MISC Berhad

(3816 | MISC MK) Main | Transportation & Logistics

Contract awards slowly gaining traction

Maintain **NEUTRAL**

Unchanged **Target Price: RM7.99**

KEY INVESTMENT HIGHLIGHTS

- **MISC and Avenir formed a JV company to manage the commercial operations of an LNGBV**
- **Petronas LNG awarded the JV company with a time charter party contract for a provision of one LNG bunkering vessel worth approximately RM117.0m, commencing in 1QFY20**
- **Contract is expected to provide additional earnings of RM8.0m per annum starting from FY20**
- **Earnings estimates for FY19 and FY20 unchanged**
- **Maintain NEUTRAL with an unchanged TP of RM7.99 per share**

MISC teams up with Avenir. MISC Berhad (MISC) in collaboration with Avenir LNG Limited (Avenir) has been awarded a Time Charter Party by Petronas LNG Sdn Bhd (PLSB) for the provision of a 7,500m^3 LNG Bunker Vessel (LNGBV) owned by Avenir to be operated in Malaysian and Singaporean waters. The service is in addition to the transport services for small-scale terminals in the region. The collaboration between both MISC and Avenir is reflected through the formation of a joint venture company, Future Horizon (L) Pte Ltd (FHLPL), which will manage the commercial operations of the LNGBV whereas ship management services will be provided by Eaglestar Shipmanagement (L) Pte Ltd. FHLPL will be 51% owned by MISC while the remaining to be owned by Avenir.

Estimated financial impact to MISC. The estimated contract value awarded by PLSB is USD28.0m (approximately RM117.0m) for a period of three years commencing from 1QFY20. Taking into account of MISC's stake in FHLPL, we estimate that the revenue attributable to MISC from the said contract is circa RM19.9m per year. Assuming PBT margins of 40%, this translates to an additional PBT of approximately RM8.0m per annum. The expected contribution from this contract is below 1.0% of the PBT estimated for FY20.

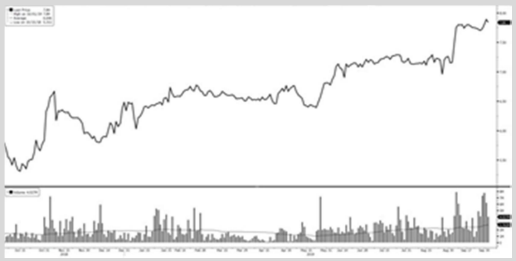
Our view. Although this latest contract award has a rather small value and is the second award so far in 2019, we expect more contracts especially for the offshore segment to be dished out from October 2019 onwards as guided by the management. Meanwhile, we note that the said contract signifies MISC's efforts to venture into non-conventional LNG solutions for niche markets in pursuit of long term sustainable returns.

Earnings estimates. No changes made to our earnings estimates for FY19 and FY20 as the impact from said time charter contract is minimal. Our forecasts have also not incorporated the potential job wins related to FPSO segment by MISC pending announcements which are expected to roll out in 4QFY19.

Target price. We are also maintaining our target price at **RM7.99 per share** Our TP is derived by pegging our FY20 book value per share to a 1.0x price-to-book value, which is +1.0 standard deviation above its five-year average.

RETURN STATISTICS	
Price @ 2nd Oct 2019 (RM)	7.84
Expected share price return (%)	+1.91
Expected dividend yield (%)	+3.80
Expected total return (%)	**+5.71**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	9.7	10.8
3 months	0.5	16.4
12 months	29.8	48.0

KEY STATISTICS	
FBM KLCI	1,574.90
Syariah compliant	Yes
Issue shares (m)	4463.75
Estimated free float (%)	15.60
Market Capitalisation (RM'm)	34,995.77
52-wk price range	RM5.48 - RM8.04
Beta vs FBM KLCI (x)	0.95
Monthly velocity (%)	18.0
Monthly volatility (%)	6.35
3-mth average daily volume (m)	2.74
3-mth average daily value (RM'm)	20.51
Top Shareholders (%)	
Petroliam Nasional Bhd	62.67
Associated PNB Funds	9.01
Employees Provident Fund	5.66

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Figure 1: Avenir's 7,500m^3 LNG Carrier



Source: Avenir

Maintain NEUTRAL. We believe 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. Saudi Aramco has restored full oil production and capacity to pre-drone attack levels of about 9.7m barrels per day, limiting the rise in tanker rates. Aside from that, scrapping activities will cap any upside on tanker rates that is due to 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)	2016A	2017A	2018A	2019E	2020F
Revenue	**9,597.2**	**10,068.2**	**8,780.3**	**9,558.5**	**9,963.7**
EBIT	3,011.6	2,172.1	1,605.8	2,041.6	2,069.3
PBT	2,814.0	2,003.6	1,344.1	1,792.1	1,881.3
PATANCI	2,793.3	1,990.7	1,284.3	1,713.3	1,798.5
Normalised PATANCI	**1,883.0**	**2,788.9**	**1,495.6**	**1,713.3**	**1,798.5**
Normalised EPS (sen)	42.2	62.5	28.8	38.4	40.3
Normalised EPS Growth (%)	-39.2	48.1	-35.5	33.4	5.0
PER (x)	18.6	12.5	27.2	20.4	19.5
Dividend Per Share (sen)	30.0	30.0	30.0	30.0	30.0
Dividend Yield (%)	3.8	3.8	3.8	3.8	3.8

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.