

# MISC Berhad

(3816 | MISC MK) Main | Transportation & Logistics

## On the path to be more eco-friendly

- **Contract award by Total to operate and own 2 LNG Dual Fuel VLCCs, expected to be delivered in 2022**
- **Predicated on previous contracts, tenure of the long term contract could be from 5 to 7 years**
- **In terms of value, the contract could be worth at least USD700m in total**
- **Expected earnings accretion to around RM43.m per annum**
- **Earnings estimates revised only for FY22**
- **Maintain Trading BUY with an unchanged TP of RM8.11 per share**

**Contract award by Total.** MISC Berhad (MISC) has been awarded with long-term charter contracts to own and operate two new build LNG Dual Fuel VLCCs from Chartering and Shipping Services SA a wholly-owned subsidiary of Total SA ("Total") for operations in international waters ("the Contracts"). The two newbuilds are scheduled to be delivered to MISC from 1QCY22.

**Details of the contract award.** No details on the tenure and value of the contract were disclosed in the Bursa announcement. We opine that the tenure of this latest long term charter contract by Total could be five to seven years. This is predicated on previous contract awards, particularly the long term contract award by Shell to MISC's unit, AET Inc Ltd, for two newbuild LNG dual fuelled Aframax tankers in April 2018. In terms of contract value, we believe that the long term contract by Total for the two LNG Dual Fuel VLCCs should be at least USD700m given the large tonnage size of VLCCs (circa 300,00 DWT) compared to Suezmaxes (circa 125,000 to 180,000 DWT) and Aframax (circa 80,000 DWT).

**Estimated financial impact to MISC.** Pencilling in a period of seven years, we estimate that the revenue attributable to MISC from the said contract is circa RM434.5m per year. Assuming a conservative PBT margin of 10% based on historical trends when the petroleum tanker segment was profitable, this translates to an additional annual PBT of approximately RM43.4m per annum. The expected contribution from this contract is minimal at 1.9% of the PBT estimated for FY22.

**Potential cost of new build LNG Dual Fuel VLCC.** Based on our channel checks and our independent research, the cost for a newbuild LNG Dual Fuel VLCC is around USD10-15m higher than a normal vessel which currently costs around USD120m (approximately RM521.2m). With two LNG Dual Fuel VLCCs costing approximately RM1.17b, in addition to the three Suezmax DP Shuttle Tankers (contract awarded by Shell) and another three Suezmax DP2 Shuttle Tankers (contract awarded by Petrobras), we estimated that MISC's net gearing of 0.17x as of 31 December 2019 will only increase to 0.26x.

**Our view.** Although this latest contract award has a rather small value, we expect more contracts especially for the offshore segment to be secured from FY20 onwards as guided by the management. Moreover, these two LNG Dual Fuel VLCCs signify MISC's effort in decarbonisation as the vessels will emit approximately 20% less carbon dioxide, 85% less nitrogen oxide and 99% less sulphur.

**Earnings estimates.** No changes made to our earnings estimates for FY20 and FY21. Meanwhile, we slightly adjusted our earnings estimates for FY22 by +1.8% to RM2.20b (previously RM2.16b) to impute earnings accretion from the latest contract award.

**Maintain Trading BUY**  
**Unchanged Target Price: RM8.11**

### RETURN STATISTICS

Price @ 7 <sup>th</sup> Apr 2020 (RM)	7.58
Expected share price return (%)	+7.00
Expected dividend yield (%)	+3.96
<b>Expected total return (%)</b>	<b>+10.96</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-18.3	-10.8
3 months	-20.0	-11.6
12 months	-1.4	16.3

### KEY STATISTICS

FBM KLCI	1,369.92
Syariah compliant	Yes
Issue shares (m)	4463.75
Estimated free float (%)	22.89
Market Capitalisation (RM'm)	33,835.20
52-wk price range	RM6.35 - RM9.37
Beta vs FBM KLCI (x)	0.94
Monthly velocity (%)	0.20
Monthly volatility (%)	6.92
3-mth average daily volume (m)	4.52
3-mth average daily value (RM'm)	36.41
Top Shareholders (%)	
Petroleum Nasional Bhd	57.56
Employees Provident Fund Board	8.16
PNB Associated Funds	6.09

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**Target price.** We are maintaining our target price at **RM8.11 per share** despite the earnings revision for FY22. The reason being is that our TP is derived by pegging our FY21 book value per share to a 1.0x price-to-book value which is its five year average.

**Maintain Trading BUY.** In the long run, MISC's exposure to the time charter contracts will shield MISC from huge fluctuations seen in the spot market. Meanwhile, MISC's LNG segment is expected to remain robust due to the small exposure to the LNG spot market while any force majeure declaration by Chinese firms will still require LNG vessel charterers to honour the contract with MISC being the vessel owner. Valuations are expected to be higher if the potential job wins for the offshore segment in FY20 worth around USD4.0b which includes FPSO Mero 3 and FPSO Limbayong. We also favour MISC for its attractive dividend yield of 4.0%. Therefore, we are maintaining our **Trading BUY** call on MISC. Risks to MISC are: (i) resumption of output cuts by OPEC and its allies which will adversely impact freight rates and; (ii) a global economic slowdown which will further dampen demand for crude oil. 

## INVESTMENT STATISTICS

Financial year ending 31 <sup>st</sup> December (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
<b>Revenue</b>	<b>8,780.3</b>	<b>8,962.7</b>	<b>10,057.4</b>	<b>10,494.4</b>	<b>11,291.6</b>
EBIT	1,333.5	1,929.2	2,032.0	2,078.0	2,534.7
PBT	1,344.1	1,512.3	1,905.0	2,028.0	2,314.7
PATAMI	1,311.5	1,426.3	1,809.8	1,926.6	2,199.0
<b>Normalised PATAMI</b>	<b>1,495.6</b>	<b>1,673.7</b>	<b>1,809.8</b>	<b>1,926.6</b>	<b>2,199.0</b>
Normalised EPS (sen)	33.5	37.5	40.5	43.2	49.3
Normalised EPS Growth (%)	-46.4	11.9	8.1	6.5	14.1
PER (x)	22.6	20.2	18.7	17.6	15.4
Dividend Per Share (sen)	30.0	33.0*	30.0	30.0	30.0
Dividend Yield (%)	4.0	4.4	4.0	4.0	4.0

Source: Company, MIDFR

\*Inclusive of special dividend of RM0.03 per share declared

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

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