Gas Malaysia's tariff hike to have positive impact on its spread

by NUR HAZIQAH A MALEK

HIGHER gas costs would have a positive impact on Gas Malaysia Bhd's spread and its retail margin, Maybank Investment Bank Bhd (Maybank IB) analyst Tan Chi Wei noted in a research note yesterday.

"However, the possible volume shortfall from ongoing movement restrictions would have an offsetting impact on its earnings," Tan warned.

Gas Malaysia's third quarter 2021 (3Q21) tariff hike represents another increase (+11.8%) from 2Q21 and is likely due to an increase of its gas cost, he added.

The investment bank maintains a 'Hold' call on the gas reticulator with an unchanged discounted cashflow based RM2.80 target price (TP) although it marginally prefers Petronas Gas Bhd (PetGas) which is rated a 'Hold' with a current price of RM15.60 and TP of RM17.20 among the gas utilities universe.

"Gas Malaysia announced net tariff for 3Q21 would be raised to RM30.03 per million British thermal units (mmBTU). The tariff includes a surcharge of 62 sen per mmBTU, which is unchanged quarter-on-quarter (QoQ) and a distribution tariff of RM2.05 per mmBTU, which is also unchanged QoQ," Tan wrote.

He added the key regulatory inputs such as purchase price, regulatory weighted average cost of capital and retail margin all remain undisclosed.

"The higher gas tariff in 3Q21 was likely due to higher gas cost from Petroliam Nasional Bhd (Petronas), given both the distribution tariff and tariff surcharge were unchanged QoQ.

"Liquefied natural gas-indexed gas prices published by the regulator were last updated in April 2021, but should have risen further in tandem with crude oil prices," he said.

Aside from directly impacting the end tariff, higher gas cost helps raise retail margin which is derived from an undisclosed percentage of gas cost and thus positive for Gas Malaysia.

Tan's earnings forecast for Gas Malaysia and RM2.80 TP remain unchanged.

"Every five sen per mmBTU change to our spread assumption (which is RM2.25 per mmBTU) would move our FY21 net profit forecast by 3.8%.

"Gas volume would likely be pressured as the movement restrictions drag on, thus, the likelihood of positive earnings surprises diminishes in our view," he said.

The midstream and downstream energy companies are now viewed as enablers of fossil fuels and are facing some environmental scrutiny.

Nevertheless, gas is the cleanest of fossil fuels and is thus deemed as more palatable for the environment.

"The main uses of gas in Malaysia are for electricity generation and industrial heating," Maybank IB stated.

Due to the limited developmental potential of renewables and the prevailing structure of power purchase agreements, gas will continue to feature very prominently in Malaysia for at least the next decade, it added.

As such, the risk of stranded assets is low given Gas Malaysia's almost monopolistic position in gas distribution and the company is unlikely to deviate from its gas-centric business in the foreseeable future.

Maybank IB noted Gas Malaysia is proactive with capital management, having consistently maintained a dividend payout above its stated policy since listing.

By far, there have not been any questionable related-party transactions of note, with Gas Malaysia sourcing its gas at regulated prices from Petronas, the parent of strategic shareholder PetGas.