'Gas Malaysia will continue to preserve operational efficiency'

Sharon Kong

KUCHING: Gas Malaysia Bhd's (Gas Malaysia) earnings are fairly resilient, with analysts believing that the group will continue to be vigilant in preserving operational efficiency to remain competitive in the local gas market while pursuing opportunities to expand its operations.

The research arm of Kenanga Investment Bank Bhd (Kenanga Research) recapped that year on year (y-o-y), the fourth quarter of financial year 2021 (4QFY21) core profit fell six per cent from RM76.2 million despite revenue rising seven per cent.

"This was largely due to higher revenue cap recognised last year as it was only adjusted in 4QFY20 in FY20 whereas the lag in revenue cap was removed and adjusted quarterly instead in FY21," Kenanga Research said.

"Meanwhile, the increase in revenue was largely driven by an eight per cent rise in gas selling price which was offset by a two per cent decline in gas volume.

"Year to date (YTD), FY21 core profit rose 13 per cent to RM251.4 million from RM223.1 million owing to higher gas volume by one per cent and improved margin spread.

"However, FY21 revenue fell 12 per cent largely due to lower gas selling price of circa RM28.86 per metric million British Thermal unit (mmbtu) versus RM33.65 per mmbtu previously.

"With sales volume back to pre-Covid-19 level since 4QFY20 and any short-fall of demand adjusted under revenue cap quarterly, Gas Malaysia's earnings are fairly resilient."

As such, it will be a volume play of which Kenanga Research projected a three per cent growth.

On the other hand, the consistent strong margin spread in the past three quarters, and coupled with management's guidance it will continue in FY22, the research arm raised FY22 total margin spread assumption to RM2.30 per mmbtu which leads to a five per cent upgrade in FY22 earnings forecast.

"We also launched FY23 forecasts with earnings per share (EPS) to grow seven per cent based on RM2.30 per mmbtu margin spread and three per cent volume growth."

Kenanga Research's net dividend per share (NDPS) assumption is based on the unchanged 90 per cent payout ratio.

Meanwhile, the research arm of MIDF Amanah Investment Bank Bhd (MIDF Research) gathered that Bank Negara Malaysia (BNM) had forecasted Malaysia's 2022 economic growth to show improvement by 5.5 to 6.5 per cent in tandem with the reopening of all economy sectors as all states convert into Phase 4 of the National Recovery Plan.

"Nonetheless, slower global economic growth and the possibility of new Covid-19 variant clouded Gas Malaysia's economic prospects for FY22," MIDF Research said.

"Based on the aforesaid risks, coupled with the challenges posed by the natural gas industry's full market liberalisation, we believe that Gas Malaysia will continue to be vigilant in preserving operational efficiency to remain competitive in the local gas market while pursuing opportunities to expand its operations.

According to MIDF Research, in comparison to Europe, Asian natural gas has been selling at a substantial premium.

"Nonetheless, due to a tight supply of natural gas in Europe, more-so with the current geopolitical risk in the region, prices have risen sharply in 2022."

Natural gas price will continue to rise in tandem with the oil price rally, which would raise retail margin and subsequently contribute to Gas Malaysia's FY22 earnings in the near term.

"However, uncertainties pertaining to the prolonged Covid-19 and outages of production and export on natural gas from demand destruction and unfavourable weather would continue to be challenges to the group's future performance.

"Additionally, the government in the 12th Malaysia Plan had outlined natural gas as the supporting catalyst towards the net zero carbon emission initiative.

"Despite the declining sentiment on energy transition globally over the enticing oil price hike, natural gas is expected to play a role in the cleaner energy movement and hence we opine that the support for natural gas in the local front would contribute greatly to Gas Malaysia in the long term."