

Gas Malaysia (GMB MK)

Profitability likely intact

No negative surprises

The unchanged distribution base tariff affirms our expectation of a non-punitive outcome for the new regulatory period. The distribution portion of GMB's spread is thus unchanged, meaning overall spreads will continue to be driven by gas prices. Reiterate BUY with an unchanged MYR3.80 DCF-based TP. We expect spreads to remain elevated in 4Q22 and 1Q23 on higher gas prices.

Base tariffs maintained

GMB's distribution base tariff for the new regulatory period (2023-2025) will be maintained at MYR1.573/GJ/day (or c.MYR1.88/mmBTU by our estimate). The distribution portion of GMB's spread is thus unchanged. Separately, a slight rebate of MYR0.038/GJ/day (from a surcharge of MYR0.18/GJ/day previously) has been implemented throughout the whole of 2023 for the return of surplus revenue.

Regulatory details unlikely to be disclosed

Regulatory details such as the quantum of WACC/RAB and capex/opex assumptions have not been, and are unlikely to be disclosed, in our view. The implementation of a slight rebate is expected given GMB's distribution segment (which runs on a revenue-cap model) was in an over-recovery position at end-3Q22. Note that the rebates/surcharges have no impact on GMB's P&L, as the company accrues revenue-cap adjustments every quarter.

Maintain BUY

Our earnings forecasts and MYR3.80 TP (DCF-based assuming 8.1% WACC and 2% long-term growth) are unchanged. With the non-punitive tariff outcome, the concern over a potential one-off step-down in spreads has been cleared. We expect sequentially higher earnings in 4Q22 and 1Q23 with gas prices still trending up, and the distribution segment insulated from volume softness.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	6,687	5,852	7,522	7,265	7,170
EBITDA	382	430	641	638	610
Core net profit	213	250	389	401	372
Core EPS (sen)	16.6	19.4	30.3	31.2	29.0
Core EPS growth (%)	11.8	17.4	56.0	3.0	(7.2)
Net DPS (sen)	15.1	17.7	24.3	25.0	23.2
Core P/E (x)	16.4	13.6	10.7	10.4	11.2
P/BV (x)	3.2	3.0	3.5	3.2	3.1
Net dividend yield (%)	5.5	6.7	7.5	7.7	7.1
ROAE (%)	20.0	22.6	33.3	32.1	28.1
ROAA (%)	8.1	9.1	12.7	12.2	11.2
EV/EBITDA (x)	9.4	7.6	6.3	6.4	6.8
Net gearing (%) (incl perps)	8.0	net cash	net cash	net cash	net cash
Consensus net profit	-	-	387	352	344
MKE vs. Consensus (%)	-	-	0.6	13.9	8.1

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BUY

Share Price	MYR 3.25
12m Price Target	MYR 3.80 (+26%)
Previous Price Target	MYR 3.80

Company Description

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

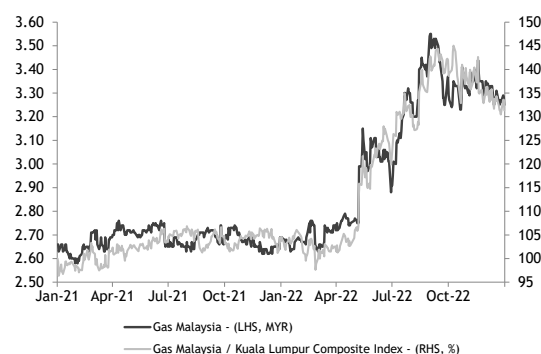
Statistics

52w high/low (MYR)	3.55/2.63
3m avg turnover (USDm)	0.6
Free float (%)	30.8
Issued shares (m)	1,284
Market capitalisation	MYR4.2B USD951M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	(4)	21
Relative to index (%)	(2)	(7)	28

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 emission data in 2021, but has not publicly disclosed any environmental-related targets.

Material S issues

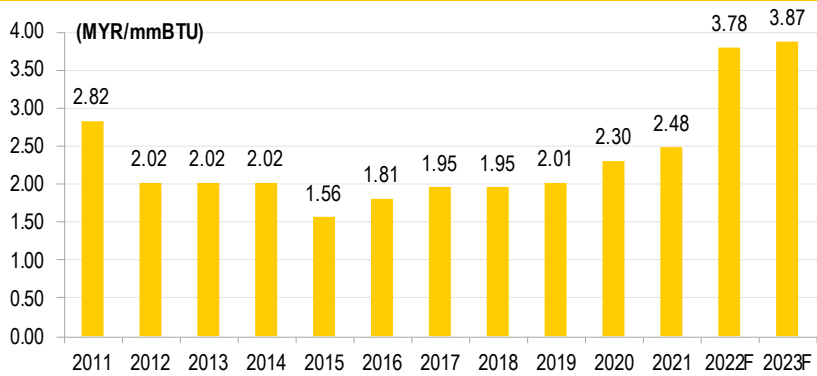
- As a downstream provider, GMB's pipelines are mostly located in industrial areas. Thus the typical native land encroachment issues faced by pipeline companies do not apply.
- There have not been major health and safety mishaps (no fatalities) in recent years. No lost-time incident was recorded in 2021.
- 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 564 strong workforce stood at 72%-28% as at 2021. Female representation among management stood at 44%.

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 2021 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.

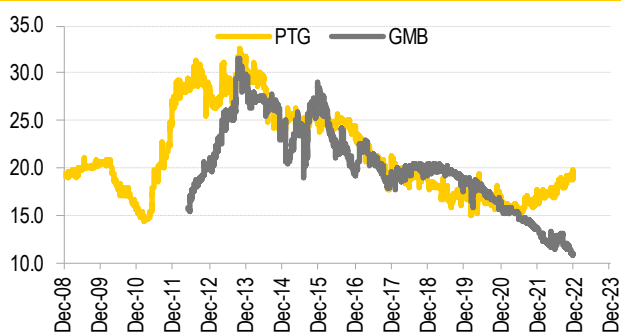
¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven 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).

GMB's estimated spread



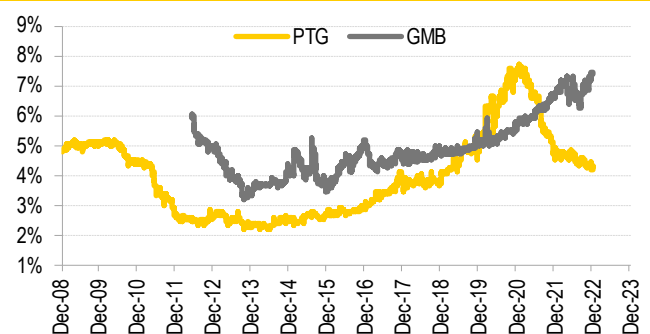
Source: Company, Maybank IBG Research

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, particularly in relation to regulated return, capex and retail margin, have direct impact on earnings. GMB also bears some degree of volume risk.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	16.6	13.8	10.7	10.4	11.2
Core P/E (x)	16.4	13.6	10.7	10.4	11.2
P/BV (x)	3.2	3.0	3.5	3.2	3.1
P/NTA (x)	3.2	3.0	3.5	3.2	3.1
Net dividend yield (%)	5.5	6.7	7.5	7.7	7.1
FCF yield (%)	5.3	12.3	8.0	5.7	5.8
EV/EBITDA (x)	9.4	7.6	6.3	6.4	6.8
EV/EBIT (x)	12.1	9.7	7.5	7.8	8.5
INCOME STATEMENT (MYR m)					
Revenue	6,686.9	5,851.6	7,522.3	7,265.3	7,170.1
EBITDA	382.5	430.1	641.0	638.3	610.5
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	540.2	526.8	490.3
Net interest income / (exp)	(4.8)	(5.2)	(0.8)	(0.4)	(2.0)
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	540.4	527.5	489.4
Income tax	(78.2)	(80.8)	(151.0)	(126.3)	(117.2)
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	389.4	401.2	372.2
Core net profit	212.6	249.6	389.4	401.2	372.2
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	309.8	455.9	476.7	395.1	336.9
Accounts receivable	788.3	767.4	927.4	895.7	884.0
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	3,269.6	3,296.1	3,357.4
ST interest bearing debt	285.7	320.2	320.2	320.2	320.2
Accounts payable	946.4	1,191.9	1,515.2	1,461.5	1,448.3
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	2,061.7	2,008.0	1,994.8
Shareholders Equity	1,080.1	1,130.0	1,207.9	1,288.2	1,362.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,080.1	1,130.0	1,207.9	1,288.2	1,362.6
Total liabilities and equity	2,638.7	2,868.4	3,269.6	3,296.1	3,357.4
CASH FLOW (MYR m)					
Pretax profit	290.8	330.4	540.4	527.5	489.4
Depreciation & amortisation	87.3	93.8	100.7	111.5	120.2
Adj net interest (income)/exp	4.8	5.2	0.8	0.4	2.0
Change in working capital	27.1	244.6	163.3	(22.0)	(1.4)
Cash taxes paid	(70.7)	(79.8)	(151.0)	(126.3)	(117.2)
Other operating cash flow	13.4	3.0	(1.0)	(1.1)	(1.2)
Cash flow from operations	352.7	597.2	653.3	489.9	491.8
Capex	(168.6)	(178.3)	(320.0)	(250.0)	(250.0)
Free cash flow	184.1	418.9	333.3	239.9	241.8
Dividends paid	(174.0)	(200.3)	(311.5)	(320.9)	(297.8)
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)	(1.0)	(0.6)	(2.2)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	18.7	147.5	20.8	(81.6)	(58.2)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(2.9)	(12.5)	28.6	(3.4)	(1.3)
EBITDA growth	22.9	12.4	49.0	(0.4)	(4.4)
EBIT growth	27.2	13.9	60.6	(2.5)	(6.9)
Pretax growth	20.1	13.6	63.6	(2.4)	(7.2)
Reported net profit growth	11.8	17.4	56.0	3.0	(7.2)
Core net profit growth	11.8	17.4	56.0	3.0	(7.2)
Profitability ratios (%)					
EBITDA margin	5.7	7.4	8.5	8.8	8.5
EBIT margin	4.4	5.7	7.2	7.3	6.8
Pretax profit margin	4.3	5.6	7.2	7.3	6.8
Payout ratio	90.9	90.9	80.0	80.0	80.0
DuPont analysis					
Net profit margin (%)	3.2	4.3	5.2	5.5	5.2
Revenue/Assets (x)	2.5	2.0	2.3	2.2	2.1
Assets/Equity (x)	2.4	2.5	2.7	2.6	2.5
ROAE (%)	20.0	22.6	33.3	32.1	28.1
ROAA (%)	8.1	9.1	12.7	12.2	11.2
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	45.0	47.9	40.6	45.2	44.7
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	55.7	70.6	70.5	80.4	79.3
Dividend cover (x)	1.1	1.1	1.2	1.3	1.3
Current ratio (x)	0.9	0.8	0.8	0.7	0.7
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.7	1.6	1.6	1.7
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	nm	nm	nm
Debt/EBITDA (x)	1.0	0.8	0.5	0.5	0.5
Capex/revenue (%)	2.5	3.0	4.3	3.4	3.5
Net debt/ (net cash)	86.9	(124.7)	(145.5)	(63.9)	(5.7)

Source: Company; Maybank IBG Research

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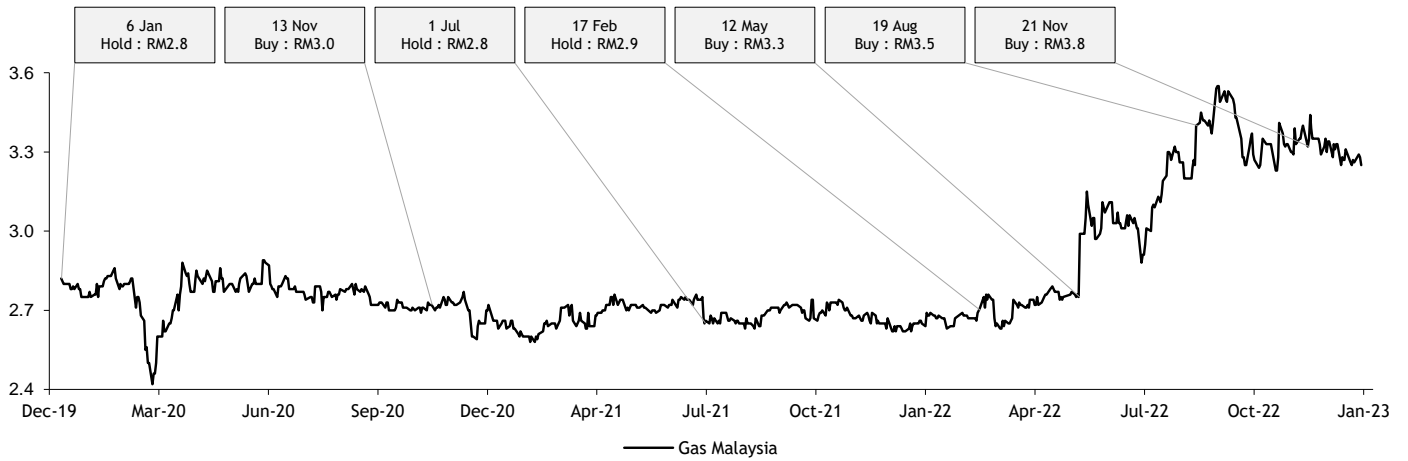
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