

# Gas Malaysia seen favourable on strong demand

## ► Recommendation: Buy

**TARGET Price: RM2.87**  
by MIDF Research Sdn Bhd  
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## Investment Highlights

- GAS Malaysia Bhd's (GMB) 2Q15 earnings grew by +18.1% QoQ to RM33.7m.
- Revenue increased by +17.3% YoY and +4.4% QoQ respectively to RM795m — highest level since listing.
- Depressed stock price presents buying opportunity for high dividend yield.
- Upgrade to 'Buy' with an unchanged TP of RM2.87 per share premised on strong sales, good dividend yield and strong potential upside.

**Strong sales volume.** GMB's 2Q15 revenue expanded by +17.3% YoY to RM795m. This is the highest quarterly revenue achieved since its listing in mid-2012. The strong revenue is attributable to higher volume of gas sold and new customer acquired during the period. Cumulative 6M15 revenue also expanded by a very strong +23.7% YoY to RM1.556b compared to RM1.258b a year earlier.

**Earnings stabilised based on new tariff mechanism framework.** Its 2Q15 earnings appear to have stabilised following the introduction of the new tariff mechanism framework causing cost of goods sold to be significantly higher. The 2Q15 gross margins have contracted by -4.7 percentage points to 6.3% compared to 11.1% in 2Q14. However, this shift in profit

margin from high single-digits to a new normal of low-to-mid single digits has been anticipated.

**Earnings in line with expectations.** Its 6M15 cumulative earnings of RM62.2m met ours and consensus expectations, accounting for 49.1% and 46.6% of full-year earnings estimates respectively.

**Commendable dividend yield.** GMB has a historical dividend payout ratio of 100%. As such, based on current price, we are projecting a commendable dividend yield of 4.6% and 4.8% for FY15 and FY16 respectively.

**Upgrade to 'Buy'.** We are upgrading our stance on GMB to 'Buy' (previously 'Neutral') with an unchanged target

price (TP) of RM2.87 per share. Our TP is based on Gordon Growth Model with a risk-free rate (rfr) assumption of 3.9%, market-risk premium of 6.1%, beta of 0.6x and a terminal growth rate of 4%.

**Growth in gas volume sold and new customers to sustain.**

We are now recommending investors to go long on GMB to benefit from the recent share price slump which resulted in more attractive dividend yields.

The strong demand in gas volume sold is expected to be sustained and new customers base is anticipated to increase.

In addition, the company noted that they are currently in negotiations to determine the basis of which the gas cost pass-through mechanism is to be reflected in the current tariff regime.

GMB further noted that the final outcome of the discussions may impact the extent of gas costs for the volume supplied in excess of the regulated supply that are to be reflected in the current tariff structure in terms of the quantum and timing of the tariff revisions in the future.

## ► GAS MALAYSIA BHD

FYE DEC	FY13	FY14F	FY15F	FY16F
REVENUE (RM mil)	2,317.2	2,773.5	3,058.5	3,617.1
NET PROFIT (RM mil)	123.0	167.6	126.5	131.1
EPS (sen)	13.4	13.1	9.9	10.2
PER (x)	15.9	16.2	21.5	20.8