

### **GAS MALAYSIA BHD**

By Maybank IB Research

Hold

**Target price: RM3.20**

THE confirmation of the scheduled second half of 2017 (2H17) base tariff hike again reflects a functional tariff framework.

The sizable 2H17 tariff rebate suggests that Gas Malaysia possibly over-recovered on gas costs in the second quarter of 2017.

There is no change to Maybank IB Research's earnings forecasts; maintain hold with an unchanged target price of RM3.20.

Gas Malaysia confirmed that the average base tariff for 2H17 would be raised by 5% to RM28.05 per million British Thermal Units (mmBTU) as scheduled.

Recall that Gas Malaysia had, in December 2016, announced its base tariff schedule for the first regulatory period of 2017 to 2019.

This would imply that Gas Malaysia's cost of subsidised gas has also been raised by RM1.50 per mmBTU. It also announced a tariff rebate of RM1.59 per mmBTU for 2H17, compared with RM0.40 per mmBTU in 1H17.

This means the average net tariff of RM26.46 per mmBTU for 2H17 represents a mere 0.57% increase.

It had accumulated RM98mil of buffer in the form of gas-cost over-recoveries at end-2016.

This buffer would have since been reduced with the RM0.40 per mmBTU rebate for 1H17 (estimated at RM30mil to RM35mil) and the underrecovery of gas cost in 1Q17.

The offer of a larger rebate in 2H17 implies that Gas Malaysia had either over-recovered on gas cost in 2Q17, or that there was possibly a retrospective adjustment of the gas-cost pass-through balance.

