

MISC Berhad

(3816 | MISC MK) Main | Transportation & Logistics

Maintain NEUTRAL

4QFY19 results to be solid but demand issues linger

Unchanged Target Price: RM8.35

KEY INVESTMENT HIGHLIGHTS

- **MISC's 4QFY19 expected to be higher on a quarterly and yearly basis due to the spike in tanker rates in the quarter**
- **Coronavirus outbreak could exert downward pressure on tanker spot rates which have declined circa 30% since early FY20**
- **MISC's limited exposure to LNG spot market to cushion any impact from force majeure declaration by China**
- **Catalyst for FY20 would be potential contract award of FPSO Mero 3 and FPSO Limbayong**
- **Earnings estimates unchanged at this juncture**
- **Maintain NEUTRAL with an unchanged TP of RM8.35 per share**

4QFY19 earnings expected to be higher. We expect that MISC Berhad's (MISC) 4QFY19 normalised profit will be between RM490-560m. This will represent a quarterly and yearly growth of more than +10%. We believe the support will mainly come from tanker spot rates (VLCC, Aframax and Suezmax) as it were higher by more than +100%yoy during the quarter underpinned by geopolitical factors such as (i) U.S sanctions on COSCO's vessels,(ii) missile attack on Iranian tanker; and (iii) drone attack on Saudi Arabia's oil production facilities. With a 35-40% exposure to the spot market for MISC's petroleum tankers, we opine that MISC will have benefited from the surge in spot tanker rates in 4QFY19. As such, we are expecting FY19's normalised profit to range around RM1.50-1.80b (>+15%yoy). Other factors driving the growth in FY19 earnings would not only be the spike in tanker spot rates during 4QFY19, but also from the full-year contribution from higher number of LNG operating vessels such as LNG Lerici and LNG Portovenere.

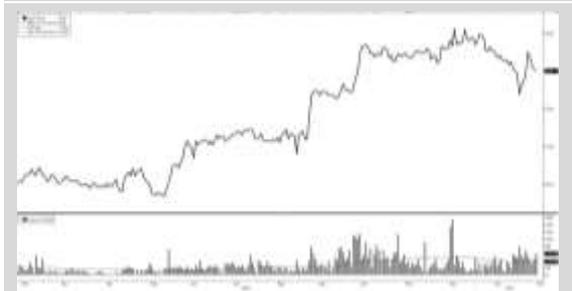
What to expect next for MISC's tankers? Average spot tanker rates in 1QFY20 so far are still >+100% higher than a year ago albeit declining at a >30% rate since the start of FY20. In addition to the seasonal softness as the winter season subsides, the novel coronavirus (Covid-19) in China could exert further downward pressure on spot tanker rates if the outbreak lasts longer than expected. The reason being that is the virus outbreak has led to the lockdown of the city of Wuhan which instituted a ban on driving and cancellation of flights by airlines to mainland China. This will weigh heavily on near-term oil demand given China's huge oil demand which reached 13.6m barrels per day in 2019 compared to just 5.8m barrels per day in 2003. The lifting of sanctions on COSCO vessels by the U.S added worries of an oversupply in the tanker market. Henceforth, we do not discount the possibility of MISC to recalibrate its term-to-spot ratio of its petroleum tanker fleet to mitigate volatilities in the global oil market.

MISC's limited LNG shipping exposure to time charters to cushion impact from coronavirus. The global LNG market was also shaken by the coronavirus as China National Offshore Oil Corp's (CNOOC) declaration of force majeure on LNG contracts with suppliers including Shell and Total. The move would permit the delay or cancellation of some LNG cargoes part of long term agreements.

RETURN STATISTICS

Price @ 12 th Feb 2020 (RM)	8.00
Expected share price return (%)	+4.38
Expected dividend yield (%)	+3.75
Expected total return (%)	+8.13

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-3.8	-0.8
3 months	-4.2	0.6
12 months	17.6	28.7

KEY STATISTICS

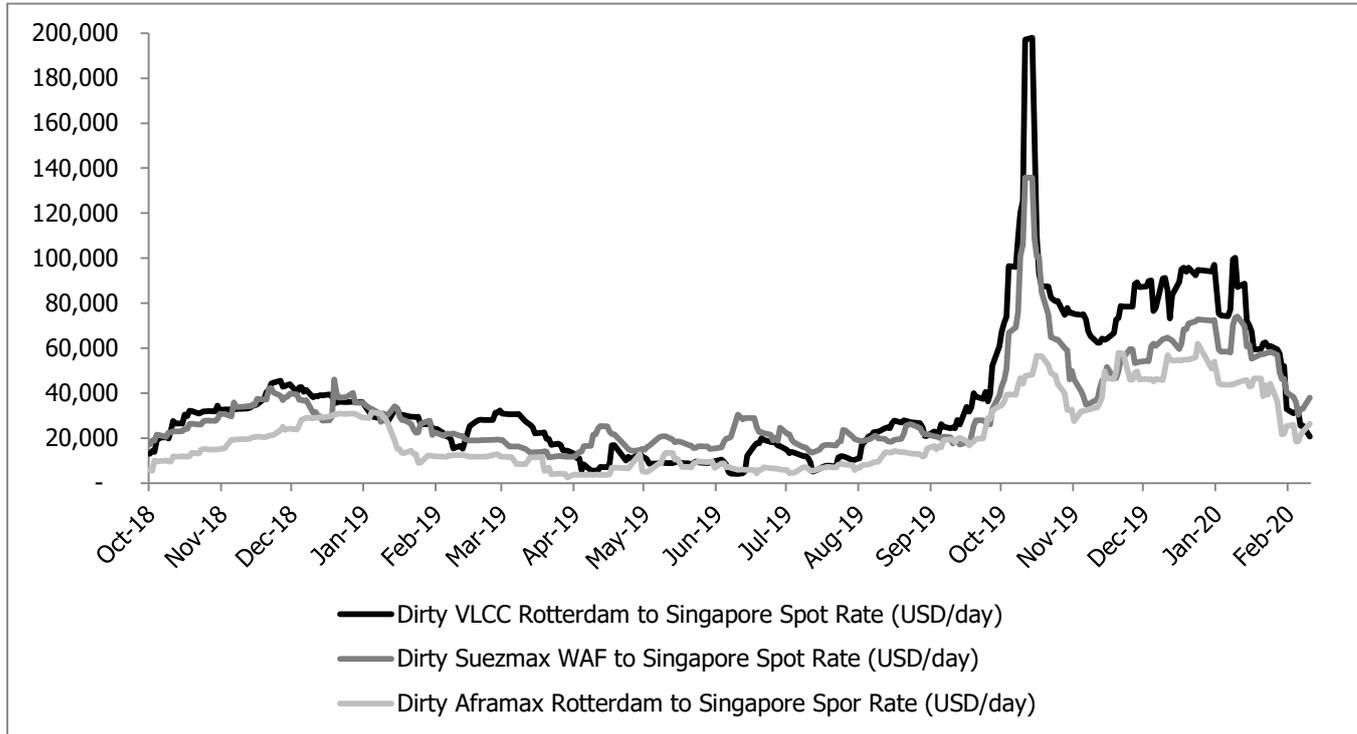
FBM KLCI	1,542.94
Syariah compliant	Yes
Issue shares (m)	4463.75
Estimated free float (%)	18.96
Market Capitalisation (RM'm)	35,709.97
52-wk price range	RM6.38 - RM9.41
Beta vs FBM KLCI (x)	0.94
Monthly velocity (%)	19.60
Monthly volatility (%)	6.92
3-mth average daily volume (m)	3.66
3-mth average daily value (RM'm)	30.38
Top Shareholders (%)	
Petroleum Nasional Bhd	57.56
PNB Associated Funds	9.01
Employees Provident Fund Board	7.41

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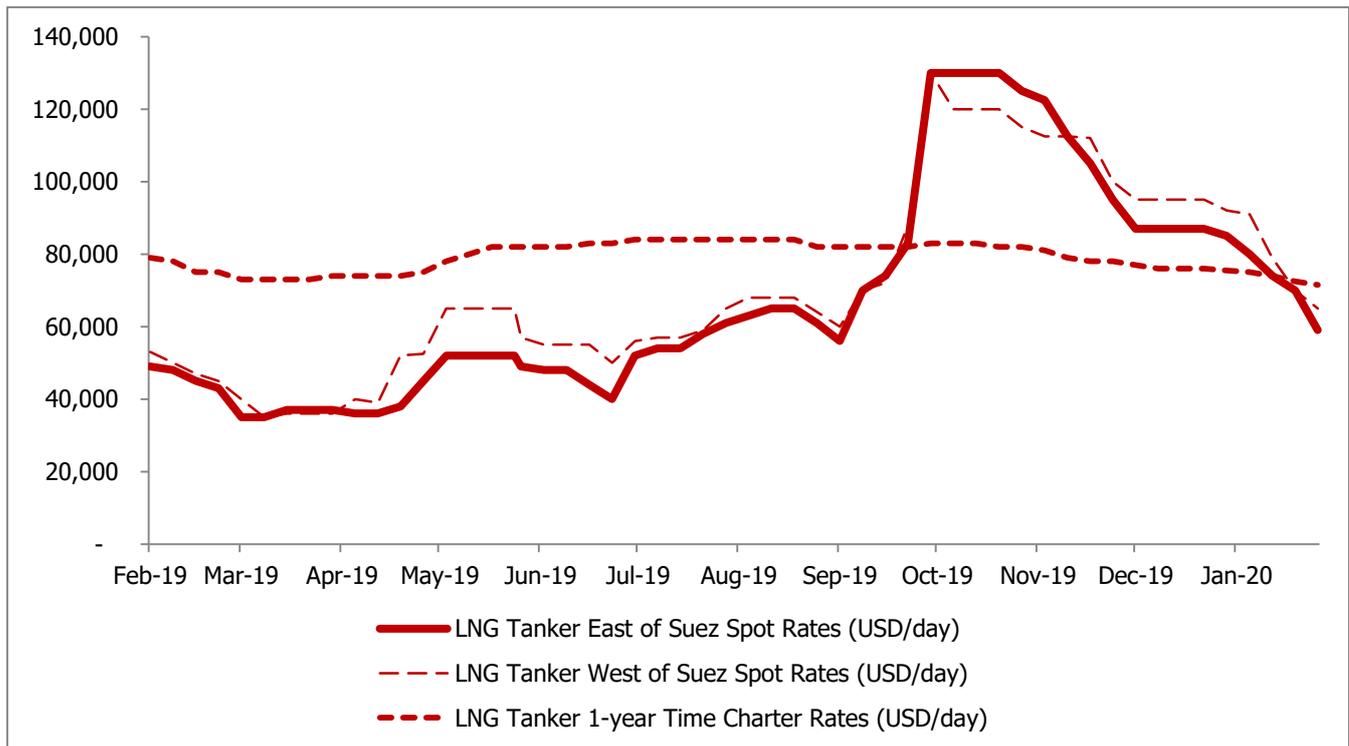
The situation of the LNG market will worsen if other Chinese firms such as PetroChina Co. and Sinopec follow suit to suspend their LNG contracts with suppliers. As a result, LNG charter rates could decline further if any other force majeure is declared by other Chinese firms. Even at this juncture, LNG spot charter rates in the east and west of Suez have fallen below the one-year time charter rates. Having said that, MISC has only four out of 29 LNG vessels tied to spot market which should cushion any risks from the drop in spot rates due to contract suspension by China.

Figure 1: Spot Tanker Rates



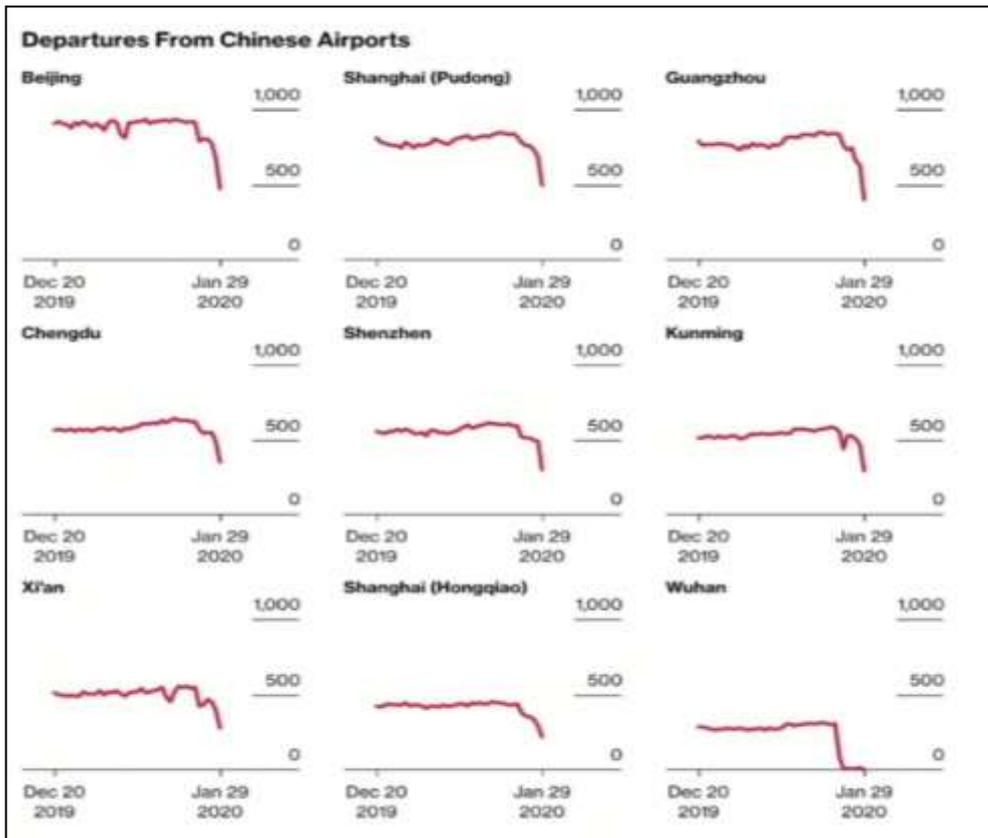
Source: Bloomberg

Figure 2: LNG Spot and Time Charter Rates



Source: Bloomberg

Figure 3: Passengers recorded at airports in China indicate slowing demand for air travel amidst travel restrictions



Source: Flightradar24

Earnings estimates. We made no adjustments to our earnings estimates pending an analyst briefing on 18 February 2020.

Target price. We are maintaining our target price at **RM8.35 per share**. Our TP is derived by pegging our FY20 book value per share to an unchanged 1.05x price-to-book value, which is +1.5 standard deviation above its five-year average, reflecting slew of contract awards for the LNG segment as of late in addition to the large job bids which MISC has entered into.

Maintain NEUTRAL. MISC's LNG segment is expected to remain resilient due to the small exposure to the LNG spot market. On a broader scale, the OPEC and its allies' Joint Technical Committee last week advocated for an extension of production cuts until end of 2020 from the initial March 2020 in light of the Covid-19 outbreak. If such action was to be implemented, the demand for petroleum shipping will be hampered. Moreover, the OPEC has slashed its oil demand growth for 1QCY20 by 440,000 barrels per day. As for heavy engineering, even if the segment becomes profitable due to: i) marine repair activities amidst impending compliance of the IMO 2020 sulphur cap; and (ii) contribution from Kasawari Gas Development project, impact to MISC's bottom line will still be below 5.0%. With much of the positive factors being moderated by potential headwinds from the Covid-19 outbreak, we are maintaining our **NEUTRAL** stance on MISC. The catalysts for MISC are: (i) sooner-than-expected containment of the coronavirus and (ii) the potential job wins for the offshore segment in FY20 worth around USD4b which includes FPSO Mero 3 and FPSO Limbayong. 

INVESTMENT STATISTICS

Financial year ending 31 st December (in RM'm, unless otherwise stated)	2017A	2018A	2019E	2020F	2021F
Revenue	10,068.2	8,780.3	9,671.2	10,071.4	10,495.6
EBIT	2,172.1	1,605.8	2,154.4	2,177.0	2,299.2
PBT	2,003.6	1,344.1	1,904.9	1,949.0	2,051.2
PATANCI	1,990.7	1,284.3	1,821.1	1,863.3	1,961.0
Normalised PATANCI	2,788.9	1,495.6	1,821.1	1,863.3	1,961.0
Normalised EPS (sen)	62.5	28.8	40.8	41.7	43.9
Normalised EPS Growth (%)	48.1	-35.5	41.8	2.3	5.2
PER (x)	12.8	27.8	19.6	19.2	18.2
Dividend Per Share (sen)	30.0	30.0	30.0	30.0	30.0
Dividend Yield (%)	3.8	3.8	3.8	3.8	3.8

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.