COMPANY UPDATE

Gas Malaysia (GMB MK)

Likely To See Higher NG Demand In 1Q24; Offset By Lower NG Prices

We expect the company to deliver a sequentially flattish 1Q24 net profit of RM90m. Yoy, the quarter is expected to be characterised by higher NG volume (higher glove production volume) but lower NG prices (-29% yoy, +12% qoq). 2024 will see relatively pedestrian earnings as a result of lower NG prices vs 2023. This will be partly offset by 10% higher demand capacity in the regulated business. Importantly, we expect GMB to raise dividend payout to maintain lush dividends. Maintain HOLD with a target price of RM3.25. The stock offers an attractive dividend yield of 6%.

WHAT'S NEW

- **1Q24 NG demand higher yoy, offset by lower NG prices.** We expect Gas Malaysia (GMB) to deliver a sequentially flattish 1Q24 net profit of RM90m. This is a decline of 5% yoy as we expect higher natural gas (NG) volume to be offset by lower NG prices. To recap, 1Q24 NG volume is seasonally lower due to factory closure during the festive Chinese New Year season. In 1Q24, we expect recovery in rubber glove production to help boost higher NG volume for GMB. Based on our estimates, 1Q24 NG volume may grow by 5-6% yoy. This will be partly offset by lower NG prices of RM41.5/MT vs RM58/MT in 1Q23.
- **Pedestrian net profit for 2024…** NG prices will likely rebound in 2Q24 to RM45-47/MT, but for full-year 2024, we expect NG prices to hover at the lower end of the RM40-42/MT range vs RM47/MT in 2023. As such, we expect net profit to decline marginally to RM358m (-3% yoy). We also note that GMB's regulated business (distribution of NG) is expected to register a 10% increase in demand capacity for 2024. This is the allowable demand capacity imputed in GMB's Regulatory Period 2 (2023-25) and will help drive the profit mix of the regulated business from 40% (2023) to approximately 50% (2024). Higher distribution profits will help to buffer relatively flattish NG prices expected in 2024.
- **…as the stock offers attractive dividend yield of 6%.** Against a backdrop of strong cashflow, we expect lush dividend payout from GMB. Despite lower profits for 2024, we expect the company to raise its dividend payout ratio to ensure the same amount of dividends as 2023 (22.8 sen/share) at the very least. Based on that, we expect the payout ratio to increase to 82% vs 76% in 2023. This translates to an attractive dividend yield of 6% over 2024-25.

KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	7,649	8,079	7,526	8,035	8,335
EBITDA	643	642	599	639	663
Operating profit	541	539	481	516	533
Net profit (rep./act.)	390	433	358	382	396
Net profit (adj.)	390	413	358	382	396
EPS (sen)	30.3	32.1	27.9	29.7	30.8
PE (x)	11.7	11.0	12.7	11.9	11.5
P/B (x)	3.6	3.3	3.2	3.0	2.8
EV/EBITDA (x)	6.6	6.6	7.1	6.7	6.4
Dividend yield (%)	6.4	6.4	6.4	6.4	6.4
Net margin (%)	5.1	5.4	4.8	4.8	4.8
Net debt/(cash) to equity (%)	(27.4)	(26.2)	(19.6)	(20.3)	(20.9)
Interest cover (x)	n.a.	n.a.	598.3	172.0	143.3
ROE (%)	32.3	32.7	25.6	25.8	25.2
Consensus net profit	-	-	349	354	396
UOBKH/Consensus (x)	-	-	1.03	1.08	1.00

Source: Gas Malaysia Berhad, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM3.54
Target Price	RM3.25
Upside	-8.0%

COMPANY DESCRIPTION

Supplies natural gas to industries in Peninsular Malaysia.

STOCK DATA

GICS sector	Utilities
Bloomberg ticker:	GMB MK
Shares issued (m):	1,284.0
Market cap (RMm):	4,545.4
Market cap (US$m):	959.2
3-mth avg daily t'over (US$m):	0.3

Price Performance (%)

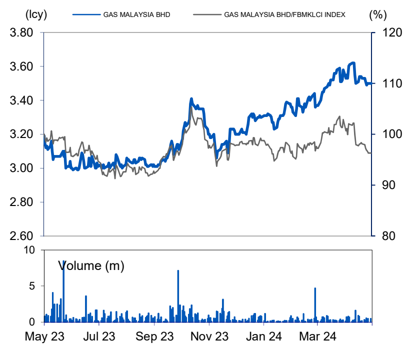
52-week high/low RM3.44/RM2.99

1mth	3mth	6mth	1yr	YTD
0.6	7.6	5.7	5.7	10.3

Major Shareholders	%
Anglo Oriental Annuities	30.9
Tokyo Gas	18.5
Petronas Gas	14.8

FY24 NAV/Share (RM)	1.12
FY24 Net Cash/Share (RM)	0.22

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **2024: A crucial year for GMES as customer contracts are up for renewal.** GMB currently commands an 80% share of the NG retail market. Naturally, a key risk for GMB is the potential loss of retail market share in the longer run. We expect GMB to enter negotiations by 4Q24 as the bulk of its industrial customer contracts are up for renewal. GMB recorded 1,050 industrial customers in Dec 23, with 38 new customers and five customers expanding their operations. GMB also lost 17 customers who terminated GMES' service.
- **Focusing on good customer service.** We expect GMB to focus on operational excellence. As of Dec 23, GMB recorded an impressive System Average Interruption Duration Index (SAIDI) of 0.004 minutes/customer. This is a measure of outage and is a vast improvement from 2022's 0.0786 minutes/customer. Also, GMB's response time to any outage was 23.87 minutes vs a year ago at 25.78 minutes. The improvement in operational efficiency will help create customer stickiness, especially now that contracts are up for re-negotiation in 2024.

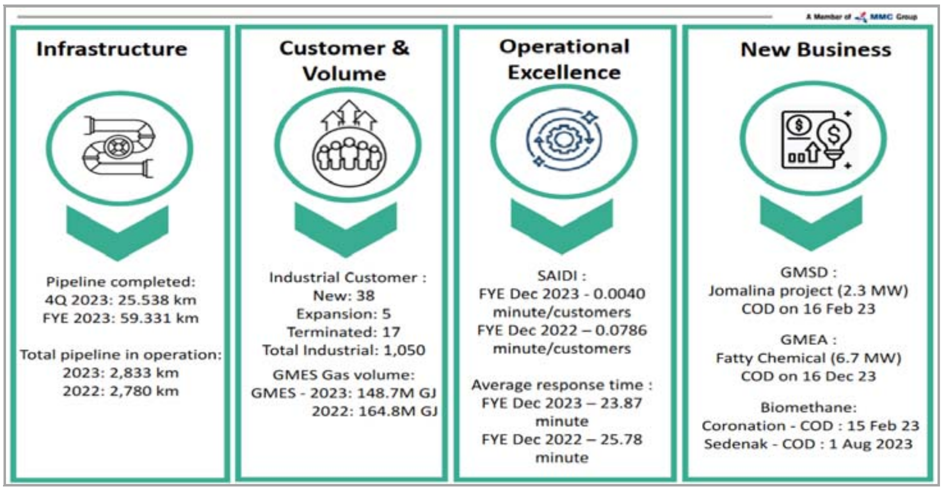
EARNINGS REVISION/RISK

- Earnings revision: None.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a DDM-based target price of RM3.25** (discount rate: 7.8%, growth rate of 2%). At our target price, the stock would trade at 12x 2024F net profit.

KEY HIGHLIGHTS

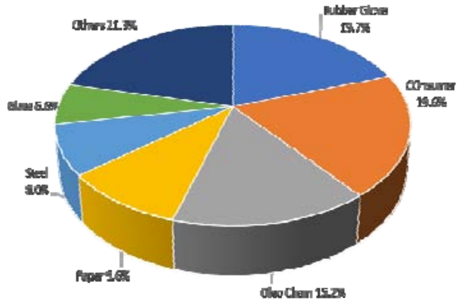


Source: GMB

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

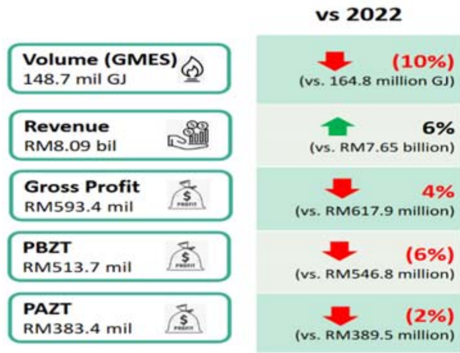
- **Environmental**
  - NG is among the cleanest forms of fossil fuels, emitting up to 50% less carbon dioxide than coal.
  - Apart from that, the group generates electricity through gas-powered combined heat and power systems (CHP) through its joint venture entities, which are highly efficient and produce less emissions. CHP systems utilise 32% less fuel and have 50% less annual carbon emissions than coal.
- **Social**
  - GMB contributed approximately RM467,785 to the following initiatives: a) back to school programme, b) flood assistance, c) partnership with Football Association of Selangor, and d) collaboration with Gibbons Conservation Society.
- **Governance**
  - Good company transparency along with an anti-bribery and anti-corruption policy.

INDUSTRIAL CUSTOMER BREAKDOWN



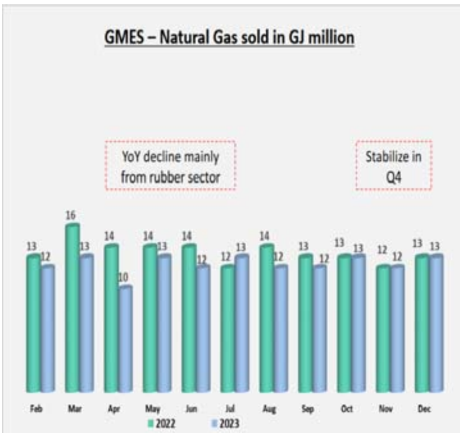
Source: GMB

2023 PROFIT RECORD



Source: GMB

2023 NG VOLUME TREND



Source: GMB

PROFIT & LOSS

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Net turnover	8,079	7,526	8,035	8,335
EBITDA	642	599	639	663
Deprec. & amort.	104	117	124	130
EBIT	539	481	516	533
Associate contributions	4	0	0	1
Net interest income/(expense)	1	(1)	(4)	(5)
Pre-tax profit	563	480	512	530
Tax	(130)	(122)	(130)	(134)
Minorities	0	0	0	1
Net profit	433	358	382	396
Net profit (adj.)	413	358	382	396

BALANCE SHEET

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Fixed assets	1,734	1,839	1,937	2,029
Other LT assets	107	107	107	107
Cash/ST investment	689	662	740	820
Other current assets	676	630	672	699
Total assets	3,206	3,237	3,456	3,655
ST debt	250	250	250	250
Other current liabilities	1,276	1,192	1,271	1,317
LT debt	80	130	180	230
Other LT liabilities	231	231	231	231
Shareholders' equity	1,368	1,434	1,523	1,627
Minority interest	0	0	0	0
Total liabilities & equity	3,206	3,237	3,456	3,656

CASH FLOW

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Operating	516	437	542	544
Pre-tax profit	514	480	512	530
Tax	(130)	(122)	(130)	(134)
Deprec. & amort.	104	117	124	130
Associates	(4)	0	0	(1)
Working capital changes	40	(38)	37	20
Other operating cashflows	(8)	0	0	0
Investing	(204)	(222)	(222)	(222)
Capex (growth)	(222)	(222)	(222)	(222)
Others	18	0	0	0
Financing	(214)	(242)	(242)	(243)
Dividend payments	(290)	(292)	(292)	(293)
Issue of shares	0	0	0	0
Proceeds from borrowings	89	50	50	50
Others/interest paid	(13)	0	0	0
Net cash inflow (outflow)	98	(27)	78	80
Beginning cash & cash equivalent	591	689	662	740
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	689	662	740	820

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	8.0	8.0	8.0	8.0
Pre-tax margin	7.0	6.4	6.4	6.4
Net margin	5.4	4.8	4.8	4.8
ROA	13.6	11.1	11.4	11.2
ROE	32.7	25.6	25.8	25.2
Growth				
Turnover	5.6	(6.8)	6.8	3.7
EBITDA	0.0	(6.8)	6.8	3.7
Pre-tax profit	3.0	(14.7)	6.6	3.5
Net profit	11.1	(17.2)	6.6	3.8
Net profit (adj.)	6.0	(13.2)	6.6	3.8
EPS	5.9	(13.2)	6.6	3.7
Leverage				
Debt to total capital	19.4	21.0	22.0	22.8
Debt to equity	24.1	26.5	28.2	29.5
Net debt/(cash) to equity	(26.2)	(19.6)	(20.3)	(20.9)
Interest cover (x)	n.a.	598.3	172.0	143.3

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