MISC Berhad

(3816 | MISC MK) Main | Transportation & Logistics

Maintain Trading BUY

Unchanged Target Price: RM8.11

Tanker rates to support petroleum segment in 1QFY20

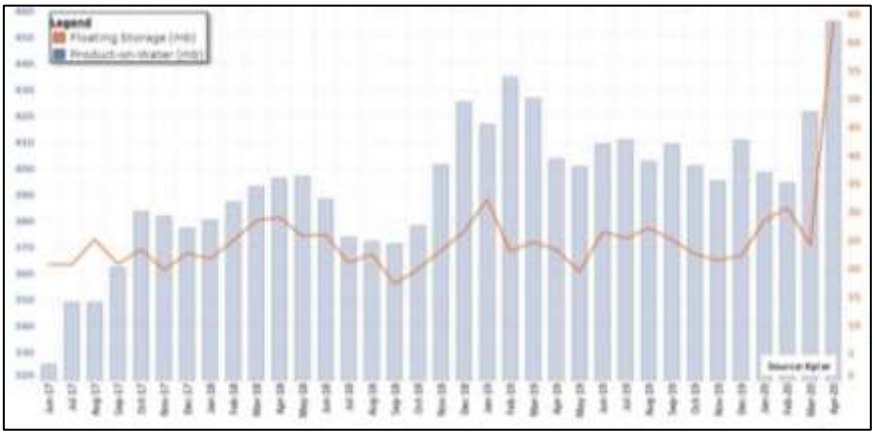
KEY INVESTMENT HIGHLIGHTS

- **Average tanker spot rates witnessed a huge jump in 1QFY20 of at least 45%yoy**
- **Therefore we are expecting 1QFY20 normalised profit to be around 5-10% higher on a yearly basis**
- **April 2020 was still a period of solid tanker rates (>+100%yoy) as oil traders scramble to book storage options amidst the oil supply glut**
- **Earnings estimates unchanged at this juncture**
- **Maintain Trading BUY with an unchanged TP of RM8.11 per share**

1QFY20 to get boost by tanker rates. In March 2020, Saudi Arabia had cut its official selling prices for April crude and vowed to boost exports after a supply cut deal by the Organization of the Petroleum Exporting Countries and rivals like Russia collapsed**.** Moreover, charterers rushed to place cargoes amid a collapse in oil demand due to the Covid-19 pandemic. Increased options for time-chartering including for floating storage reflected a build-up of excess supply of crude oil in the market. As a result, tanker rates soared in mid-March and remained elevated until the end of 1QFY20. For instance, both average spot rates for VLCCs and Suezmaxes in 1QFY20 jumped by more than +100%yoy while Aframaxes saw spot rates increasing by +45.0%. All of MISC's VLCC fleet is tied to term charter contracts. Notwithstanding this, MISC has exposure to the spot market via its Suezmax and Aframax fleet whereby 56% and 26% are tied to the spot market, respectively.

How has 2QFY20 fared so far? For the month of April 2020, we observed that tanker rates across the vessel classes (VLCC, Suezmax and Aframax) were higher than >+100%yoy. The month still saw oil traders scrambling to book storage options amidst the oil supply glut and the lack of onshore storage capacity. Spot tanker rates nevertheless experienced a slight retracement in May 2020 as the first impact of the production cuts agreed by OPEC+ started to be felt in the market. Overall, spot tanker rates are still expected to remain high in the near term. The reason being is that global stockpiles of petroleum products will grow by around 550 million barrels in 2QFY20 according to the International Energy Agency, prompting the need for storage facilities.

Figure 1: Monthly global clean product-on-water and floating storage (million barrels)



Source: Kpler

RETURN STATISTICS	
Price @ 5th May 2020 (RM)	7.80
Expected share price return (%)	+4.00
Expected dividend yield (%)	+3.90
Expected total return (%)	**+7.90***

*Please refer to our explanation in the report

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	1,389.55
Syariah compliant	Yes
Issue shares (m)	4463.75
Estimated free float (%)	22.55
Market Capitalisation (RM'm)	34,817.2
52-wk price range	RM6.24– RM8.42
Beta vs FBM KLCI (x)	0.94
Monthly velocity (%)	19.60
Monthly volatility (%)	6.92
3-mth average daily volume (m)	5.53
3-mth average daily value (RM'm)	42.08
Top Shareholders (%)	
Petroliam Nasional Bhd	57.56
Employees Provident Fund	8.50
PNB Associated Funds	6.09

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Earnings estimates. Our current earnings estimates for FY20F is RM1.81b which translates to around RM452m per quarter. Due to the strength in tanker rates seen in 1QFY20, we expect that the normalised profit (excluding exceptional items) of MISC for the said quarter to be in the range of RM500-RM560m. This would represent a yearly growth between 5-15%. However, we are not adjusting our earnings estimates to take into account of seasonal weakness which is usually between the second and third quarter of the year.

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.

Maintain Trading BUY. While our expected total return constitutes a revision to our call, we are making an exception given that the results release is just around the corner. Nevertheless, we remain encouraged by its long term prospect of MISC's exposure to the time charter contracts which will shield MISC from huge fluctuations seen in the spot market. 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 3.9%. Therefore, we are maintaining our **Trading BUY** call on MISC. Risks to MISC are: (i) further downward movement of tanker rates and; (ii) lack of demand for floating storage.

INVESTMENT STATISTICS

Financial year ending 31st 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**	**11,291.6**
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
PATANCI	1,311.5	1,426.3	1,809.8	1,926.6	2,199.0
Normalised PATANCI	**1,495.6**	**1,673.7**	**1,809.8**	**1,926.6**	**2,199.0**
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)	23.3	20.8	19.2	18.1	15.8
Dividend Per Share (sen)	30.0	33.0	30.0	30.0	30.0
Dividend Yield (%)	3.8	4.2	3.8	3.9	3.9

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 *rise* 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 *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.