4QFY20 Results Review (Above) | Friday, 19 February 2021

MISC Berhad

(3816 | MISC MK) Main | Transportation & Logistics

Upgrade to BUY

(Previously NEUTRAL)

Unchanged Target Price: RM7.81

Window of Opportunity

- **MISC's FY20 earnings exceeded our core and consensus' net profit estimate by 11.2% and 5.2%**
- **Earnings growth in FY20 was underpinned by revenue from several segments i.e. LNG, Offshore and Heavy Engineering**
- **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**
- **Upgrade to BUY with unchanged TP of RM7.81 per share**

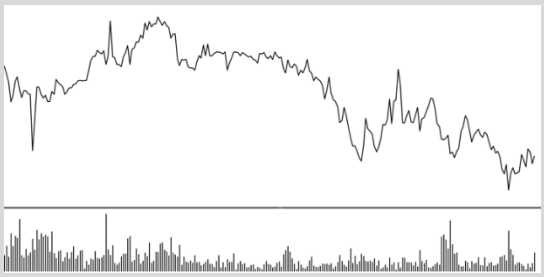
Above Expectation. In 4QFY20, MISC Berhad (MISC) reported core earnings of RM462.4m (+26.6%yoy) on the back of higher revenue recorded at RM2.64b (+11.2%yoy). Overall, its cumulative 12M20 earnings performance remains strong. Revenue was at RM9.40b (+4.9%yoy) and core earnings at RM2.13b (+32.2%yoy). This exceeded our core and consensus' net profit estimate by 11.2% and 5.2% respectively.

Revenue growth. Despite the unabated pandemic, the group had shown exemplary top line performance in FY20 recording a growth of +4.9yoy. The increase was underpinned by higher revenue contribution from several segments i.e. LNG, Offshore and Heavy Engineering segments. The highest growth was recorded by its Heavy Engineering segment with a revenue of RM1.57b (+55.2%yoy). The segment's revenue was driven by its on-going heavy engineering projects such as related construction and conversion works for FSO Golden Star and Pluto Water Handling Module, among others. Furthermore, the group's revenue growth was also driven by its Offshore segment with a revenue of RM1.29b (+18.6%yoy) mainly due to the construction gain recognized from Mero 3. Meanwhile, its LNG segment recorded a revenue of RM2.65b (+2.7%yoy) following higher earnings days as fewer dry-docking activities performed last year.

Resilient earnings. Overall, FY20 earnings was encouraging. Growth was buoyed by Petroleum segment, driven by higher margin received from its freight rates. Recall that, MISC was a marginal beneficiary of astronomical tanker rates back in early FY20 due to ballooning demand of floating storage for crude oil. Due to this, the segment saw its operating profit jumped to RM480.4m (or +33.3%yoy). Additionally, the Offshore segment also contributed to the earnings growth recording an operating profit of RM565.8 or +14.0%yoy due to the construction gain recognized from Mero 3. Despite delivering the highest revenue growth, Heavy Engineering segment posted a widening operating loss of -RM100.0m compared to -RM40.5m in FY19 due to additional cost provision and associated higher unabsorbed overheads arising from the pandemic.

RETURN STATISTICS	
Price @ 18th February 2021 (RM)	**6.40**
Expected share price return (%)	**+22.03**
Expected dividend yield (%)	**+4.20**
Expected total return (%)	**+26.23**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-0.8	1.0
3 months	-6.4	-5.4
12 months	-18.1	-20.3

KEY STATISTICS	
FBM KLCI	1,575.84
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star Rating)	☆☆☆☆
Issue shares (m)	4463.75
Estimated free float (%)	25.03
Market Capitalisation (RM'm)	28,701.88
52-wk price range	RM5.96 - RM8.55
Beta vs FBM KLCI (x)	0.69
Monthly velocity (%)	0.00
Monthly volatility (%)	6.35
3-mth average daily volume (m)	3.15
3-mth average daily value (RM'm)	20.71
Top Shareholders (%)	
Petroliam Nasional Bhd	51.00
Employees Provident Fund Board	11.34
Amanah Saham Nasional Bhd	6.66

MIDF Research
research@midf.com.my

Outlook for MISC. Despite crude oil demand still struggling to find its footing, the oil supply continues to be buoyed by the OPEC+ production cuts and declining crude inventories worldwide – pushing the oil price to above USD60pb recently. 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. This then will hopefully translate to an increase in refinery activities in 2H21 which would positively benefit demand for tankers.

...Looking for opportunities in Offshore division. As for its Offshore segment, the uncertainty lingering over oil market dynamics is expected to render the activity levels in the global offshore exploration and production (E&P) muted for the majority of the year. In addition, oil and gas majors have yet to announce any upward revision in terms of the E&P CAPEX spending – which usually signals the return of activity into the sector. To counter this, the group will home in on the execution of the new FPSO project in hand while remaining actively on the lookout for new opportunities in targeted markets. We remain hopeful on the meaningful recovery of oil market dynamics, improving demand vis-a-vis lower crude production in FY21.

Earnings estimates. Despite its encouraging performance during 4Q20, we are maintaining our earnings expectation of MISC. This is given that all positives have been priced in at this juncture and we opine that an upward revision would be only take place should there be a more significant improvement in terms of the overall crude oil demand.

Target price. Following our unchanged earnings estimate, our target price remains at **RM7.81**. Our target price is derived via DCF valuation with a terminal growth of 2% and WACC of 6.9%.

Upgrade to Buy. We posit that the current 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 upgrade our call from Neutral to **BUY** 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: 4Q20 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**4Q20**	**3Q20**	**4Q19**	**QoQ**	**YoY**	**12M20**	**12M19**	**YoY**
Revenue	2,641.6	2,059.5	2,375.5	28.3%	11.2%	9,401.2	8,962.7	4.9%
Cost of Sales	(2,093.5)	(1,521.1)	(1,607.5)	-37.6%	-30.2%	(6,521.4)	(6,215.6)	-4.9%
Gross Profit	548.1	538.4	768.0	1.8%	-28.6%	2,879.8	2,747.1	4.8%
Net Operating Expenses	(228.8)	(208.4)	(291.4)	-9.8%	21.5%	(862.5)	(817.9)	-5.5%
Operating Profit	319.3	330.0	476.6	-3.2%	-33.0%	2,017.3	1,929.2	4.6%
Net one off gains/(losses)	329.3	29.0	(94.5)	1035.5%	448.5%	(1,772.8)	67.4	-2730.3%
Finance costs	(94.0)	(77.8)	(118.4)	-20.8%	20.6%	(368.1)	(484.3)	24.0%
Profit/(Loss) before tax	554.6	281.2	263.7	97.2%	110.3%	(123.6)	1,512.3	-108.2%
Taxation	1.9	(20.8)	(16.3)	109.1%	111.7%	(46.2)	(76.1)	39.3%
PAT	556.5	260.4	247.4	113.7%	124.9%	(169.8)	1,436.2	-111.8%
Minority Interest	(0.5)	(2.1)	2.5	76.2%	-120.0%	126.8	(9.9)	1380.8%
PATAMI	556.0	258.3	249.9	115.3%	122.5%	(43.0)	1,426.3	-103.0%
Core Earnings	462.4	275.6	365.2	67.8%	26.6%	2,132.5	1,613.2	32.2%

SEGMENTAL BREAKDOWN

Revenue	**4Q20**	**3Q20**	**4Q19**	**QoQ**	**YoY**	**12M20**	**12M19**	**YoY**
LNG Shipping	651.4	613.4	648.4	6.2%	0.5%	2,652.7	2,582.1	2.7%
Petroleum Shipping	695.1	850.8	1,157.4	-18.3%	-39.9%	3,863.5	4,302.9	-10.2%
Offshore Business	662.9	196.7	270.8	237.0%	144.8%	1,288.5	980.8	31.4%
Heavy Engineering	713.1	362.2	255.6	96.9%	179.0%	1,567.6	936.5	67.4%

PBT	**4Q20**	**3Q20**	**4Q19**	**QoQ**	**YoY**	**12M20**	**12M19**	**YoY**
LNG Shipping	206.6	240.5	216.2	-14.1%	-4.4%	1,072.5	1,043.0	2.8%
Petroleum Shipping	(100.0)	(85.7)	66.7	-16.6%	-249.9%	299.4	51.4	482.9%
Offshore Business	460.3	143.9	30.2	220.0%	1422.4%	(1,048.1)	454.8	-330.4%
Heavy Engineering	(11.8)	(4.2)	3.3	-181.2%	-454.9%	(405.7)	(39.3)	-931.0%

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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.
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