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Brokerages: Gas tariff hike in the offing

PETALING JAYA: Gas prices in the industrial sector is expected to see a further hike in the July 2016 review in line with the subsidy rationalisation plan, according to UOB Kay Hian Research.

"We expect the Government to increase industrial natural gas prices by another RM1.50 per million British thermal units (mmbtu) to RM27.03 per mmbtu) in the June 2016 bi-annual review.

"To recap, the Government raised average natural gas prices to the industrial (non-power) sector by 17% from RM21.80 per mmbtu to RM25.53 per mmbtu effective Jan 2016," it said.

The research house said the tariff revision was in line with the national subsidy rationalisation plan whereby the adjustment to piped natural gas prices, which are currently subsidised, would take place every six months until natural gas prices reach parity with liquefied natural gas (LNG).

Today, LNG is hovering around RM30-35 per mmbtu compared with RM25.53 per mmbtu for natural gas.

"We gather from a recent Energy Commission meeting that a third-party access (TPA) framework for the gas sector is underway. Likely to be tabled to the parliament in the second quarter 2016, a TPA framework will help liberalise the gas market and provide scope for 'cheaper' gas supply from third-party oil majors like Shell, Mitsui etc," UOB Kay Hian said.

More importantly, the research firm said the TPA would see Gas Malaysia Bhd benefiting from higher natural gas volumes in the longer run (from the current projection of 5%-6% natural gas volume growth, limited by declining gas reserves from Kertih and expensive importation of LNG by Petronas).

UOB Kay Hian said the incentive based regulatory (IBR) framework provided Gas Malaysia good earnings visibility as it would continue to enjoy a stable gas profit margin of RM1.58 per mmbtu in 2016. "As such, Gas Malaysia remains earnings and cashflow-neutral despite changes in natural prices announced by the Government," it said.

The research house has maintained a "buy" call on Gas Malaysia with a target price of RM2.75. "At our target price, the stock would trade at 23.8 times 2016 forecast earnings per share. The stock offers a relatively attractive dividend yield of 4.7% for 2016, based on 100% dividend payout against a backdrop of healthy balance sheet (net cash of 18 sen per share) and stable earnings," it added.