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Gas Malaysia rated a 'hold'

Analyst Reports

GAS MALAYSIA BHD
By Maybank Kim Eng
Hold
Target Price: RM3.50

GAS Malaysia Bhd announced that the Government has approved a 20% increase in blended gas tariffs to RM19.32 per million British thermal unit (mmBtu) from RM16.07 mmBTU, effective May 1.

Gas Malaysia noted that its cost of gas would also be raised to reflect both the cost of regulated and liquified natural gas (LNG)-sourced gas.

However, no specific details on both the combined gas cost and Gas Malaysia's future spreads were provided. Under the terms of Gas Malaysia's gas supply agreement with Petronas, Gas Malaysia's supply mix was to begin changing in 2013, with costlier LNG-sourced gas progressively from the new Malacca regasification plant accounting for a greater proportion of total gas supply.

The most significant changes would take place in 2014 and 2015, where the quota for regulated gas would decline from 382 million std cu ft per day (mmscfd) in 2013 to 300 mmscfd in 2015, while LNG-sourced gas would increase from 40 mmscfd to 192 mmscfd in the same period.

Gas Malaysia has yet to announce its cost of LNG-sourced gas.

Maybank Kim Eng said it assumed the cost to be at RM41.68 mmBTU (which represents the price reflected in electricity tariffs), and the margin spread that Gas Malaysia earned to be consistent with that of regulated gas at RM2.02 mmBTU.

KUALA LUMPUR KEPONG BHD (KLK)
By Affin Securities Research
Rating: Reduced
Target Price: RM21.89

KUALA Lumpur Kepong, via KLK Agro Plantation Ltd, had on April 11 entered into a joint venture agreement (JVA) with Equatorial Palm Oil plc (EPO), a subsidiary of KLK).

Equatorial Biofuels (Guersney) Ltd (EBGL, a unit of EPO) and Liberian Palm Developments Ltd (LPD, half owned by KLK and EPO) are to govern the funding arrangement, management and operations of the joint venture (JV) company and its subsidiaries.

Pursuant to the JVA, KLK Agro and EBGL will each subscribe for US$7.5mil (RM24mil) of the share capital in proportion to the respective shareholding in the JV company. Furthermore, KLK has agreed to provide any further lending required by the company up to a maximum of US$20.5mil (RM65.6mil) which may, at the discretion of KLK, be provided by way of debt or preferential equity financiers which will incur interests or preferential dividends.

Under the JVA, the partners agree to appoint Taiko Plantations' of KLK, to manage and conduct the operation of the JV company at a management fee of US$1mil (RM3.2mil) per annum for the first four years from the date of signing of the management agreement.

Thereafter, the fee is equivalent to 2% of the gross proceeds of palm products achieved by the JV company.

Affin Securities Research said it maintained a price target of RM21.89 with the 18 times 2014's earnings per share and kept the "reduced" rating based on current prices and based on its 2014 to 2016 crude palm oil forecast of RM2,700 per metric tonne.

With the pending development and maturity of more areas, it said it did not expect the JVA to have any significant impact on Affin's financial (FY14-FY16) forecasts.