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Gas Malaysia stronger than expected

Gas Malaysia Bhd
(Feb 20, RM2.69)

Upgrade to trading buy at RM2.62 with a target price of RM2.86:

Year-on-year (y-o-y), GMB's bottom line has dropped by 28.9% to RM163 million as a result of the tariff revision in June 2011. GMB's buy-sell spread for LNG was reduced to RM2.02 per million British thermal units (mmbtu) at the time, but revenue for financial year 2012 (FY12) increased by 6.3% due to higher average selling prices on the back of a 2.2% volume growth. The better than expected performance was also fuelled by a better realised gross margin of 11.2% (FY11: 16.1%), against the 10.1% we estimated, due to better performance of non-LNG businesses and lower associated operating expenditure (opex). No dividend was declared.

We revise our FY13 earnings upwards by 1.7% and by 1.6% for FY14 given the stronger than expect results. Our model's key assumptions are: (i) 9% LNG volume growth in FY13 and FY14 on the back of progressive intake of additional LNG supply; (ii) tariff revision in June which will add five sen per mmbtu into gross margins for LNG; and (iii) lower opex.

At our current valuation, the stock is potentially generating a total annual return of 14.2%. We upgrade our call to "trading buy" at a discounted cash flow valuation of RM2.86. Given the sensitivity of the company to the general election, we are expecting price performance to be unexcited in near term and see any weakening in price as an attractive accumulation opportunity. — *BIMB Securities Research, Feb 20*

Gas Malaysia Bhd					
FYE Dec (RM mil)	2010	2011	2012E	2013E	2014E
Turnover	1,807.5	2,000.2	2,125.3	2,496.9	3,647.2
Ebit	380.7	285.0	206.2	218.5	250.3
Pre-tax profit	388.4	294.7	214.1	225.6	258.0
Net profit	298.3	229.2	162.8	171.5	196.1
EPS (sen)	23.2	17.8	12.7	13.4	15.3
PER (x)	11.3	14.7	20.7	19.6	17.2
DPS (sen)	23.2	16.1	12.7	13.4	11.5
Div yield (%)	8.9	6.1	4.8	5.1	4.4
NTA/share (RM)	0.9	0.8	0.8	0.8	0.8
Ebit margin (%)	21.1	14.2	9.7	8.8	6.9
Pre-tax margin (%)	21.5	14.7	10.1	9.0	7.1
Effective tax rate (%)	(23.2)	(22.2)	(23.9)	(24.0)	(24.0)
ROE (%)	25.5	16.1	17.0	18.6	17.5
ROA (%)	18.5	11.0	11.0	11.3	12.4
Net gearing (x)	NC	NC	NC	NC	NC

Source: BIMB Securities Research