

MISC Berhad

(3816 | MISC MK) Main | Transportation & Logistics

Unwarranted sell off for tankers

- **Russia and Saudi Arabia shook oil markets**
- **Brent crude oil price retreated below USD40pb on Monday following Saudi Arabia's move to slash its crude pricing**
- **Cheaper oil prices could spur demand albeit slightly**
- **MISC's strong exposure to time charter contracts will provide a shield against volatility in the market**
- **Earnings estimates revised unchanged**
- **MISC's share price showed resilience during 2014 oil price slump**
- **Upgrade to Trading BUY with an unchanged TP of RM8.11 per share**

Russia and Saudi Arabia shook oil markets. OPEC agreed to slash its production quotas by 1.0m barrels per day, contingent on Russia and nine other non-OPEC allies agreeing to shrink theirs by 500,000 barrels per day, for the rest of the year, amid weaker global demand caused by the Covid-19 outbreak. However, oil markets were roiled as Russia, the biggest non-OPEC producer in the alliance, resisted a call by the cartel for extra production cuts through the end of this year. In response to this, Saudi Arabia later on Saturday slashed pricing for its crude oil in an effort to retain market share.

How did the oil price react? On last Friday, Brent crude oil price dropped -9.4% to settle at USD45.3pb, representing a weekly decline of -10.4%. This marks the second week of decline reaching above -10.0%. Whereas when markets reopened on Monday, Brent crude oil price took another dive to close 24.1% lower at USD34.4pb following Saudi Arabia's move on Saturday. The Bursa Malaysia Energy Index also took a hit, ending -25.4% lower on Monday.

Consequences for MISC. Recall that the U.S. Energy Information Administration cut its global oil demand growth forecast for 2020 by 310,000 barrels per day. Nevertheless, the latest chain of events involving Russia and Saudi Arabia could at least slightly spur some additional demand, albeit by a non-substantial magnitude. As oil prices continue to remain low, oil traders are looking to hold more barrels as the oil markets face a supply glut caused by a lack of OPEC+ cuts and dampened demand due to the Covid-19 outbreak. As such, MISC could benefit because an oversupply of oil is bullish for freight rates as tonnage will be tightened with more barrels of oil in storage.

High exposure to time charters provides a shield to volatility. So far in 1QFY20, average spot tanker rates have shown a steep decline of more than 50% since the start of FY20 due to subdued winter season which coincided with the Covid-19 outbreak. With 72% of its petroleum vessels (100.0% for VLCC, 74.0% for Aframax, and 44.0% for Suezmax) tied to time charter contracts, we believe that this will shield MISC from huge fluctuations seen in the spot market. Even for MISC's LNG fleet, only four out of 31 vessels (29 LNG and 2 floating storage units) vessels are only on spot contracts. Moreover, we understand that MISC's overall exposure to China is quite minimal. Henceforth, we believe that potential earnings disruption to the petroleum and LNG vessel freight rates either from geopolitical conflicts or the Covid-19 outbreak are manageable.

Upgrade to Trading BUY

from NEUTRAL

Unchanged Target Price: RM8.11

RETURN STATISTICS

Price @ 9 th Mar 2020 (RM)	6.65
Expected share price return (%)	+21.95
Expected dividend yield (%)	+4.50
Expected total return (%)	+26.45

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	1,424.16
Syariah compliant	Yes
Issue shares (m)	4463.75
Estimated free float (%)	18.41
Market Capitalisation (RM'm)	29,683.91
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
PNB Associated Funds	9.01
Employees Provident Fund Board	8.00

Analyst(s)

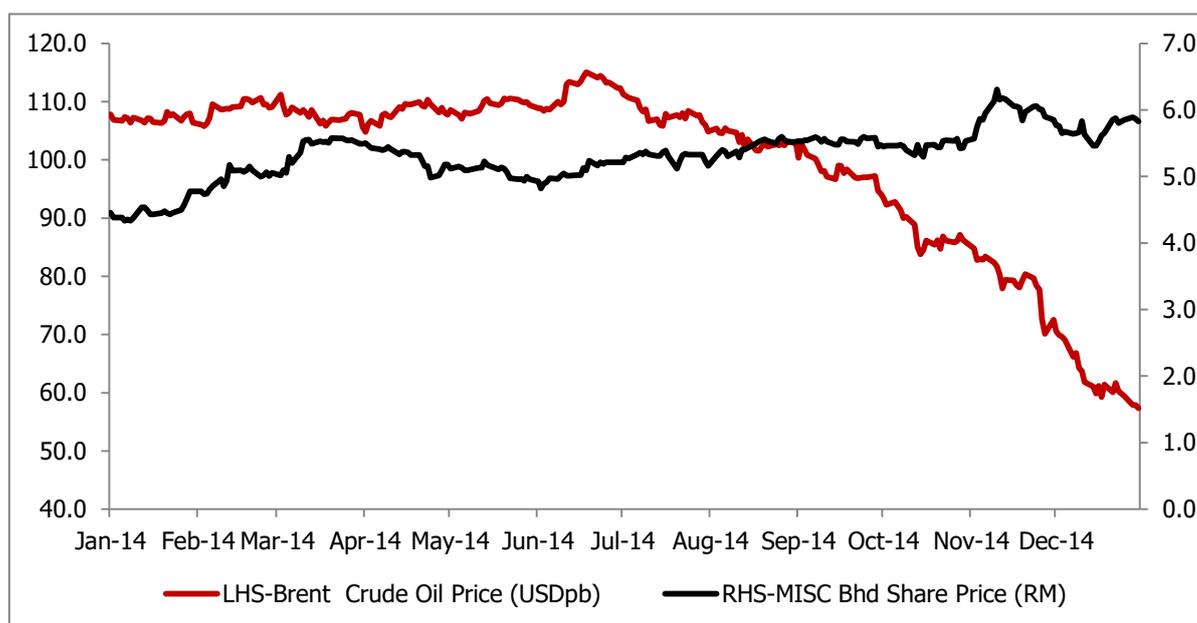
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Earnings estimates. No adjustments made to our earnings estimates.

Target price. We are maintaining our target price at **RM8.11** per share. 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.

Upgrade to Trading BUY from NEUTRAL. 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. Apart from that, MISC's share price remained resilient during the 2014 slump in oil prices (refer Figure 1). Valuation wise, MISC is trading at a PBV of 0.9x, a discount from its five-year average PBV of 1.0x. We expect valuations 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. More importantly, we also favour MISC for its attractive dividend yield of 4.5%. With the knee-jerk reaction to its share price, we opine that this presents an opportunity for investors to accumulate the stock. Therefore we are upgrading MISC Berhad from **NEUTRAL** to **Trading BUY**. 

Figure 1: Brent Crude Oil Price vs MISC Berhad Share Price in 2014



Source: Bloomberg, MIDFR

INVESTMENT STATISTICS

Financial year ending 31 st December (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Revenue	8,780.3	8,962.7	10,057.4	10,494.4	11,091.6
EBIT	1,333.5	1,929.2	2,032.0	2,078.0	2,334.7
PBT	1,344.1	1,512.3	1,905.0	2,028.0	2,274.7
PATAMI	1,311.5	1,426.3	1,809.8	1,926.6	2,161.0
Normalised PATAMI	1,495.6	1,673.7	1,809.8	1,926.6	2,161.0
Normalised EPS (sen)	33.5	37.5	40.5	43.2	48.4
Normalised EPS Growth (%)	-46.4	11.9	8.1	6.5	12.2
PER (x)	19.8	17.7	16.4	15.4	13.7
Dividend Per Share (sen)	30.0	33.0	30.0	30.0	30.0
Dividend Yield (%)	4.5	5.0	4.5	4.5	4.5

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

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.