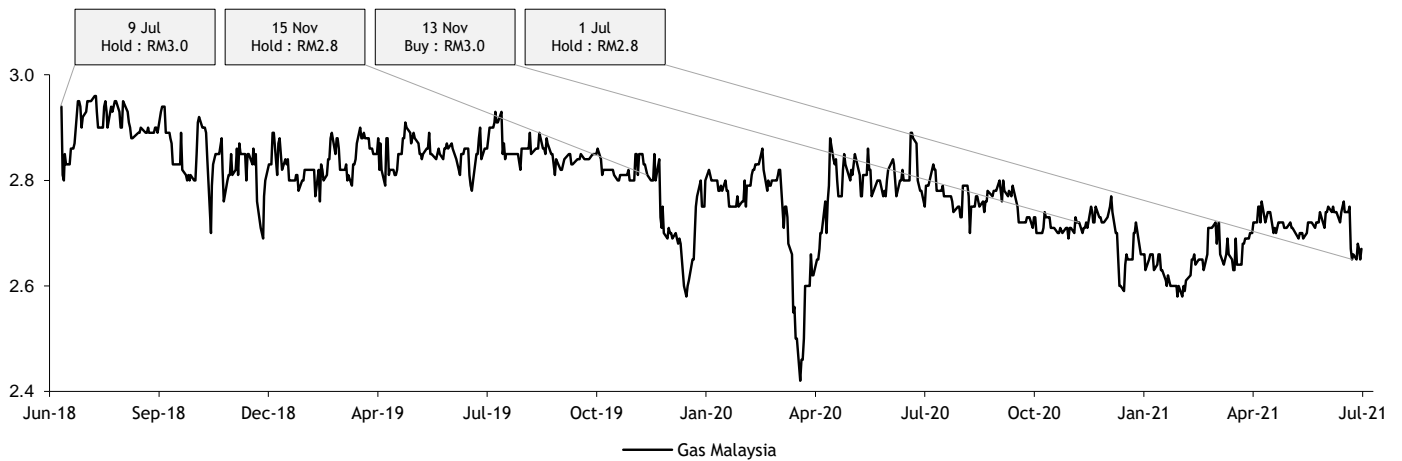
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