MISC Berhad

(3816 | MISC MK) Main | Transportation & Logistics

Challenging Year Ahead

- **Slightly weak quarter in a strong year**
- **Lower earnings days reduced performance following dry docking activities**
- **The party is over for the company premised on the expected weaker petroleum segment in 4Q20**
- **LNG shipping rates to soften next year**
- **Downgrade to Neutral with revised TP of RM7.81 per share**

***Downgrade to* Neutral**

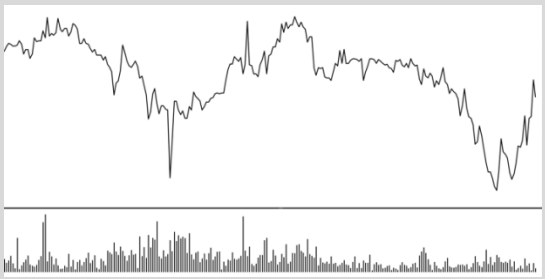
(From Trading Buy)

***Revised* Target Price: RM7.81**

(Previously RM8.20)

RETURN STATISTICS	
Price @ 17th Nov 2020 (RM)	**7.41**
Expected share price return (%)	**+5.40**
Expected dividend yield (%)	**+3.50**
Expected total return (%)	**+8.90**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	12.3	4.9
3 months	-1.2	-8.3
12 months	-9.7	-10.6

KEY STATISTICS	
FBM KLCI	1,610.15
Syariah compliant	Yes
Issue shares (m)	4463.75
Estimated free float (%)	21.44
Market Capitalisation (RM'm)	33,076.36
52-wk price range	RM6.38 - RM9.37
Beta vs FBM KLCI (x)	0.71
Monthly velocity (%)	0.00
Monthly volatility (%)	6.35
3-mth average daily volume (m)	2.38
3-mth average daily value (RM'm)	17.15
Top Shareholders (%)	
Petroliam Nasional Bhd	57.56
Employees Provident Fund Board	9.61
Amanah Saham Bumiputera	4.23

Weak 3QY20, overall encouraging 9M20. In 3QFY20, MISC Berhad (MISC) reported a profit after tax of RM260.4m (-3.9%yoy) on the back of lower revenue recorded at RM2.06b (-4.1%yoy). However, despite the lacklustre 3QFY20 result, its cumulative 9M20 earnings performance remains strong. Revenue was at RM6.76b (+2.6 %yoy) and core profit at RM1.81b (+43.3%yoy). This exceeded our core and consensus' net profit estimate by 19.1%% and 10.3% respectively.

Lower earnings days reduce performance. The weak 3QFY20 financial result was underpinned by lower earnings days for both its petroleum and LNG segment following dry docking activities and lower time charter equivalent for its petroleum segment. Apart from that, one of its vessels was impacted by Covid-19 cases temporarily - which impacted the overall earnings days for the company. That said, the matter has already been resolved as of now.

Heavy Engineering rebounded. The heavy engineering segment recorded revenue which is +135%yoy and +48%qoq higher in 3QFY20. This higher revenue in the current quarter can be attributed to resumption of yard activities given its suspension during MCO in the preceding quarter. As of 3Q20, the segment has achieved quite significant milestones for this year; (i) completed repair and maintenance of 38 vessels, (ii) secured 44 jobs and; (iii) completed the conversion works for FSO Golden Star. Despite still being in the red, PBT had followed the same trend as the top line by improving nearly +100% qoq and -1.0%yoy mainly due to additional cost provision and associated higher overheads arising from the COVID-19 pandemic.

Outlook for MISC. We believe that the party is over for the company given that we are expecting weaker performance by petroleum segment in the upcoming 4QFY20. This is due to the declining crude oil tanker rates; which are likely to remain at low level until global demand for petroleum recovers post pandemic. Furthermore, according to the management, tanker rates continue to be under downward pressure in recent month due to lower seaborne oil trade volumes and gradual unwinding of floating storage.

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...good year-end for LNG, waning 2021. LNG spot rates on the rise as the northern hemisphere approaching winter time increasing shipping demand and tonnage availability becoming scarce. We come to understand that the general markets anticipate a crunch in supply and elevated shipping rates in the 4QFY20. This will bode well for the group LNG segment. However, the good fortune of the segment will not be extended to next year, 2021. It is estimated that >80 new LNG vessels will be delivered in 2021-22, which could potentially push the charter rates to lower than current level.

Earnings estimates. Despite its encouraging performance, we are revising our future expectation on MISC. Hence, we are trimming our earnings estimates for FY20E/FY21F to RM1.92b/RM1.87b or -6.3%/-5.6% decline from our previous estimates. This is to take into account on our view of softening LNG and petroleum tanker moving forward. However, we remain hopeful on the meaningful recovery of oil market dynamics, improving demand vis-a-vis lower crude production in FY21 and FY22.

Target price. Following our earnings revision, we are revising our target price to **RM7.81** (from RM8.20 previously) based on DCF valuation.

Downgrade to NEUTRAL. We believe petroleum tanker rates will remain at low level unless we saw clear and significant recovery in oil demand because of rejuvenating economies around the globes post pandemic. Furthermore, the prospects of waning LNG segment add to our less than optimistic outlook for the group. Due to the recent price surge, we opine that much of the positive factors have being priced in and moderated by potential headwinds from the softening petroleum and LNG tanker rates due to unfavourable dynamics of both markets. We downgrade our call from TRADING BUY to **NEUTRAL.** 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	2018A	2019A	2020E	2021F	2022F
Revenue	8,780.3	8,962.7	9,206.0	9,726.9	10,213.3
Cost of Sales	(6,447.5)	(6,215.6)	(6,443.8)	(6,898.9)	(7,158.5)
Gross Profit	2,332.8	2,747.1	2,762.2	2,828.0	3,054.7
Net Operating Expenses	(866.5)	(817.9)	(764.7)	(885.2)	(903.3)
EBIT	1,466.3	1,929.2	1,997.5	1,942.9	2,151.5
Finance Costs	(394.6)	(484.3)	(365.4)	(391.1)	(397.1)
Profit/(Loss) before tax	1,344.1	1,512.3	1,997.5	1,942.9	2,151.5
Taxation	(59.8)	(76.1)	(79.9)	(77.7)	(86.1)
Profit/(Loss) after tax	1,284.3	1,436.2	1,917.6	1,865.1	2,065.4
EPS	0.29	0.32	0.43	0.42	0.46
Dividends Yield	5.2%	4.3%	3.5%	4.5%	5.0%

MISC: 3Q20 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**3Q20**	**2Q20**	**3Q19**	**QoQ**	**YoY**	**9M20**	**9M19**	**YoY**
Revenue	2,059.5	2,186.3	2,147.8	-5.8%	-4.1%	6,759.6	6,587.2	2.6%
Cost of Sales	(1,521.1)	(1,401.1)	(1,579.0)	-8.6%	3.7%	(4,427.9)	(4,608.1)	3.9%
Net Operating Expenses	(208.4)	(262.3)	(192.4)	20.5%	-8.3%	(633.7)	(526.5)	-20.4%
EBIT	330.0	522.9	376.4	-36.9%	-12.3%	1,698.0	1,452.6	16.9%
Net one off gains/(losses)	29.0	(236.4)	27.2	>+100	6.6%	(2,102.1)	161.9	-<-100
Finance costs	(77.8)	(100.5)	(116.1)	22.6%	33.0%	(274.1)	(365.9)	25.1%
PBT	281.2	186.0	287.5	51.2%	-2.2%	(678.2)	1,248.6	-<-100
Taxation	(20.8)	(21.7)	(16.6)	4.1%	-25.3%	(48.1)	(59.8)	19.6%
Profit/(Loss) after tax	260.4	164.3	270.9	58.5%	-3.9%	(726.3)	1,188.8	-<-100
Core PAT	566.4	478.6	326.4	18.3%	73.5%	1,810.9	1,263.4	43.3%

SEGMENTAL BREAKDOWN

Revenue	**3Q20**	**2Q20**	**3Q19**	**QoQ**	**YoY**	**9M20**	**9M19**	**YoY**
LNG Shipping	613.4	692.0	650.4	-11.4%	-5.7%	2,001.3	1,933.7	3.5%
Petroleum Shipping	850.8	1,089.8	979.8	-21.9%	-13.2%	3,168.4	3,145.5	0.7%
Offshore Business	196.7	215.7	233.7	-8.8%	-15.8%	625.6	710.0	-11.9%
Heavy Engineering	362.2	154.1	245.0	>+100	47.8%	854.5	680.9	25.5%

PBT	**3Q20**	**2Q20**	**3Q19**	**QoQ**	**YoY**	**9M20**	**9M19**	**YoY**
LNG Shipping	240.5	302.5	238.0	-20.5%	1.0%	871.3	826.1	5.5%
Petroleum Shipping	(85.7)	188.5	(84.8)	-<-100	-1.0%	403.6	(15.3)	>+100
Offshore Business	143.9	130.5	142.4	10.3%	1.0%	(1,522.8)	424.2	-<-100
Heavy Engineering	(4.2)	(399.1)	(4.1)	99.0%	-1.0%	(397.3)	(42.6)	-<-100

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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.