AFFIN HWANG CAPITAL

Out think. Out perform.

Improved operations lead to higher topline

Despite recording a stronger revenue in 1Q17, core earnings fell 11.6% yoy to RM32.6m. GMB has approved a final dividend for 2016 of 4.86 sen, bringing its full-year DPS to 12.86 sen, which implies a 100% payout ratio. Management is targeting 3.5-4% sales volume growth in 2017. We maintain our HOLD rating and DDM-based TP of RM2.99.

1Q17 in-line with expectations

GMB reported 1Q17 revenue of RM1.19bn and headline net profit of RM33.7m. After stripping off a RM1.1m write-back on trade receivables, core net profit came in at RM32.6m, which is in line with our and consensus full-year estimates at 20%. 1Q17 revenue rose 23.5% yoy attributable to higher gas sales volume which increased 9% yoy from 39.7m MMbtu to 43.1m MMbtu coupled with an upward revision in the natural gas tariff. EBITDA margin fell 1.3ppts to 4.7%, which contributed to the decline in core earnings. The effective tax rate was higher in 1Q17 at 25.7% vs. 21% in 1Q16 which partially resulted in the lower earnings recorded.

Operation outlook

GMB announced that it would set aside RM500m in capital spending for its pipeline network in the next 3 years for expansion, which includes the Natural Gas Distribution System network in Peninsular Malaysia. Sales volume is expected to grow by 3.5–4%, vis-à-vis a 3% growth in 2016.

Maintain HOLD with TP of RM2.99

We fine-tune our 2017-19E earnings slightly following the release of the updated 2016 audited numbers. We maintain our **HOLD** rating and DDM-based 12-month target price of RM2.99. GMB continues to offer a decent dividend yield of 4.1% for 2017E with a minimum dividend-payout policy of 75%.

Risks to our call

Key upside risks include higher-than-expected sales volume and better margins. Key downside risks would be an economic recession affecting demand for natural gas and start-up losses from the group's joint ventures.

Earnings & Valuation Summary

FYE 31 December	2015A	2016A	2017E	2018E	2019E
Revenue (RMm)	3,619.0	4,053.0	4,432.4	4,563.9	4,699.4
EBITDA (RMm)	208.6	261.6	252.2	261.0	269.4
Pretax profit (RMm)	143.6	212.8	213.1	221.6	226.5
Net profit (RMm)	106.2	165.1	164.5	172.4	177.1
EPS (sen)	8.3	12.9	12.8	13.4	13.8
PER (x)	37.5	24.1	24.2	23.1	22.5
Core net profit (RMm)	124.1	165.1	164.5	172.4	177.1
Core EPS (sen)	9.7	12.9	12.8	13.4	13.8
Core EPS growth (%)	(25.9)	33.0	(0.4)	4.8	2.7
Core PER (x)	32.1	24.1	24.2	23.1	22.5
Net DPS (sen)	8.3	12.9	12.8	13.4	13.8
Dividend Yield (%)	2.7	4.1	4.1	4.3	4.4
EV/EBITDA (x)	18.1	13.5	13.6	13.2	12.9
Chg in EPS (%)			0.1	0.1	0.2
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

Gas Malaysia

GMB MK
Sector: Oil & Gas

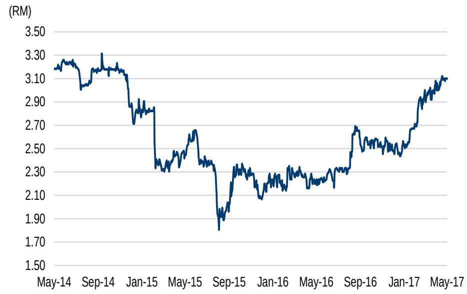
RM3.10 @ 9 May 2017

HOLD (maintain)

Downside: 3.5%

Price Target: RM2.99

Previous Target: RM2.99



Price Performance

	1M	3M	12M
Absolute	0.6%	12.7%	34.2%
Rel to KLCI	-0.8%	7.7%	24.0%

Stock Data

Issued shares (m)	1,284.0
Mkt cap (RMm)/(US$m)	3980.4/915.5
Avg daily vol - 6mth (m)	0.7
52-wk range (RM)	2.23-3.15
Est free float	13.8%
BV per share (RM)	0.75
P/BV (x)	4.12
Net cash/ (debt) (RMm) (1Q17)	311.1
ROE (FY17E)	16.0%
Shariah Compliant	Yes

Key Shareholders

Anglo Oriental Annuities	30.9%
Tokyo Gas Mitsui	18.5%
Petronas Gas	14.8%

Source: Affin Hwang, Bloomberg

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Fig 1: Results comparison

FYE 30 Dec (RM m)	1Q16	4Q16	1Q17	qoq % chg	yoy % chg	Comments
Revenue	961.0	1,050.0	1,187.0	*13.0*	*23.5*	Revenue increased by 23.5% yoy, driven by higher gas sales volume and an upward revision in gas tariff.
Op costs	(903.4)	(972.0)	(1,131.2)	*16.4*	*25.2*	
EBITDA	57.7	78.0	55.8	*(28.4)*	*(3.1)*	
EBITDA margin (%)	*6.0*	*7.4*	*4.7*	*-2.7ppt*	*-1.3ppt*	
Depn and amort	(14.4)	(14.7)	(15.0)	*2.0*	*4.4*	
EBIT	43.3	63.3	40.9	*(35.5)*	*(5.6)*	
EBIT margin (%)	*4.5*	*6.0*	*3.4*	*-2.6ppt*	*-1.1ppt*	
Int expense	(1.4)	(1.2)	(0.6)	*(48.0)*	*(55.2)*	
Int and other inc	3.4	3.9	3.6	*(8.0)*	*4.6*	
Associates	(0.1)	(0.6)	0.2	*(140.8)*	*271.9*	
EI	(5.5)	2.4	1.1	*n.m*	*n.m*	**1Q17** recognised a RM1.1m trade receivable write-back, **4Q16** saw a RM2.7m trade receivable write-back and RM0.3m impairment, **1Q16** had a trade receivable impairment of RM5.5m
Pretax profit	**39.7**	**67.8**	**45.2**	***(33.4)***	***13.9***	
Core pretax	45.2	65.4	44.1	*(32.7)*	*(2.5)*	
Tax	(8.3)	(16.6)	(11.5)	*(30.7)*	*38.2*	
Tax rate (%)	*21.0*	*24.5*	*25.5*	*1ppt*	*4.5ppt*	
MI	0.0	0.4	0.1			
Net profit	**31.4**	**51.6**	**33.7**	***(34.6)***	***7.5***	
EPS (sen)	2.4	4.0	2.6	*(34.6)*	*7.5*	
Core net profit	**36.9**	**49.2**	**32.6**	***(33.7)***	***(11.6)***	Core net profit came in line with our and consensus expectations.

Source: Affin Hwang, Company

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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