

# MISC Berhad

(3816 | MISC MK) Main | Transportation &amp; Logistics

**Maintain NEUTRAL**

## Second petroleum tanker contract award in three months

**Unchanged Target Price: RM8.35**

### KEY INVESTMENT HIGHLIGHTS

- **Contract awarded by Petrobras worth USD525.6m commencing in FY22 to operate and own three newbuild Suezmax class DP2 Shuttle Tankers**
- **Expected additional contribution to PBT of RM30.9m annually assuming a tenure of seven years and conservative PBT margin of 10%**
- **Impact from the cost for the three newbuild Suezmax DPSTs is minimal as net gearing estimated to increase slightly from 0.19x to 0.24x**
- **Earnings estimates for FY19, FY20 and FY21 unchanged**
- **Maintain NEUTRAL with an unchanged TP of RM8.35 per share**

**Contract award by Petrobras.** MISC Berhad (MISC) has been awarded with a long term contract by Petrobras of Rio de Janeiro (Petrobras) to own and operate three newbuild Suezmax Class DP2 Shuttle Tankers (DPST) in international and Brazilian waters. This is the second contract award for the petroleum tanker segment in a three-month period.

**Estimated financial impact to MISC.** The estimated contract value awarded by Petrobras is USD525.6m (approximately RM2.16b) and is expected to commence in FY22. The usual tenure for a long term time charter contract for Suezmax class vessels would be around five to seven years with an implied daily charter rate ranging from USD65,000-80,000 per day (a premium to the 2019 global average time charter rates of circa USD25,000 per day). Assuming a period of seven years, we estimate that the revenue attributable to MISC from the said contract is circa RM308.5m per year. In terms of additional annual PBT contribution, we estimate approximately RM30.9m per annum base on a conservative PBT margin of 10% which is the historical trend when the petroleum tanker segment was profitable. The expected contribution from this contract is below 1.0% of the PBT estimated for FY22 assuming an annual growth in earnings of 5.0%.

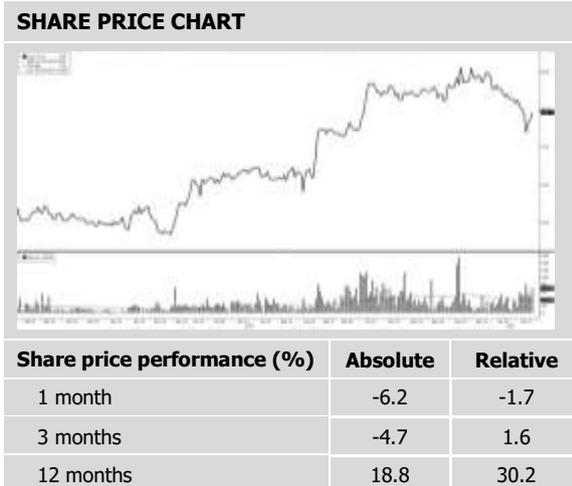
**Potential cost of new build Suezmax DP2 Shuttle Tanker.** Based on our channel checks and our independent research, the cost for a newbuild Suezmax DPST is around 25%-30% higher than a normal vessel which currently costs around USD70m (approximately RM288.2m). With three vessels costing approximately RM864.6m, we estimated that MISC's net gearing of 0.19x as at 30 September 2019 will only increase to 0.24x (including the Shell contract awarded in December 2019).

**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.

**Earnings estimates.** No changes made to our earnings estimates for FY19, FY20 and FY21 as the commencement of the contract is beyond our current forecast horizon.

**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 a 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.

RETURN STATISTICS	
Price @ 5 <sup>th</sup> Feb 2020 (RM)	7.96
Expected share price return (%)	+4.90
Expected dividend yield (%)	+3.77
<b>Expected total return (%)</b>	<b>+8.67</b>



KEY STATISTICS	
FBM KLCI	1,536.79
Syariah compliant	Yes
Issue shares (m)	4463.75
Estimated free float (%)	19.21
Market Capitalisation (RM'm)	35,531.42
52-wk price range	RM6.38 - RM9.41
Beta vs FBM KLCI (x)	0.90
Monthly velocity (%)	22.40
Monthly volatility (%)	6.92
3-mth average daily volume (m)	3.77
3-mth average daily value (RM'm)	31.36
Top Shareholders (%)	
Petroleum Nasional Bhd	57.56
PNB Associated Funds	7.34
Employees Provident Fund Board	9.01

**Analyst(s)**  
**ADAM** Mohamed Rahim  
 adam.mrahim@midf.com.my  
 03-2772 1686

**Maintain NEUTRAL.** We reiterate that growth in will be driven by the LNG segment that is supported by new liquefaction projects (i.e. Cameron LNG and Prelude FLNG) and reduced reliance on coal in China and Korea. Even if demolition levels were to increase following the IMO2020 implementation in this year, positive impacts of lower number of tankers to freight rates would be partially offset by the coronavirus's threat towards global oil demand. Moreover, Saudi Arabia is advocating for deeper production cuts while Russia is pushing for an extension of the current production cuts due to expire in March 2020 in light of the coronavirus. While there may be differences in policies between these two countries, both actions favour an overall cut in production which may hamper demand for petroleum shipping. 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, we are maintaining our **NEUTRAL** stance on MISC. The only major catalyst for MISC is 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 <sup>st</sup> December (in RM'm, unless otherwise stated)	2017A	2018A	2019E	2020F	2021F
<b>Revenue</b>	<b>10,068.2</b>	<b>8,780.3</b>	<b>9,671.2</b>	<b>10,071.4</b>	<b>10,495.6</b>
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
<b>Normalised PATANCI</b>	<b>2,788.9</b>	<b>1,495.6</b>	<b>1,821.1</b>	<b>1,863.3</b>	<b>1,961.0</b>
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)	12.7	27.7	19.5	19.1	18.1
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

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878-X))  
 (Bank Pelaburan)  
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878-X)). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### 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.