23 June 2017 | Corporate Update

MISC Berhad

***Maintain* NEUTRAL**

DP Shuttle awards by Statoil

***Unchanged* Target Price (TP): RM7.90**

INVESTMENT HIGHLIGHTS

- **Contract award for 2 DP shuttles**
- **Contract duration to be determined later**
- **Positive on the news**
- **Maintain NEUTRAL with unchanged TP of RM7.90**

Contract award for 2 DP shuttles. MISC announced in a Bursa filing that it has been awarded a long term contract to own and operate two 125,000dwt specialist DP2 Offshore Loading Shuttle Tankers from Statoil ASA (Statoil), with operations centered in oilfields in the North Sea, Norwegian Sea and the southern Barents Sea.

Contract duration to be determined later. The contract period will be determined by Statoil before end-2017, for either a period of 5 years (US$200m) or 7 years (US$275m) with delivery scheduled in 2019. With the awarding of the contract, MISC has commissioned Samsung Heavy Industries for shipbuilding. While no capex figure was mentioned, we believe it should not pose any hindrance to MISC, which has a net gearing of 0.16x.

Positive on the news. MISC currently owns and operates 4 similar vessels, primarily ploughing the North Sea region. Hence, the new award would not pose any major hurdles to MISC. Overall, we are positive on the news as the securing of long-term contracts increases MISC's petroleum tanker segment vessel delivery pipeline, of which it has 6 vessels scheduled for delivery between 2017 and 1H2019. In addition, the award comes amid a challenging petroleum tanker market which faces an oversupply of capacity.

Maintain NEUTRAL with unchanged TP of RM7.90 based on sum-of-parts valuation. Our NEUTRAL call is premised on the oversupply of tonnage in both the LNG and petroleum segments which exerts pressure on charter rates. Impetus for us to revisit our call on MISC include 1) a drastic change in supply-demand dynamics occur driving the LNG or petroleum transportation market closer to equilibrium, 2) the securing of sizable projects in the offshore segment and 3) earnings accretive acquisitions.

RETURN STATS	
Price (22 June 2016)	RM7.42
Target Price	RM7.90
Expected Share Price Return	+6.5%
Expected Dividend Yield	+2.7%
Expected Total Return	**+9.2%**

STOCK INFO	
KLCI	1,777.43
Bursa / Bloomberg	3816 / MISC MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	4,463.8
Par Value (RM)	1.00
Market cap. (RM'm)	33,121.34
Price over NA	0.89
52-wk price Range	RM7.03 - RM7.9
Beta (against KLCI)	0.81
3-mth Avg Daily Vol	1.96m
3-mth Avg Daily Value	RM14.6m
Major Shareholders	
Petronas	62.67%
EPF	6.36%
PNB	4.41%

Figure 1: LNG tanker rates (US$'000/day)

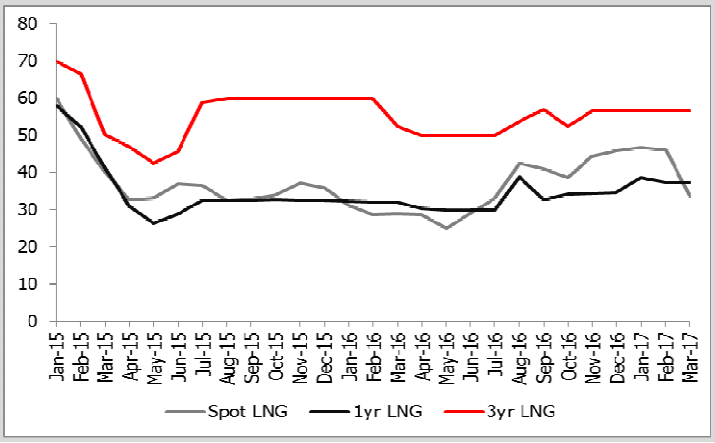
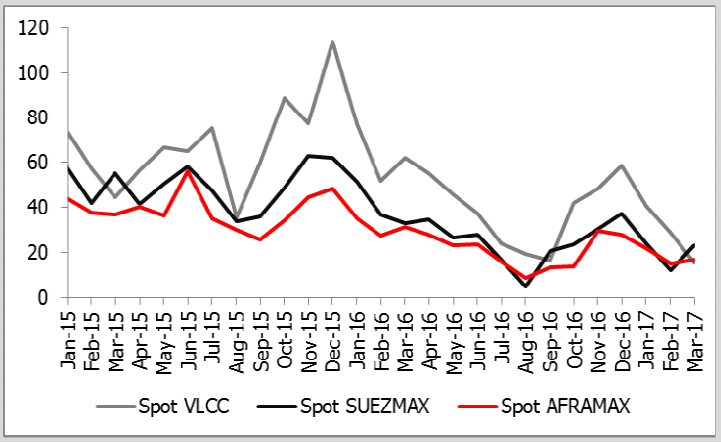


Figure 2: Spot Petroleum tanker rates (US$'000/day)



Source: Company, Ship Brokers' Reports, MIDFR

Segments	Value (US$'m)	Value/share (RM)	Valuation method
LNG	4,350.0	3.90	DCF (WACC: 6.5%)
Offshore	1,650.0	1.48	DCF (WACC: 7%)
Petroleum	2,353.0	2.11	2nd hand value of vessels
Chemical	114.1	0.10	2nd hand value of vessels
Heavy Engineering	149.0	0.13	Based on MIDF TP of RM0.56
Other fixed assets	572.01	0.51	1.0x FY17F P/BV
Equity stakes in JV and asso.	826.79	0.74	1.0x FY17F P/BV
Less: Net debt	-1,202.4	-1.08	Estimated end-FY17
Total (US$'m)	8,812.5		
USD/MYR exchange rate	4.0		
Number of shares o/s	4,463.8		
Target Price (RM)	7.90	7.90	

Source: Company, MIDFR

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17F	FY18F	FY19F
Revenue (RM' m)	10,908.4	9,597.2	10,252.0	10,559.6	10,876.3
EBIT (RM' m)	2,746.9	3,011.6	2,346.6	2,417.0	2,489.5
Pretax Profit (RM' m)	2,566.9	2,814.0	2,105.6	2,168.8	2,233.9
Net Profit (RM' m)	3,097.0	1,883.0	2,105.6	2,168.8	2,233.9
EPS (sen)	69.4	42.2	45.8	48.6	50.0
EPS growth (%)	75.4	-39.2	8.5	3.0	3.0
PER (x)	10.8	17.8	16.4	15.4	15.0
Net Dividend (sen)	18.0	20.0	20.0	20.0	21.0
Net Dividend Yield (%)	2.4	2.7	2.7	2.7	2.8

Source: MIDFR, Company

DAILY PRICE CHART



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Source: Bloomberg

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >15% 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.