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Gas Malaysia's sales volume expected to continue to expand in FY19 – analysts

KUALA LUMPUR: Gas Malaysia Bhd's (Gas Malaysia) sales volume is expected to continue to expand in the financial year 2019 (FY19), analysts say.

In a report, the research team at MIDF Amanah Investment Bank Bhd (MIDF Research) reiterated its view that gas sales volume for FY19 would continue to sustain and register year-over-year growth.

It noted that its gas volume growth projection remains between five to 5.5 per cent, similar to that of FY18, premised on the current resilient national GDP growth for 2019.

It also believed that its new customer acquisition is expected to drive its growth.

"While we opine that FY19F's gas volume sold will sustain at current level for the remaining of the year, the management (Gas Malaysia) has recently guided that FY20F will see growth coming in from the increase in volume of gas sold in-line with its recently acquired customers. Our recent meeting with the ,anagement signals that growth in the gas sales volume will continue to be driven primarily by rubber, oleo-chemical, consumer products and glass manufacturing industries. Hence, we are expecting a 6.3 per cent y-o-y increase in earnings per share (EPS) due to this," MIDF Research said.

In a separate note, Kenanga Investment Bank Bhd's research team (Kenanga Research) said, Gas Malaysia i in the final year of RP1 before the new RP2 is implemented next January.

"Given the case of Tenanga Nasional Bhd (TNB), which saw its rate of return on RAB fell to 7.3 per cent in RP2 from 7.5 per cent in RP1, fears of Gas Malaysia facing the same fate have been depressing the stock. However, management believes it should be awarded a higher rate of return given higher risk of demand. In any case, a 0.2 per cent reduction will not have any material impact to earnings, amounting to RM3.8 million based on RM1.9 billion RAB in FY19.

"As such, volume growth is vital to its bottomline as a 0.2 per cent reduction is unlikely to exert a big impact on its margin spread of RM1.80 to RM2 per mmbtu which it had maintained near to RM2 per mmbtu in the past two financial years," it explained.

On Gas Malaysia's first nine months of FY19 (9MFY19) results, Kenanga Research said, it missed forecasts slightly with its core profit of RM132.2 million. This was due to the losses incurred in both 2QFY19 and 3QFY19, it said, from 66 per cent-owned JV company Gas Malaysia Energy Advance dsSdn Bhd (GMEA) which was due to loan-hedging costs.

"Post-results, we trimmed FY19 forecast by two per cent mainly on GMEA losses and higher interest assumption but keep FY20 estimates unchanged. Although there is uncertainty over the margin spread in the new RP2, we remain optimistic on its steady volume growth while there is a new source of income arising from retail margin under the TPA structure.

"We believe the market should have priced in the uncertainty as its share price has been hovering at the

current level for the past one year despite improving results," it said.