

PP14767/09/2012(030761)

Gas Malaysia Bhd

“Stable Earnings Ahead”

Results Review

- Actual vs. expectations.** Gas Malaysia Bhd (GMB) 6M15 net profit of RM62 million (-31% y-o-y) came in line with ours and consensus expectation, accounting 47.6% and 46.5% of ours and consensus full year estimates respectively. Despite lower earnings, the performance was largely expected given the revision of gas tariff in November 2014 that drove liquefied natural gas (LNG) to be costlier.
- Dividend.** GMB announced lower dividend of 3.5 cent in 6M15 vs. 5 cent in 6M14, translating into 73% payout ratio.
- Topline vs. Bottomline.** 6M15 revenue surged to RM1.55 billion (+24% y-o-y) driven by revision in average selling price in November 2014 from RM16.07/mmbtu to RM19.77/mmbtu that fuelled revenue expansion in addition to GMB able to secure new customers. Nevertheless, EBIT margin dropped by 50bps to 5% hampered by higher cost of sales that jumped by 30% y-o-y in 6M15.
- Volatile feedstock cost.** GMB’s gross profit margin declined by 50bps in 6M15 as a result of higher feedstock cost. At this stage, GMB LNG consumption was not revealed, however we believe the gas and LNG composition was not compromised due to additional of 40mmscfd from Petronas in FY15. Nevertheless, the lower spreads has pressurised the GP margin.
- Stable quarters ahead.** In an unexpected move last June, government announced to raise GMB average selling price by RM2.03/mmbtu to RM21.8/mmbtu effective 1<sup>st</sup> July 2015. That said, GMB’s previous spread

Friday, August 14, 2015

BUY (TP: RM2.89)

Current Price (RM)	RM2.12
New Fair Value (RM)	RM2.89
Previous Fair Value (RM)	RM2.89
Previous Recommend.	HOLD
Upside To Fair Value	36%
Dividend Yield (FY15)	1.5%

Stock Code

Bloomberg	GMB MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Power	
Shariah Compliance	Yes	
Issued Shares (mn)	1,284.0	
Market Cap (RM mn)	2,722	
YTD Chg In Share Price	-134.2%	
Beta (x)	0.94	
52-week Hi/Lo (RM)	RM3.65	RM1.93
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%

of RM1.10/mmbtu is no longer applicable due to subsidised gas price that has been raised by RM1.50/mmbtu to RM18.55. In overall spreads, management expects to recognise at least RM1.58/mmbtu to offset with the higher feedstock cost.

- **Outlook.** With the tariff hike secured, we are now changing our stance. GMB earnings will further stabilize due to the presence of Gas Pass Through (GPT) mechanism effective in 1<sup>st</sup> July 2015. The GPT will ensure GMB will pass higher cost of LNG for additional gas quota to its customers. As such, GMB's bottom-line will be largely unaffected as sales volume increases will translate into better bottomline number aided by higher spreads.
- **Change to forecast.** No change to our FY15 and FY16 forecast as 6M15 results are within our expectation. Nonetheless, 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 iii) higher spreads
- **Valuation.** We maintain our target price on GMB at RM2.89, and is now a BUY, anchored by its improving outlook. 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 (%)	TP	Call
			FY15	FY16	FY15	FY16	FY16	FY16			
MMC Corp	Dec	1.84	0.1	0.2	18.9	16.1	1.0	0.9	3.2	3.00	Buy
TNB	Aug	10.86	1.2	1.2	12.7	12.2	1.8	1.6	14.1	15.20	Buy
Gas Malaysia	Dec	2.12	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Buy
Petronas Gas	Dec	21.42	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Hold
Petronas Chemical	Dec	5.98	0.3	0.4	15.1	13.4	1.7	1.6	15.0	6.18	Hold
Malakoff	Dec	1.56	NA	NA	NA	NA	NA	NA	8.68	2.30	Buy
YTL Power	Dec	1.51	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

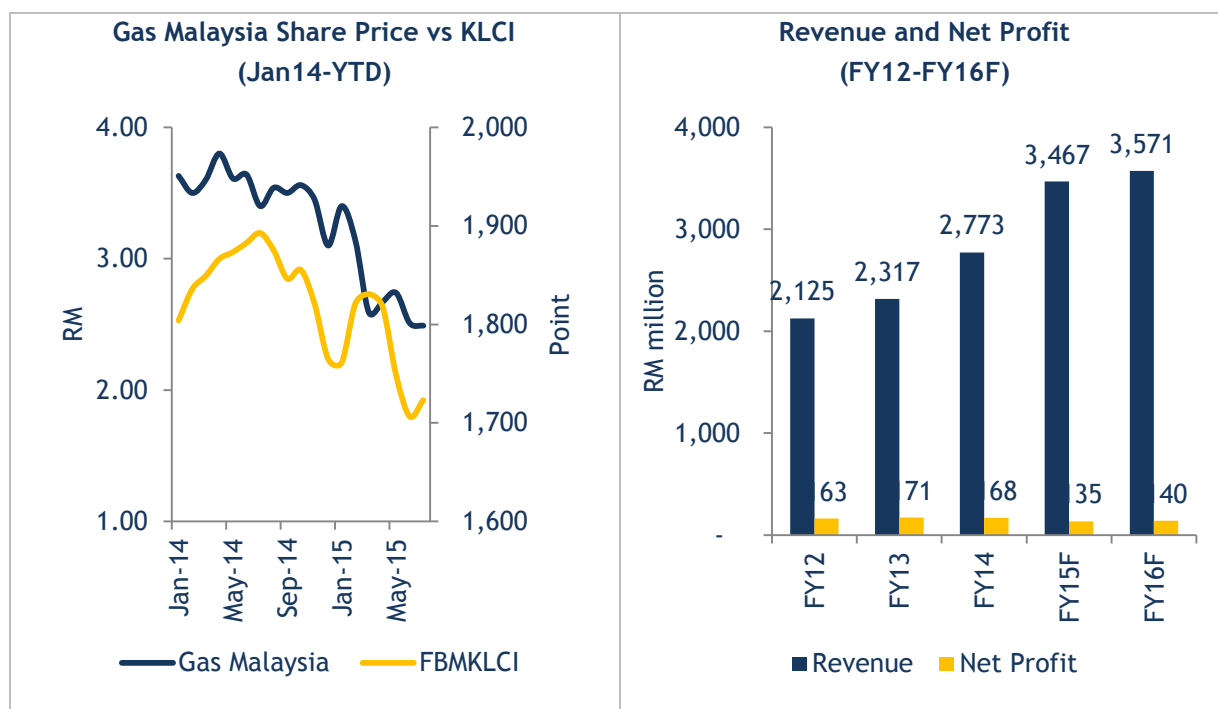
YE: Dec (RM million)	2Q15	1Q15	2Q14	y-o-y	q-o-q	6M15	6M14	y-o-y
Revenue	795	762	678	17%	4%	1,557	1,259	24%
Cost of sales	-745	-715	-603	23%	4%	-1,460	-1,122	30%
Gross Profit	50	47	75	-33%	7%	97	137	-29%
Finance income	4	3	2	138%	19%	7	3	122%
Other income	1	0	0	1002%	380%	1	1	183%
Other expenses	-11	-10	-13	-15%	10%	-21	-21	0%
Finance costs	-1	-1	0	1460%	83%	-2	0	1086%
PBT	44	41	63	-31%	6%	81	119	-32%
Taxation	-10	-9	-14	-31%	6%	-19	-29	-33%
PAT	34	32	49	-31%	6%	62	91	-31%
EPS	2.6	2.2	3.8	-31%	18%	4.8	7.1	-31%
PBT Margin	5%	5%	9%			5%	9%	
PAT margin	4%	4%	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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