Gas Malaysia (GMB MK)

Near-Term Earnings Weakness Due To Timing Of NG Prices

HOLD (Maintained)

Share Price	RM5.25
Target Price	RM6.00
Upside	14.3%

Analyst(s)
Chong Lee Len
leelen@uobkh.com
(603) 2147 1992

Highlights

- We expect 1H26 net profit to fall 10% yoy against potentially weak 2Q26 results. This is due to: a) lower NG prices in 2Q26, b) higher staff and administrative costs, and c) marginally lower returns on regulated assets.
- The sharp spike in global oil prices due to the Middle East tension will lead to higher NG prices from 4Q26 onwards. This suggests a strong finish for 2026 and spillover of higher NG prices into 2027.
- We trim 2026 net profit by 7% to pencil in higher staff and administrative costs. Earnings growth will resume in 2027 amid high NG prices. Maintain HOLD with a fair value of RM6.00. In arriving at our fair value, we have factored in a blue-sky scenario of RM0.58/share equity enhancement for GMB's RGT project in Yan.

Analysis

- **A weaker 1H26 vs 1H25, due to higher expenses and lower returns.** We expect 1H26 earnings to decline 10% yoy, reflecting a weak 2Q26 net profit of RM85m-87m (-6% qoq; -12% yoy). This is against a backdrop of: a) lower natural gas (NG) prices in 2Q26, b) higher staff and administrative costs, and c) marginally lower returns on regulated assets. 1H26 NG volume continued to expand 2-4% yoy; likely on the back of higher utilisation in the glove segment.
- **High NG prices to be captured from 4Q26 onwards.** We estimate that 4Q26 NG prices will jump to RM45-50/mmbtu vs the estimated 9M26 NG prices of RM34/mmbtu. To recap, there is a six-month time lag between oil prices and NG prices to be realised by Gas Malaysia (GMB). Assuming the conflict leads to prolonged high oil prices (>6 months), GMB stands to benefit as higher NG prices could translate into growing profitability in 2027. The high Brent prices (Mar-Jul 26) will translate into higher NG prices for GMB from Sep 26 onwards.
- **GMES shipper to see higher profitability in 2027.** GMB derives 50-60% of group net profit from Gas Malaysia Energy and Services (GMES) – a division in GMB that supplies NG to 1,013 industrial customers. Higher NG prices therefore translate into higher profitability for GMES, as NG is sold at cost plus a profit margin (% of NG prices). A 1% change in NG prices can swing GMB's net profit by 4%, we estimate.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net Turnover	8,045	7,337	8,858	10,007	10,440
EBITDA	692	632	664	751	825
Operating Profit	582	514	537	611	673
Net Profit (Rep./Act.)	441	382	394	445	489
Net Profit (Adj.)	441	377	394	445	489
EPS (sen)	34.3	29.3	30.6	34.6	38.0
PE (x)	15.3	17.9	17.1	15.2	13.8
P/B (x)	4.5	4.3	4.1	4.0	3.7
EV/EBITDA (x)	9.3	10.9	10.5	9.4	8.7
Dividend Yield (%)	5.0	4.5	4.8	5.9	5.1
Net Margin (%)	5.5	5.2	4.4	4.4	4.7
Net Debt/(Cash) to Equity (%)	(20.7)	8.9	13.1	20.0	21.7
Interest Cover (x)	n.a.	385.4	186.0	95.7	83.0
ROE (%)	30.7	24.9	25.1	27.9	29.4
Consensus net profit	-	-	403.3	451.0	448.4
UOBKH/Consensus (x)	-	-	0.98	0.99	1.09

Source: GMB, Bloomberg, UOB Kay Hian

Stock Data

GICS Sector	Utilities
Bloomberg ticker	GMB MK
Shares issued (m)	1,284.0
Market cap (RMm)	6,741.0
Market cap (US$m)	1,647.8
3-mth avg daily t'over (US$m)	2.0

Price Performance (%)

52-week high/low: RM6.04/RM4.08

1mth	3mth	6mth	1yr	YTD
(0.9)	(2.2)	15.9	23.0	20.1

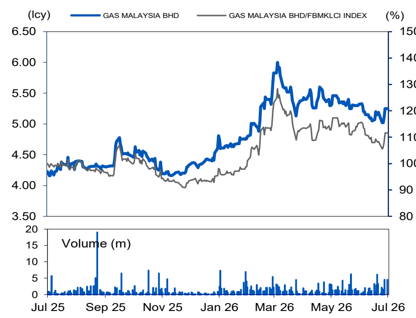
Major Shareholders

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

Balance Sheet Metrics

FY26F NAV/Share (RM)	1.27
FY26F Net Debt/Share (RM	0.17

Price Chart



Source: Bloomberg

Company Description

Supplies natural gas to industries in Peninsular Malaysia.

- **Yan LNG regasification terminal…** To recap, GMB has been given a Letter to Proceed by the Energy Commission of Malaysia for an LNG regasification terminal project in Yan, Kedah. The terminal is expected to house an offshore floating storage and regasification unit with an initial planned regasification capacity of 4-6MTPA.
- **…to be finalised by end of this year.** At this juncture, we understand that plans are rather fluid; while the initial plan was to build a 6MTPA RGT project, there is a chance that the project will be scaled down to 4MTPA with a focus on one offtaker (potentially Malakoff). The expected commercial operational date is slated for mid-30, instead of the initial 2029 timeline.
- **Blue sky: Yan LNG RGT to yield positive equity value of RM750m, or RM0.58/share.** On a blue-sky basis, the 6MTPA RGT project can yield a positive equity value of RM750m. This is based on an average project IRR of 12% for similar projects in the market. In arriving at our equity value of RM750m or RM0.58/share, we assume: a) 6MTPA of LNG capacity, b) 70% utilisation rate, and c) capex of RM3b. It also assumes 100% stake in the project.

Earnings Revision/Risk

- **Trim 2026 net profit by 7%.** In view of a marginally lower rate of return for regulated assets and higher base for staff cost – reflecting start-up costs for RGT Yan, we cut 2026 net profit by 7%. We estimate a full-year net profit of RM394m, with a strong 4Q26 as a result of higher NG prices to be reflected from Sep 26 onwards.
- **Key risk to earnings.** GMES commands 84% share of the NG retail distribution market. As retail contracts for more than 1,013 customers come into negotiation (by end-26), there is a risk that heightened market competition (from Yuzma, Petronas Gas) may lead to lower retail margins for GMES.

Valuation/Recommendation

- **Maintain HOLD with an SOTP-based target price of RM6.00.** In arriving at our fair value, we have factored in a blue-sky scenario RM0.58/share equity enhancement for GMB's RGT project in Yan.
- **Key re-rating catalysts** for the stock include: a) prolonged period of heightened NG prices, b) increase in NG retail market share for GMB, and c) clarity on the Yan RGT project.

Environmental, Social, Governance (ESG) Updates

Environmental

- The group generates electricity through gas-powered combined heat and power systems (CHP) through its JV entities, which are highly efficient and produce less emissions. CHP systems utilise 32% less fuel and have 50% less annual carbon emissions than coal.

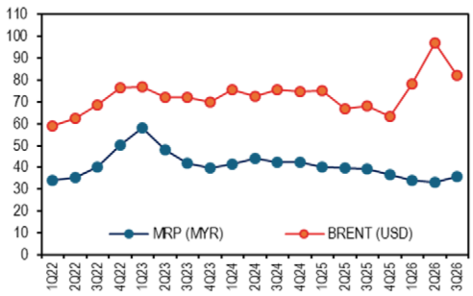
Social

- Organised CSR programmes in collaboration with local communities which include planting fruit saplings, cleaning the river and distributing care packages to underprivileged families, with a focus on the Orang Asli community. GMB contributed RM911,920 to this initiative.

Governance

- The board comprises seven members consisting of three Independent Directors. Meanwhile, women comprise 14% (one director) of the board.

Malaysia Reference Price (MRP) In 3Q26



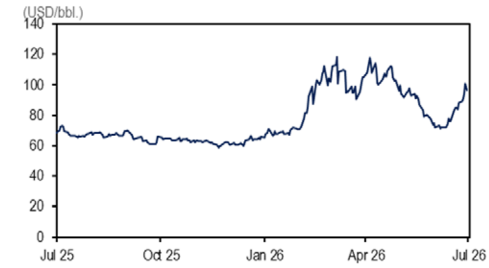
Source: Petronas, GMB, UOB Kay Hian

What Is MRP?

- MRP is the weighted-average price of LNG Free-on-Board exported from Malaysia as declared by the Department of Statistics, Malaysia.
- MRP represents the prices of all LNG exported out of Malaysia.
- There is a lag effect of 6-7 months between Quarterly MRP and Brent.

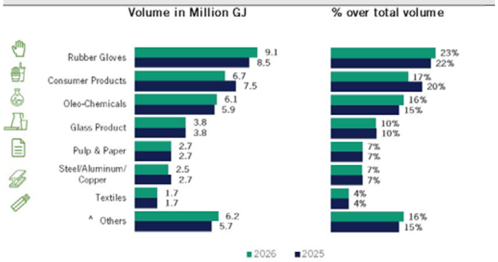
Source: Petronas

Crude Brent Prices



Source: Bloomberg, UOB Kay Hian

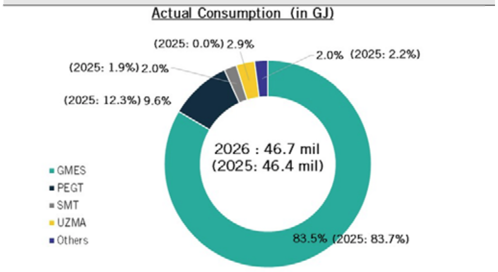
Industrial Customer Breakdown



^ Others mainly comprise of chemicals, chemical & industry gas, automobile and electrical & electronics

Source: GMB

Retail Market Share



- Overall actual consumption is 81% (2025: 78%) of the total RFC.

Source: GMB

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	7,337	8,858	10,007	10,440
EBITDA	632	664	751	825
Deprec. & amort.	118	127	139	151
EBIT	514	537	611	673
Associate contributions	4	4	4	4
Net interest income/(expense)	-2	-4	-8	-10
Pre-tax profit	521	538	607	668
Tax	-140	-144	-163	-179
Minorities	0	0	0	0
Net profit	382	394	445	489
Net profit (adj.)	377	394	445	489

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	2,166	2,414	2,650	2,874
Other LT assets	273	273	273	273
Cash/ST investment	497	471	400	390
Other current assets	771	934	1,058	1,107
Total assets	3,708	4,093	4,381	4,644
ST debt	105	105	105	105
Other current liabilities	1,231	1,494	1,686	1,759
LT debt	530	580	630	680
Other LT liabilities	281	281	281	281
Shareholders' equity	1,560	1,632	1,678	1,819
Minority interest	0	0	0	0
Total liabilities & equity	3,708	4,093	4,381	4,644

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	244	621	653	663
Pre-tax profit	521	538	607	668
Tax	-140	-144	-163	-179
Deprec. & amort.	127	127	139	151
Associates	-4	-4	-4	-4
Working capital changes	-195	105	73	27
Other operating cashflows	-66	0	0	0
Investing	-340	-375	-375	-375
Capex (growth)	-375	-375	-375	-375
Others	35	0	0	0
Financing	-151	-272	-349	-298
Dividend payments	-306	-322	-399	-348
Issue of shares	4	0	0	0
Proceeds from borrowings	204	50	50	50
Others/interest paid	-53	0	0	0
Net cash inflow (outflow)	-247	-25	-71	-10
Beginning cash & cash equivalent	706	459	434	362
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	459	434	362	353

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	8.6	7.5	7.5	7.9
Pre-tax margin	7.1	6.1	6.1	6.4
Net margin	5.2	4.4	4.4	4.7
ROA	10.3	10.1	11.0	11.8
ROE	24.9	25.1	27.9	29.4
Growth				
Turnover	(8.8)	10.1	24.4	29.8
EBITDA	(8.6)	(4.0)	8.5	19.2
Pre-tax profit	(12.1)	(9.3)	2.4	12.6
Net profit	(13.5)	(10.8)	0.8	10.8
Net profit (adj.)	(14.6)	(10.8)	0.6	10.5
EPS	(14.6)	(10.8)	0.6	10.5
Leverage				
Debt to total capital	40.7	42.0	43.8	43.2
Debt to equity	40.7	42.0	43.8	43.2
Net debt/(cash) to equity	8.9	13.1	20.0	21.7
Interest cover (x)	385.4	186.0	95.7	83.0