MISC Berhad

(3816 | MISC MK) Main | Transportation & Logistics

Maintain BUY

Unchanged Target Price: RM7.81

Look beyond 1H21

- **Earnings broadly within our expectation, came in at 23.1% and 21.8% of our core and consensus' net profit estimate**
- **The group had shown slight increase in top line performance in 1QFY21 recording a growth of +1.5%yoy**
- **Expected increase in refinery activities in 2H21 to drive earnings growth**
- **Share price has yet to recover from the selloff late last year, highlighting the window of opportunity**
- **Maintain BUY with unchanged TP of RM7.81 per share**

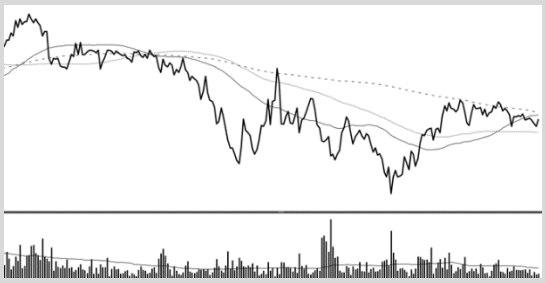
Within Expectation. In 1QFY21, MISC Berhad (MISC) reported core earnings of RM430.0m (-13.0%qoq and -45.5%yoy) on the back of revenue recorded at RM2.54b (-3.8%qoq and +1.1%yoy). Sequentially, operating profit grew to RM463.8m from RM319.3m, translated to +45.3%qoq and -45.1%yoy. We deemed this financial performance to be broadly within our expectation as core earnings came in at 23.1% and 21.8% of our core and consensus' net profit estimate.

Top line remains intact. The group had shown slight increase in top line performance in 1QFY21 recording a growth of +1.5%yoy despite its two key segments recorded decline in performance on year-on-year basis. Top line for LNG shipping segments was at RM685.7m (-1.5%yoy) mainly due to the strengthening of Ringgit against US Dollars. Furthermore, Petroleum Shipping recorded much lower decline at -35.3%yoy or at RM794.8m as product of lower freight rates in the quarter. However, the revenue from Offshore Business segment mitigated the impact with exemplary growth of +218.9%yoy at RM679.9m. The growth was mainly attributable to the recognition of construction revenue for a Floating Production, Storage and Offloading (FPSO) in the quarter.

Earnings decline. Despite the slight growth of the group revenue, earnings declined by double digits. At operating level, Petroleum Shipping profit was lower by -89.8%yoy due to the decline of charter rates. So far in 2021, average spot rate for VLCC is USD4.91k vs USD54.0k in 2020. Similar pattern can be observed for the spot rates of Suezmax (USD8.96k vs USD30.20k) and Aframax (USD11.08k vs USD21.89k). However, to note, sequentially, PBT of the Petroleum Shipping segment recorded slight profitability circa RM3.25m vs -RM99.96m last quarter; among others, driven by uptick of utilization for its Aframax vessels compared to late last year. For LNG, operating profit was lower by -16.8% mainly from higher vessel operating costs during the quarter. Marine & Heavy Engineering segment was the only loss-making division for the quarter at -RM101.9m. This was due to additional cost provision recognized because of revised target completion date for an on-going project in the 1QFY21.

RETURN STATISTICS	
Price @ 6th May 2021 (RM)	**6.77**
Expected share price return (%)	**+15.36**
Expected dividend yield (%)	**+4.20**
Expected total return (%)	**+19.56**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.3	-1.3
3 months	-0.7	9.6
12 months	-12.9	-24.0

KEY STATISTICS	
FBM KLCI	1,578.33
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star Rating)	☆☆☆☆
Issue shares (m)	4463.75
Estimated free float (%)	21.67
Market Capitalisation (RM'm)	30,219.56
52-wk price range	RM5.96 - RM8.55
Beta vs FBM KLCI (x)	0.67
Monthly velocity (%)	0.00
Monthly volatility (%)	6.35
3-mth average daily volume (m)	2.41
3-mth average daily value (RM'm)	16.29
Top Shareholders (%)	
Petroliam Nasional Bhd	51.00
Employees Provident Fund Board	11.14
Amanah Saham Nasional Bhd	6.66

Analyst
Ummar Fitri
ummar.fitri@midf.com.my
03 -2173 1663

Outlook for MISC. Crude oil demand is still struggling to find its footing and the oil supply continues to be buoyed by the OPEC+ production cuts and declining crude inventories worldwide – pushing the oil price to above USD65pb recently. However, the prolonged production cuts have inflicted short term pains on the group, putting a tremendous downward pressure on tankers rate. However, upon effective global vaccine inoculations program, we postulate that the recovery in the oil and gas sector will be gradual with a more muted 1H21, picking up steam in the latter half of this year. Furthermore, the expected easement of OPEC+ cuts in May onwards will be a tailwind for the tanker players. Both factors then will hopefully translate to an increase in refinery activities in 2H21 which would positively benefit demand for tankers.

Earnings estimates. We remain upbeat on the earnings outlook for MISC. We maintain our earnings forecast for FY21/22F, at RM1.87b/RM2.06b.

Target price. Following our unchanged earnings estimate, our target price remains at **RM7.81**.

Maintain Buy. We posit that the current share price level for MISC imply an unjustified dim outlook for the group prospect. Currently, MISC is trading at BF P/E 5 years at 13.3x, slightly lower than -1 standard deviation at 13.8x. This current valuation level is far lower than its mean P/E of 15.8x. At this level, the share price has yet to recover from the beating it undertook late last year, presenting a window of opportunity to accumulate before it reverts to the fair value level. Furthermore, with the ongoing global vaccine rollouts, economic prospects around the globe are improving and can be gauge with better clarity in comparison to the darkest days of the pandemic last year. With vaccines as tailwind for economic activities, this will in turn be the catalyst for a boost on crude oil demands and energy consumption which will benefit companies such as MISC. Factoring all these, we maintain our **BUY call** for MISC. Key risks to our call (i) upward movement of tanker rates and; (ii) faster than expected economic recovery from Covid-19 pandemic.

INVESTMENT STATISTICS

Income Statement	2019A	2020A	2021E	2022F	2023F
Revenue	8,962.7	9,401.2	9,726.9	10,213.3	10,072.3
Cost of Sales	(6,215.6)	(6,521.4)	(6,898.8)	(7,158.6)	(7,084.6)
Gross Profit	2,747.1	2,879.8	2,828.0	3,054.8	2,987.7
Net Operating Expenses	(817.9)	(862.5)	(885.2)	(903.3)	(881.4)
Operating Profit	1,929.2	2,017.3	1,942.8	2,151.5	2,106.4
Net one off gains/(losses)	67.4	(1,772.8)	0.0	0.0	0.0
Finance costs	(484.3)	(368.1)	(421.3)	(439.2)	(440.9)
Profit/(Loss) before tax	1,512.3	(123.6)	1,942.8	2,151.5	2,106.4
Taxation	(76.1)	(46.2)	(77.7)	(86.1)	(84.3)
PATAMI	1,426.3	(43.0)	1,865.1	2,065.4	2,022.1
EPS	0.32	(0.01)	0.42	0.46	0.45
Dividends Yield	4.4%	4.5%	4.2%	4.6%	4.5%

MISC: 1Q21 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results				
Income Statement	**1Q21**	**4Q20**	**1Q20**	**QoQ**	**YoY**
Revenue	2,540.9	2,641.6	2,513.8	-3.8%	1.1%
Cost of Sales	(1,874.9)	(2,093.5)	(1,505.7)	10.4%	-24.5%
Gross Profit	666.0	548.1	1,008.1	21.5%	-33.9%
Net Operating Expenses	(202.2)	(228.8)	(163.0)	11.6%	-24.0%
Operating Profit	463.8	319.3	845.1	45.3%	-45.1%
Net one off gains/(losses)	35.0	329.3	(1,894.7)	-89.4%	101.8%
Finance costs	(93.1)	(94.0)	(95.8)	1.0%	2.8%
Profit/(Loss) before tax	405.7	554.6	(1,145.4)	-26.8%	135.4%
Taxation	(10.1)	1.9	(5.6)	-631.6%	-80.4%
PAT	395.6	556.5	(1,151.0)	-28.9%	134.4%
Minority Interest	34.2	(0.5)	(5.8)	6940.0%	689.7%
PATAMI	429.8	556.0	(1,156.8)	-22.7%	137.2%
Core Earnings	430.0	494.0	789.0	-13.0%	-45.5%

SEGMENTAL BREAKDOWN

Revenue	**1Q21**	**4Q20**	**1Q20**	**QoQ**	**YoY**
LNG Shipping	685.7	651.4	695.9	5.3%	-1.5%
Petroleum Shipping	794.8	695.1	1,227.8	14.3%	-35.3%
Offshore Business	679.9	662.9	213.2	2.6%	218.9%
Heavy Engineering	343.0	713.1	338.2	-51.9%	1.4%

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)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

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 MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment 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. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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 *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
HOLD	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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology