Corporate Update| Wednesday, 19 August 2020

MISC Berhad

(3816 | MISC MK) Main | Transportation & Logistics

Maintain **Trading BUY**

Unchanged **Target Price: RM8.20**

LOI From Petrobras Inked

- **MISC has accepted a LOI from Petrobras for the provision of floating storage and offloading facility of Mero 3 FPSO**
- **Estimated contract size of ~USD5.75b for 22.5 years**
- **Mero 3 FPSO marks MISC's largest contract win to-date**
- **Detailed terms and conditions are still pending finalisation**
- **FY20-21F earnings estimates remains unchanged**
- **Maintain Trading Buy with an unchanged TP of RM8.20 per share**

Mero 3 FPSO is set to sail-away in 2024. MISC announced that it has accepted a Letter of Intent (LOI) from Petróleo Brasileiro S.A. (Petrobras) for: (i) the provision of a floating production storage and offloading facility ("Mero 3 FPSO") as well as; (ii) the operation and maintenance services. The project is located offshore of Rio de Janeiro in the Libra block, Santos Basin, Brazil. The Mero 3 FPSO is expected to commence operation in the first half of 2024. The term of charter is 22.5 years (est. 2024 to 2046).

Contract details are scant for now. As information disclosed on the project were limited, we believe the final terms are still pending and under review. However, on the operational side, Mero 3 FPSO, will be the third unit to be installed in the Mero field with processing capacity of 180k barrels of oil and 12 million cbm of gas per day. The project calls for the drilling of 15 development wells, including eight oil producers and seven water and gas injectors, which will be linked to the FPSO through a rigid riser-based subsea structure yet to be contracted.

Mero 3 FPSO marks MISC's largest contract win. The contract win does not come as a surprise to us as MISC was one of the frontrunners to clinch the contract. We gathered that the day rate of the rate can be potentially be around USD700k (est.). Size wise, this day rate implies a total contract value to be around USD5.75b, marking it MISC's largest FPSO contract to-date. We understand that the estimated project CAPEX will be circa USD2.0b and part of Petrobras' requirement is for the project to have 40% local content.

Mero 3 FPSO to contribute an estimated RM0.28 per share. Based on our estimate, with a discount rate of 6%, we arrived at project NPV of RM1.2b (circa ~RM0.28 per share). Our key estimates include day contract rate at USD700k, CAPEX at USD2b, residual value 20% of Total CAPEX with contract tenure at 22.5 years. Our preliminary analysis indicates that the Mero 3 yearly contribution to the bottom line will amount to average ~RM100m per year starting 2024, although there is a need to factor finance lease accounting on the project. To note, for finance lease, profit recognition is front loaded to the front of the project and progressively lower as project moves towards completion.

RETURN STATISTICS	
Price 18th August 2020 (RM)	7.81
Expected share price return (%)	+7.68
Expected dividend yield (%)	+3.80
Expected total return (%)	+11.48

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-0.8	0.4
3 months	2.0	-13.8
12 months	7.3	8.7

KEY STATISTICS	
FBM KLCI	1,560.74
Syariah compliant	Yes
Issue shares (m)	4463.75
Estimated free float (%)	21.95
Market Capitalisation (RM'm)	34,861.85
52-wk price range	RM6.52 –
Beta vs FBM KLCI (x)	0.69
Monthly velocity (%)	0.00
Monthly volatility (%)	6.35
3-mth average daily volume (m)	3.10
3-mth average daily value (RM'm)	25.01
Top Shareholders (%)	
Petroliam Nasional Bhd	57.56
Employees Provident Fund	9.10
PNB Associated Funds	4.23

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FY20-21F earnings estimate maintained. As Mero 3 FPSO will only be operational in the first half of CY24, we make no changes to our FY20-21F earnings estimates at this juncture. While we understand there will be preliminary contribution from the FPSO from FY20 onwards however, we deem it to be minimal at this juncture.

Maintain BUY with an unchanged TP of RM8.20. All factors considered and bearing in mind the current operating environment, we are maintaining our **Trading BUY** call on MISC at this juncture. Our TP is derived by pegging our FY21 book value per share to a 1.00x price-to-book value which is its five-year average at **RM8.20 per share.** We continue to like MISC due to its resilience as it remains insulated through its time charter rate contracts to the current volatile operating environment. Furthermore, we remain confident on its ability to secure further contract wins in the future. The downside risks to MISC are: (i) further downward movement of tanker rates and; (ii) lack of demand for floating storage.

INVESTMENT STATISTICS

Financial year ending 31st Dec (in RM'M unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Revenue (RM'm)	8,780.3	8,962.7	10,457.4	11,144.4	11,791.6
EBIT (RM'm)	1,333.5	1,929.2	2,432.0	2,728.0	3,034.7
Pretax Profit (RM'm)	1,344.1	1,512.3	2,305.0	2,678.0	2,814.7
PATAMI	1,311.5	1,426.3	2,189.8	2,544.1	2,674.0
Core PATAMI (RM'm)	1,495.6	1,673.7	2,189.8	2,544.1	2,674.0
Core EPS (sen)	33.5	37.5	49.1	57.0	59.9
Core EPS growth (%)	-46.4	11.9	30.8	16.2	5.1
PER(x)	23.6	21.1	16.1	13.9	13.2

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.