Corporate Update | Friday, 11 October 2019

MISC Berhad

(3816 | MISC MK) Main | Transportation & Logistics

Christmas comes early for tankers

Maintain **NEUTRAL**

Revised **Target Price: RM8.35**
Previously RM7.99

KEY INVESTMENT HIGHLIGHTS

- **MISC awarded with two time charter contracts worth USD711.0m for 15 years by SeaRiver, for the time charter of two newbuild LNG Carriers carriers**
- **Contract is expected to provide additional earnings of RM79.2m per annum starting from 1QFY23**
- **Sanctions on Cosco vessels to boost tanker rates in the short term but pressure from lower global oil demand to persist in the long run**
- **Earnings estimates for FY19 and FY20 revised upwards**
- **Maintain NEUTRAL with a revised TP of RM8.35 per share**

Contract award by Exxon Mobil subsidiary. MISC Berhad (MISC) through its vessel-owning entities, namely Polaris LNG One Pte. Ltd. (Polaris 1) and Polaris LNG Two Pte. Ltd. (Polaris 2) has been awarded with two time charter contracts by Exxon Mobil Corporation's wholly-owned subsidiary, SeaRiver Maritime LLC. (SeaRiver), for the time charter of two newbuild LNG Carriers carriers with a capacity of 174,000m^3 each. The two newbuild LNG carriers ordered by MISC costs USD406.2m (approximately RM1.70b) and is expected to be delivered in 1QFY23. If the order were to be financed fully by borrowings, we estimated that MISC's gearing ratio will remain below 1.0x at 0.2x, reflecting MISC's ample leveraging capacity.

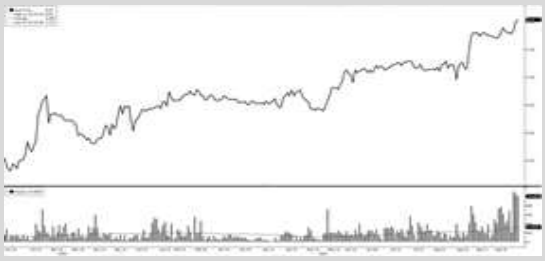
Estimated financial impact to MISC. The estimated contract value awarded by SeaRiver is USD711m (approximately RM2.97b) for a period of 15 years commencing in 1QFY23. This translates into annual revenue of RM198.1m. We expect the contracts would give an additional PBT of RM79.2m based on an estimated PBT margin of 40%. This will be circa 3.9% of the PBT, assuming its PBT to hit more than RM2b in FY23.

Our view. Although this latest contract award is still far away from being value accretive, we expect more contracts especially for the offshore segment to be awarded from October 2019 onwards as guided by the management. Meanwhile, we note that the said contract reiterates MISC's efforts to solidify its LNG business in preparation for the high sea-borne demand of LNG especially from North Asia namely Japan and China which are shifting more towards LG rather than coal for power generation and heating.

Sanctions on Cosco boosts tanker rate in the short term. In late September 2019, the U.S government's Office of Foreign Assets and Control (OFAC) blacklisted two Cosco tanker subsidiaries; (i) Cosco Shipping (Tankers) Dalian and Cosco Shipping (Dalian) Seaman and Ship Management Co. for allegedly shipping US-sanctioned Iranian crude. More than 29 Cosco tankers and liquefied petroleum gas carriers were directly affected, including 21 very large crude carriers. As a result, global VLCC supply declined by approximately 5% and U.S Gulf Coast exporters were prompted to hold back chartering COSCO-linked vessels, lead to a surge in average spot tanker rates (from 26 September to 9 October 2019) by almost five times from the same period last year. Therefore, we believe that this should provide a temporary earnings boost for the petroleum segment of MISC in 4QFY19 which is also seasonally strong due to the winter period. On the other hand, we opine that spot tanker rates will normalize after the peak winter season as the demand for crude oil is expected to be lower with global petroleum inventories projected to increase by nearly 550,000 barrels per day in 1HFY20 according to the Energy Information Administration. Moreover, the affected Cosco vessels will already have been deployed in non-U.S affiliated charterers in the next two to three months.

RETURN STATISTICS	
Price @ 10th Oct 2019 (RM)	8.04
Expected share price return (%)	+3.85
Expected dividend yield (%)	+3.70
Expected total return (%)	**+7.15**

SHARE PRICE CHART

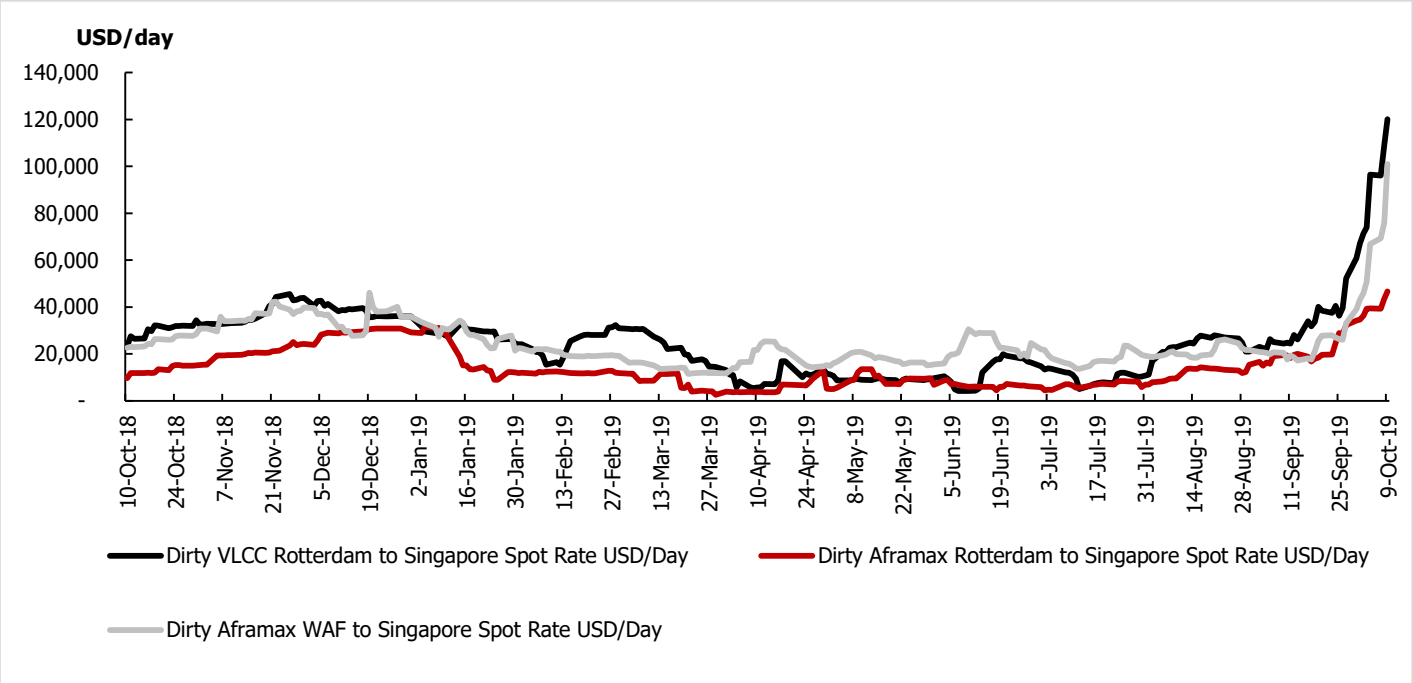


Share price performance (%)	Absolute	Relative
1 month	3.1	6.0
3 months	3.1	20.3
12 months	38.9	55.3

KEY STATISTICS	
FBM KLCI	1,551.87
Syariah compliant	Yes
Issue shares (m)	4463.75
Estimated free float (%)	15.60
Market Capitalisation (RM'm)	35,888.52
52-wk price range	RM5.48 - RM8.15
Beta vs FBM KLCI (x)	0.93
Monthly velocity (%)	18.00
Monthly volatility (%)	6.35
3-mth average daily volume (m)	3.18
3-mth average daily value (RM'm)	24.01
Top Shareholders (%)	
Petroliam Nasional Bhd	62.67
Associated PNB Funds	9.01
Employees Provident Fund	5.66

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Figure 1: Spot Tanker Rates



Source: Bloomberg

Earnings estimates. After taking into account of the temporary boost in tanker spot rates (with 35% of MISC's petroleum fleet placed under the spot market), we are adjusting our earnings estimates upwards by 6.2% and 3.6% for FY19 and FY20 respectively. Meanwhile, our forecasts at this juncture have not incorporated the potential job wins related to FPSO segment by MISC pending announcements which are expected.

Target price. We are also revising our target price to **RM8.35 per share** (previously RM7.99 per share). Our TP is derived by pegging our FY20 book value per share to a 1.05x price-to-book value, which is +1.5 standard deviation (previously +1.00) above its five-year average, reflecting the temporary buoyant environment for tankers.

Maintain NEUTRAL. We reiterate that growth in FY19 will be driven by the LNG segment that is supported by new liquefaction projects (i.e. Cameron LNG and Prelude FLNG) and reduced reliance on coal in China and Korea. Any downturn in LNG will be mitigated by its major existing portfolio of long term contracts. Aside from that, lack of scrapping activities will cap any upside on tanker rates despite the temporary surge in rates and the expected downtime for scrubber retrofits ahead of IMO 2020 implementation. This is because scrapping activities have yet to match the order book for deliveries which we expect to be sizeable up to end 2019 before tapering in 2020. In addition, production cuts by the OPEC (until March 2020) will also put downward pressure on tanker rates due to lower shipments. As for heavy engineering, even if the segment becomes profitable due to: i) marine repair activities amidst impending compliance of the IMO 2020 sulphur cap; and (ii) contribution from Kasawari Gas Development project, impact to MISC's bottom line will still be below 5.0%. With much of the positive factors being moderated by potential headwinds, we are maintaining our **NEUTRAL** stance on MISC Berhad.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	2017A	2018A	2019E	2020F	2021F
Revenue	**10,068.2**	**8,780.3**	**9,671.2**	**10,071.4**	**10,495.6**
EBIT	2,172.1	1,605.8	2,154.4	2,177.0	2,299.2
PBT	2,003.6	1,344.1	1,904.9	1,949.0	2,051.2
PATANCI	1,990.7	1,284.3	1,821.1	1,863.3	1,961.0
Normalised PATANCI	**2,788.9**	**1,495.6**	**1,821.1**	**1,863.3**	**1,961.0**
Normalised EPS (sen)	62.5	28.8	40.8	41.7	43.9
Normalised EPS Growth (%)	48.1	-35.5	41.8	2.3	5.2
PER (x)	12.9	27.9	19.7	19.3	18.3
Dividend Per Share (sen)	30.0	30.0	30.0	30.0	30.0
Dividend Yield (%)	3.7	3.7	3.7	3.7	3.7

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.