

PP14767/09/2012(030761)

## Gas Malaysia Bhd

## “Higher Feedstock Costs”

## Results Review

- **Actual vs. expectations.** Operationally, Gas Malaysia Berhad (GMB) had a satisfactory start in FY15. Revenue for 1Q15 came in at RM762 million, surging by 31% y-o-y, but weakened by 2% q-o-q, lifted by revision of gas tariff in November 2014 that fuelled revenue expansion. On q-o-q basis, shorter working days, especially in January and February resulted in lower gas volume sold, thus shaving revenue.
- **Bottomline.** Despite managed to rake-in higher revenue in 1Q15, earnings tumbled by 24% y-o-y to RM32 million caused by higher cost of liquefied natural gas (LNG). Noticeably, on q-o-q basis, earnings surged by 36% on the back of lower taxation charge. All in, PAT of RM32 million in 3M15 attributed 14% of ours and 26% consensus estimates respectively, essentially below our expectation.
- **Dividend.** No dividend declared in this quarter
- **Adapting with higher feedstock costs.** On y-o-y basis, a higher volume of gas sold fuelled revenue expansion but gross profit was weaker by 25% y-o-y. The weaker gross profit was mainly due to higher feedstock cost as GMB is now using LNG to supply to its customers. Around 70-80% of Gas Malaysia's gas volumes are subsidised at price of RM15.55/MMBTu while LNG is priced at RM40-45/MMBTu.
- **Stagnant quarters ahead.** We foresee GMB earnings will be stagnant for the next two quarters as long as GMB does not exhaust its gas quota in FY15. At this juncture, we are uncertain whether GMB will be exhausting its gas quota too early, however judging on FY14 situations, GMB 4Q14's was hit by shortage of gas

Friday, May 08, 2015

HOLD (TP: RM2.89)

Current Price (RM)	RM2.62
New Fair Value (RM)	RM2.89
Previous Fair Value (RM)	RM3.90
Previous Recommend.	BUY
Upside To Fair Value	8.6%
Dividend Yield (FY15)	3.4%

## Stock Code

Bloomberg	GMB MK
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## Stock &amp; Market Data

Listing	MAIN MARKET	
Sector	Power	
Shariah Compliance	Yes	
Issued Shares (mn)	1,284.0	
Market Cap (RM mn)	3,364	
YTD Chg In Share Price	-18.6%	
Beta (x)	0.76	
52-week Hi/Lo (RM)	RM3.65	RM2.44
3M Average Volume (shrs)	2.282mn	
Estimated Free Float	20.1%	

## Major Shareholders

Anglo Oriental	30.9%
Tokyo Gas Mitsui	18.5%
Petronas Gas	14.8%

supply, hence GMB was pushed to purchase LNG that imply higher price.

- **Price revision will help earnings.** To meet higher demand, GMB needs another price revision to support its LNG cost. However we believe GMB is unlikely to obtain an approval to raise its price as happened in 3Q14. Additionally, at this stage, we are pessimistic with GMB to secure additional gas quota more than 40 mmscfd in FY15.
- **Outlook.** We are now changing our stance. GMB is unlikely to obtain an additional gas quota of 40 mmscfd in FY15, hence will result in a very serious challenge to earnings. Additionally, we foresee that GMB will need to carefully preserve its gas quota at pre-determined rate of 97%-3% of subsidized gas and LNG, hence GMB will not run-out its gas quota too early than anticipated. Besides that, with no potential drop in LNG price, we believe GMB will avoid using excessive LNG as LNG carry higher price vs. natural gas.
- **Change to forecast.** With the absence of tariff revision and additional gas quota in FY15, we are now trimming our forecast on FY15 and FY16 by 66% and 72%. Our earnings forecast is projected to slip by 29% y-o-y in FY15, but pick up again in FY16 by 7% y-o-y due to i) steady delivery of gas ii) improving efficiency in handling gas volume
- **Valuation.** We value GMB at RM2.89 and downgrade our call from a BUY to a HOLD with 8.6% upside potential. At RM2.89, GMB's FY15's earning is likely to hover around 28.9x PE, a premium to its 3-years PE average of 25.6x. GMB's share price will be driven by ) its margins will be largely determined by volume ii) blended selling price is still in the government's hand.

Table 1: Peers Comparison

Company	Y/E Ended	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	FV	Call
			FY15	FY16	FY15	FY16	FY16	FY16			
MMC Corp	Dec	2.68	0.1	0.2	18.9	16.1	1.0	0.9	3.2	3.00	Buy
TNB	Aug	13.98	1.2	1.2	12.7	12.2	1.8	1.6	14.1	15.20	Hold
Gas Malaysia	Dec	2.62	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Hold
Petronas Gas	Dec	22.88	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Hold
Petronas Chemical	Dec	5.85	0.3	0.4	15.1	13.4	1.7	1.6	15.0	5.80	Hold
YTL Power	Dec	1.58	0.1	0.1	11.2	11.8	1.1	1.0	12.1	NA	NA
Average			0.5	0.6	19.4	17.3	2.3	2.2	13.8		

Source: Bloomberg, M&A Securities

Table 2: Results Analysis

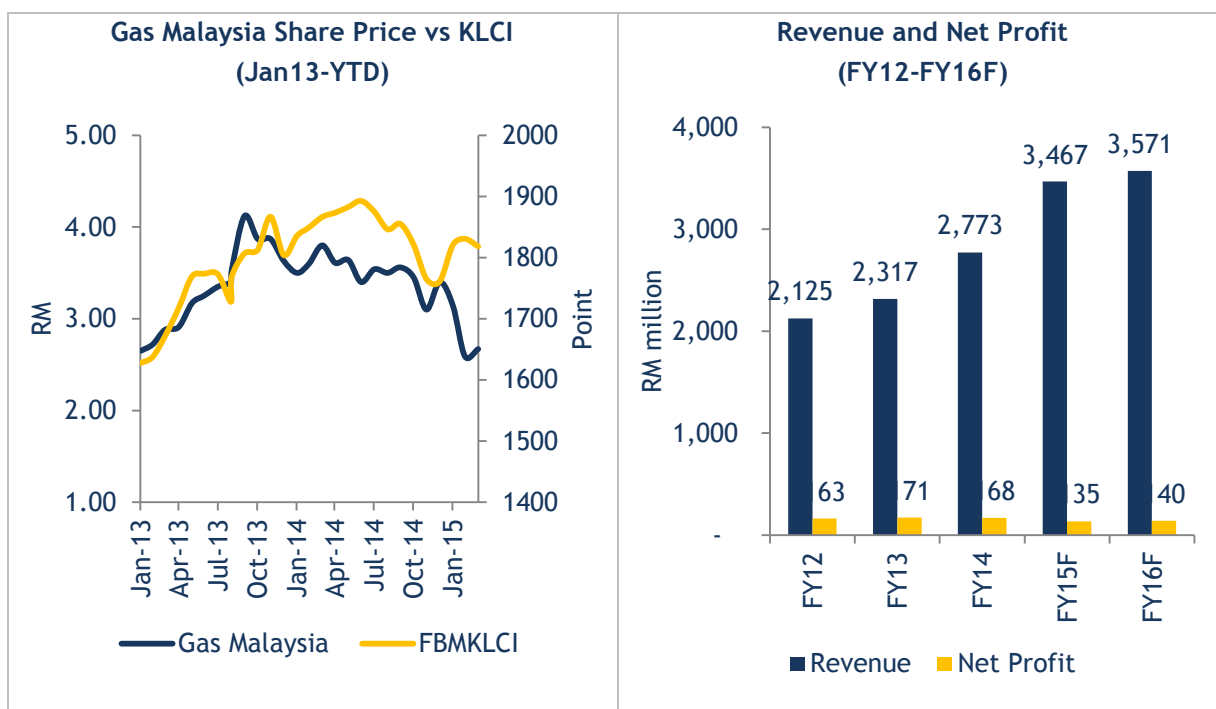
YE: Dec (RM million)	1Q15	4Q14	1Q14	y-o-y	q-o-q	3M15	3M14	y-o-y
Revenue	762	781	581	31%	-2%	762	581	31%
Cost of sales	-715	-746	-518	38%	-4%	-715	-518	38%
Gross Profit	47	34	62	-25%	36%	47	62	-25%
Finance income	3	3	2	105%	32%	3	2	105%
Other income	0	0	0	-38%	5%	0	0	-38%
Other expenses	-10	-12	-8	24%	-18%	-10	-8	24%
Finance costs	-1	0	0	-915%	121%	-1	0	-915%
PBT	41	24	56	-27%	69%	41	56	-27%
Taxation	-9	-1	-15	-35%	861%	-9	-15	-35%
PAT	32	23	42	-24%	36%	32	42	-24%
EPS	2.2	1.8	3.2	-31%	22%	2.2	3.2	-31%
PBT Margin	5%	3%	10%			5%	10%	
PAT margin	4%	3%	7%			4%	7%	

Source: Bursa Malaysia, M&amp;A Securities

Table 3: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	2,125	2,317	2,773	3,467	3,571
Cost of sales	-1,887	-2,066	-2,524	-3,255	-3,350
Gross Profit	238	251	250	211	221
Other income	1	1	1	1	1
Other expenses	-33	-38	-44	-40	-40
EBIT	206	214	207	172	182
Finance income	8	9	8	9	6
Finance costs	0	0	-1	-1	-1
PBT	214	221	214	176	187
Taxation and zakat	-51	-49	-45	-45	-47
PAT	163	171	168	130	140
EPS	12.7	13.3	13.1	10	10.3
EBITDA	252	303	266	300	318
PBT margin	10%	10%	7%	5%	5%
PAT margin	8%	7%	5%	4%	4%
PER (x)	19.8	26	24.6	21.9	21.9
P/BV (x)	3.3	4.9	4.7	NA	NA

Source: Bursa Malaysia, M&amp;A Securities



# M&A Securities

## STOCK RECOMMENDATIONS

<b>BUY</b>	Share price is expected to be $\geq +10\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -10\%$ over the next 12 months.

## SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

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