Corporate Update | Monday, 09 December 2019

MISC Berhad

(3816 | MISC MK) Main | Transportation & Logistics

***Maintain* NEUTRAL**

***Unchanged* Target Price: RM8.35**

First petroleum tanker contract award for the year

KEY INVESTMENT HIGHLIGHTS

- **Contract awarded by a Shell Group entity worth USD245.0m commencing in FY22 to operate and own three Suezmax DPSTs**
- **Expected additional contribution to PBT of RM14.6m annually assuming a tenure of seven years and conservative PBT margin of 10%**
- **Impact from the cost for the three newbuild Suezmax DPSTs is minimal as net gearing estimated to increase slightly from 0.19x to 0.21x**
- **Earnings estimates for FY19,FY20 and FY21 unchanged**
- **Maintain NEUTRAL with an unchanged TP of RM8.35 per share**

Contract award by Shell Group entity. MISC Berhad (MISC) in collaboration with Avenir LNG Limited (Avenir) has been awarded with three long-term Time Charter Party by Brazil Shipping I Limited (BSIL) (a Shell Group entity) to own and operate newbuild Suezmax Class Dynamic Positioning Shuttle Tankers (DPST) in international and Brazilian waters. In fact, this is the first contract award for the petroleum tanker segment in FY19. Prior to this, MISC was only awarded with contracts for its LNG segment totalling RM3.92b in FY19.

Estimated financial impact to MISC. The estimated contract value awarded by BSIL is USD245.0m (approximately RM1.02b) and is expected to commence in FY22. The usual tenure for a long term time chart contract for Suezmax class vessels would be around five to seven years. Assuming a period of seven years, we estimate that the revenue attributable to MISC from the said contract is circa RM145.9m per year. Assuming a conservative PBT margin of 10% based on historical trends when the petroleum tanker segment was profitable, this translates to an additional annual PBT of approximately RM14.6m per annum. The expected contribution from this contract is below 1.0% of the PBT estimated for FY22 assuming an annual growth in earnings of 5.0%.

Potential cost of new build Suezmax DPST. Based on our channel checks and our independent research, the cost for a newbuild Suezmax DPST is around 25%-30% higher than a normal vessel which currently costs around USD70m (approximately RM291.8m). With three vessels costing approximately RM875.4m, we estimated that MISC's net gearing of 0.19x as of 30 September 2019 will only increase to 0.21x.

Our view. Although this latest contract award has a rather small value and is the only award for the petroleum tanker segment so far in 2019, we expect more contracts especially for the offshore segment to be dished out from FY20 onwards as guided by the management.

Earnings estimates. No changes made to our earnings estimates for FY19, FY20 and FY21 as the commencement of the contract is beyond our forecast horizon.

Target price. We are maintaining our target price at **RM8.35 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 above its five-year average, reflecting slew of contract awards for the LNG segment as of late in addition to the large job bids which MISC has entered into.

RETURN STATISTICS	
Price @ 6th Dec 2019 (RM)	8.33
Expected share price return (%)	+0.24
Expected dividend yield (%)	+3.60
Expected total return (%)	**+3.84**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.4	3.0
3 months	6.8	10.0
12 months	36.6	46.3

KEY STATISTICS	
FBM KLCI	1,568.44
Syariah compliant	Yes
Issue shares (m)	4463.75
Estimated free float (%)	15.88
Market Capitalisation (RM'm)	37,183.00
52-wk price range	RM5.94 - RM8.63
Beta vs FBM KLCI (x)	0.91
Monthly velocity (%)	22.80
Monthly volatility (%)	6.96
3-mth average daily volume (m)	4.76
3-mth average daily value (RM'm)	38.64
Top Shareholders (%)	
Petroliam Nasional Bhd	62.67
Associated PNB Funds	9.01
Employees Provident Fund	5.66

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Maintain NEUTRAL. We reiterate that growth in 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. This in turn would provide growth for the remaining months and later on spill over to FY20. As for the petroleum tanker business, the decision to remain with delaying retrofitting of scrubbers and demolishing activities to capitalise on the temporary surge in spot rates will eventually exert downward pressure on tanker rates until the year end. Even if demolition levels were to increase following the IMO2020 in January 2020, positive impacts of lower number of tankers to freight rates would be partially offset the extension of OPEC cuts and lower expected oil demand growth. U.S Energy Information Administration revised lower projected oil demand in FY20 to 1.3m barrels per day. 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. The only major catalyst for MISC is the potential job wins for the offshore segment in FY20 worth around USD4b which includes FPSO Mero 3 and FPSO Limbayong.

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)	13.3	29.0	20.4	20.0	19.0
Dividend Per Share (sen)	30.0	30.0	30.0	30.0	30.0
Dividend Yield (%)	3.6	3.6	3.6	3.6	3.6

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.