

COMPANY RESULTS

Gas Malaysia (GMB MK)

2Q23: In Line; Stock Offers Attractive Yield Of 7%

2Q23 net profit rose 3% qoq but fell 9% yoy to RM97.8m. This brings 1H23 net profit to RM192.9m (-3% yoy), which is within expectations. The stock has retraced on expectations of lower profits given lower NG prices for 2023 vs 2022. Against a backdrop of pedestrian earnings outlook over the next three years, we maintain our HOLD call with a lower target price of RM3.07. Downside will be supported by attractive dividend yield of 7%.

2023 RESULTS

Year to 31 Dec (RMm)	2023	2022	qoq % chg	yoy % chg	1H23	yoy % chg
Turnover	2,020.8	1,777.1	(17.2)	13.7	4,460.6	25.3
COGS	(1,869.2)	(1,617.6)	(18.6)	15.6	(4,164.8)	27.9
EBITDA	157.9	159.5	5.6	(6.2)	307.4	(1.9)
Pre-Tax Profit	131.9	144.1	4.1	(8.5)	258.5	(2.2)
Tax	(34.1)	(36.7)	8.0	(7.3)	(65.6)	(0.2)
Reported Net Profit	97.8	107.3	2.9	(8.9)	192.9	(2.9)
Core net profit	97.8	107.3	2.9	(8.9)	192.9	(2.9)

			+/- ppt	+/- ppt		+/- ppt
EBITDA Margin (%)	7.8	9.5	1.7	(1.7)	13.9	5.1
PBT Margin (%)	6.5	8.1	1.3	(1.6)	5.8	(1.6)
Net Margin (%)	4.8	6.0	0.9	(1.2)	4.3	(1.3)

Source: Gas Malaysia, UOB Kay Hian

RESULTS

• **1H23 results in line with expectations.** Gas Malaysia (GMB) reported 2Q23 core net profit of RM97.8m. This 9% yoy decline is a result of a 16% yoy drop in natural gas (NG) volumes sold by the group and associate losses (-RM1.3m vs RM0.9m in 2Q22). Sequentially, earnings were higher by 3% on the back of adjustment in internal gas cost consumption (leading to lower cost of sales and higher EBITDA margin). Overall, 1HFY23 core net profit of RM193m (-3% yoy) is in line with expectations. While 1H23 net profit accounts for 61% of our full-year projection, we expect a lower 2H23 profit contribution as a result of gradual decline in NG prices.

• **Dividends.** The group declared its first interim net DPS of 5.72 sen/share (1H22: 5.90 sen/share). We expect the group to pay out 85% of its net profit, translating to an attractive dividend yield of 7% at current share price levels.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	5,852	7,649	6,600	6,666	6,732
EBITDA	433	642	525	530	535
Operating profit	339	540	420	422	425
Net profit (rep./act.)	250	390	318	318	319
Net profit (adj.)	252	390	318	318	319
EPS (sen)	19.7	30.3	24.7	24.7	24.8
PE (x)	15.4	10.0	12.2	12.2	12.2
P/B (x)	3.4	3.0	2.9	2.8	2.7
EV/EBITDA (x)	8.3	5.6	6.8	6.8	6.7
Dividend yield (%)	5.9	8.5	6.9	6.9	7.0
Net margin (%)	4.3	5.1	4.8	4.8	4.7
Net debt/(cash) to equity (%)	25.5	(27.4)	(21.5)	(21.6)	(21.8)
Interest cover (x)	82.9	82.9	82.9	82.9	82.9
ROE (%)	22.6	32.3	24.4	23.5	22.8
Consensus net profit	-	-	360	335	350
UOBKH/Consensus (x)	-	-	0.88	0.95	0.91

Source: Gas Malaysia, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM3.02
Target Price	RM3.07
Upside	+1.7%
(Previous TP)	RM3.50)

COMPANY DESCRIPTION

Supplies natural gas to industries in Peninsular Malaysia.

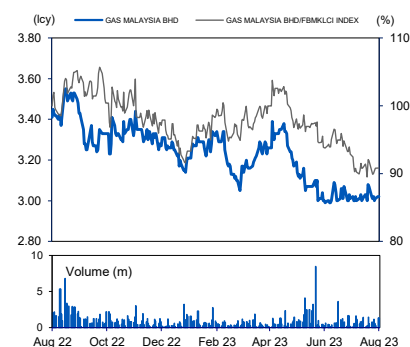
STOCK DATA

GICS sector	Utilities			
Bloomberg ticker:	GMB MK			
Shares issued (m):	1,284.0			
Market cap (RMm):	3,877.7			
Market cap (US\$m):	833.6			
3-mth avg daily t'over (US\$m):	0.6			
Price Performance (%)				
52-week high/low	RM3.55/RM2.99			
1mth	3mth	6mth	1yr	YTD
0.3	(4.7)	(9.3)	(11.2)	(7.4)

Major Shareholders

	%
Anglo Oriental Annuities	30.9
Tokyo Gas – Mitsui	18.5
Petronas Gas	14.8
FY23 NAV/Share (RM)	1.03
FY23 Net Debt/Share (RM)	0.22

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **2Q23 NG volume fell 16% yoy and 3% qoq.** Rubber glove manufacturing and consumer products account for 21% and 19% of total NG volume sold in 1H23. To date, GMB has added 16 new customers but also saw 10 terminations. Total industrial customers stand at 1,035.
- **2Q23 revenue rose 14% yoy but fell 17% qoq to RM2,021m.** This reflected lower NG volume sold in the quarter. The yoy growth reflects higher NG prices. For 2023, management expects NG selling prices to remain strong at least for the first nine months of the year. 4Q is expected to show lower NG prices, as a result of easing global energy prices.
- **2Q23 EBITDA fell 6% yoy but rose 5% qoq to RM158m.** The yoy decline is due to lower NG sold, higher overheads and opex. The sequential growth is due to lower internal gas consumption for the quarter. Together with associate losses (due to reversal of RM1.4m), net profit for the quarter was lower by 9% yoy but rose 3% qoq.





EARNINGS REVISION/RISK

- No change to earnings.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a lower DDM-based target price of RM3.07** (discount rate: 7.8%, growth rate lowered from 2% to 1% in view of normalisation in net profit over 2023-25). At our target price, the stock would trade at 14x 2024F net profit and offer a 7% dividend yield.

2023 KEY HIGHLIGHTS

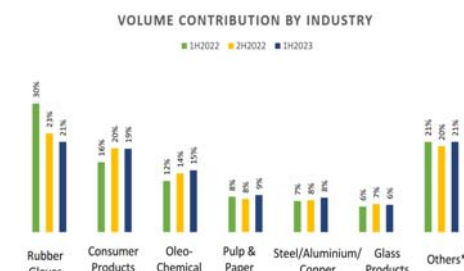
Infrastructure	Customer & Volume	Operational Excellence	New Business
 <p>Pipeline completed: Q2 2023: 8.615 km YTD 2023: 18.753 km</p> <p>Total pipeline in operation: 2023: 2,791 km 2022: 2,780 km</p>	 <p>Industrial Customer : New: 16 Expansion: 2 Terminated: 10 Total Industrial: 1,035</p> <p>GMB Gas volume: 2023: 72.7M GJ 2022: 87.2M GJ</p>	 <p>SAIDI : YTD June 2023 - 0.0012 minute/customers YTD June 2022 - 0.0668 minute/customers</p> <p>Average response time : YTD June 2023 - 24.83 minute YTD June 2022 - 24.93 minute</p>	 <p>GMSD : Jomalina project (2.3 MW) COD on Q1 2023</p> <p>GMEA : Fatty Chemical (6.7 MW) COD targeted in Dec 23</p> <p>Biomethane: Coronation - COD : Q1 2023 Sedenak - COD : Q2 2023</p>

Source: GMB

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

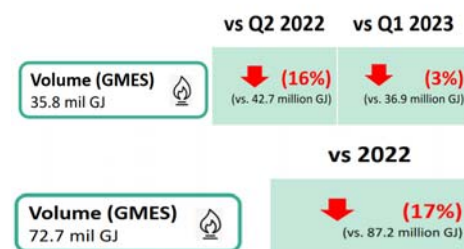
• Environmental <ul style="list-style-type: none"> - NG is among the cleanest forms of fossil fuels, emitting up to 50% less carbon dioxide than coal. - Apart from that, the Group generates electricity through gas-powered combined heat and power systems ("CHP") through its JV entities, which are highly efficient and produce less emissions. CHP systems utilise 32% less fuel and have 50% less annual carbon emissions than coal.
• Social <ul style="list-style-type: none"> - 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 <ul style="list-style-type: none"> - Good company transparency along with an anti-bribery and anti-corruption policy.

GMB INDUSTRIAL CUSTOMER BREAKDOWN



Source: GMB

NG VOLUME



Source: GMB

PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	7,649.4	6,599.7	6,665.7	6,732.4
EBITDA	642.4	524.8	530.0	535.3
Deprec. & amort.	102.0	104.8	107.5	110.0
EBIT	540.4	419.9	422.5	425.3
Associate contributions	4.7	0.0	0.0	0.0
Net interest income/(expense)	1.7	3.7	1.3	0.4
Pre-tax profit	546.7	423.6	423.8	425.7
Tax	(157.2)	(105.9)	(105.9)	(106.4)
Minorities	0.0	0.0	0.0	0.0
Net profit	389.5	317.7	317.8	319.2
Net profit (adj.)	389.5	317.7	317.8	319.2

BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	1,616.0	1,661.2	1,703.7	1,743.6
Other LT assets	110.5	110.5	110.5	110.5
Cash/ST investment	591.3	576.9	638.4	702.6
Other current assets	829.4	716.2	723.4	730.6
Total assets	3,147.3	3,064.9	3,175.9	3,287.3
ST debt	161.2	161.2	161.2	161.2
Other current liabilities	1,399.7	1,218.1	1,229.9	1,241.8
LT debt	80.0	130.0	180.0	230.0
Other LT liabilities	228.1	228.1	228.1	228.1
Shareholders' equity	1,278.3	1,327.5	1,376.8	1,426.2
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	3,147.3	3,064.9	3,175.9	3,287.3

CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	658.5	354.1	430.0	434.0
Pre-tax profit	546.7	423.6	423.8	425.7
Tax	(157.2)	(105.9)	(105.9)	(106.4)
Deprec. & amort.	102.0	104.8	107.5	110.0
Associates	(4.7)	0.0	0.0	0.0
Working capital changes	95.9	(68.4)	4.7	4.7
Other operating cashflows	75.7	0.0	0.0	0.0
Investing	232.3	(150.0)	(150.0)	(150.0)
Capex (growth)	(185.4)	(150.0)	(150.0)	(150.0)
Others	417.7	0.0	0.0	0.0
Financing	(342.4)	(218.5)	(218.6)	(219.8)
Dividend payments	(241.0)	(268.5)	(268.6)	(269.8)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(90.0)	50.0	50.0	50.0
Others/interest paid	(11.4)	0.0	0.0	0.0
Net cash inflow (outflow)	548.4	(14.4)	61.4	64.2
Beginning cash & cash equivalent	42.9	591.3	576.9	638.4
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	591.3	576.9	638.4	702.6

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	8.4	8.0	8.0	8.0
Pre-tax margin	7.1	6.4	6.4	6.3
Net margin	5.1	4.8	4.8	4.7
ROA	13.0	10.2	10.2	9.9
ROE	32.3	24.4	23.5	22.8
Growth				
Turnover	30.7	(13.7)	1.0	1.0
EBITDA	48.4	(18.3)	1.0	1.0
Pre-tax profit	65.5	(22.5)	0.0	0.4
Net profit	56.1	(18.4)	0.0	0.4
Net profit (adj.)	54.3	(18.4)	0.0	0.4
EPS	54.3	(18.5)	0.0	0.4
Leverage				
Debt to total capital	15.9	18.0	19.9	21.5
Debt to equity	18.9	21.9	24.8	27.4
Net debt/(cash) to equity	(27.4)	(21.5)	(21.6)	(21.8)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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