Corporate Update | Wednesday, 25 September 2019

MISC Berhad

(3816 | MISC MK) Main | Transportation & Logistics

Expanding its third-party business portfolio

Maintain **NEUTRAL**

Revised **Target Price: RM7.99**
Previously RM6.81

KEY INVESTMENT HIGHLIGHTS

- **Entered into an agreement with MC and NYK to co-own two newbuild LNG vessels for an 18-year time charter contract worth USD202m (approx. RM845m)**
- **The agreement is expected to provide additional revenue of RM47.0m per annum starting from FY21**
- **Other developments coming up in the near future mainly lie in the FPSO segment**
- **Earnings estimates for FY19 and FY20 unchanged**
- **Maintain NEUTRAL with a revised TP of RM7.99 per share as we ascribe a higher PBV**

Agreement with Japanese companies to co-own LNG vessels. MISC Berhad (MISC) has entered into an agreement with Mitsubishi Corporation (MC) and Nippon Yusen Kabushiki Kaisha (NYK) to co-own to two newbuild LNG vessels, each with a capacity of 174,000m^3. Each LNG Vessel will serve Diamond Gas International Pte. Ltd.'s (DGI) LNG carrier requirements worldwide, particularly LNG volumes from the U.S. and Canada, on a time charter contract for a firm period of eighteen 18 years. MISC's interest in the total contract value is estimated at USD201.6 million (approximately RM845.0m). The LNG Vessels, currently being built by Hyundai Samho Heavy Industries (HSHI), are expected to be delivered in FY21 and the time charter contract will commence upon delivery.

Estimated financial impact. The said contract is expected to provide additional revenue of RM47.0m per annum starting from FY21. Assuming PBT margins of 40%, the contracts would translate into an additional PBT of ~RM18.8m per annum. The expected contribution from this contract is roughly 1% of the PBT estimated for FY19 and FY20.

Things to look out for in the near future. While the financial impact from this contract is expected to be realised in FY21, there are other developments under MISC which are expected to take place in the coming quarters. First is the potential job wins for the FPSO segment which could materialise from October 2019 onwards (refer Table 1). Secondly is the upcoming deliveries of shuttle tankers from 4Q19 onwards (refer Table 2) which we have already factored in previously.

Table 1: FPSO related job bids by MISC Berhad

No.	FPSO Job Bids by MISC
1	Mero 3 FPSO in Brazil
2	Joint venture with Siemens Group and Sembcorp Marine
3	Partnering with Yinson Holdings for Petronas Carigali Limbayong FPSO

Source: MISC

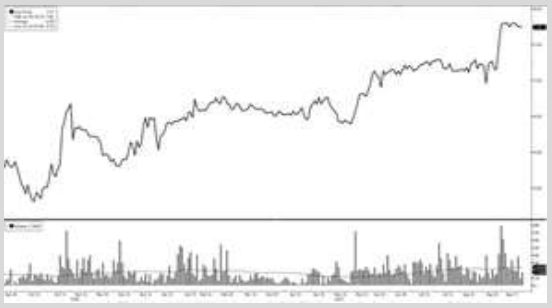
Table 2: Upcoming Shuttle Tanker Deliveries

No.	Upcoming Shuttle Tanker Deliveries	Contract Awarded by
1	Two LNG dual fuel Dynamic Positioning Tankers	Equinor
2	Four specialist DP2 Suezmax shuttle tankers	Petrobras
3	One specialist DP2 Suezmax Shuttle Tankers	Shell

Source: MISC

RETURN STATISTICS	
Price @ 24th Sept 2019 (RM)	7.74
Expected share price return (%)	+3.23
Expected dividend yield (%)	+3.90
Expected total return (%)	**+7.13**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	6.2	7.3
3 months	8.3	13.0
12 months	27.9	44.2

KEY STATISTICS	
FBM KLCI	1,592.33
Syariah compliant	Yes
Issue shares (m)	4463.75
Estimated free float (%)	15.60
Market Capitalisation (RM'm)	34,549.39
52-wk price range	RM5.48 - RM8.04
Beta vs FBM KLCI (x)	0.94
Monthly velocity (%)	11.00
Monthly volatility (%)	6.35
3-mth average daily volume (m)	2.38
3-mth average daily value (RM'm)	17.59
Top Shareholders (%)	
Petronas	62.67
PNB Associated Funds	9.01
Employees Provident Fund Board	5.66

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Earnings estimates. No changes made to our earnings estimates for FY19 and FY20 as the said time charter contract will come into effect in FY21. 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. While we make no changes to our earnings estimates, we are adjusting our target price to **RM7.99 per share** (previously RM6.81 per share) on the basis of valuation. 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 (previously -0.5 standard deviation). Our premise for the higher price-to-book value is due to the bright outlook for the FPSO segment and buoyant market condition seen in KL Energy Index and KL Transportation Index which have gained +35.9% and +7.20% respectively on a year-to-date basis.

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. The drone attacks on Saudi Arabia's oil facilities could boost tanker rates as replacement of crude supplies from the U.S and other regions will drive longer voyage times. Nevertheless, we opine that this is only for the short term as the Kingdom continues to restore production. Aside from that, the upside on tanker rates coming from reduced active petroleum fleet due to the downtime for scrubber retrofits leading up to the IMO 2020 implementation will be capped by scrapping activities. This is because scrapping activities have yet to match the order book for deliveries that we expect to be sizeable up to end 2019 before tapering in 2020 in addition to production cuts by the OPEC until March 2020. 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 the 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)	18.3	12.4	26.9	20.2	19.2
Dividend Per Share (sen)	30.0	30.0	30.0	30.0	30.0
Dividend Yield (%)	3.9	3.9	3.9	3.9	3.9

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.