MISC Berhad

(3816 | MISC MK) Main | Transportation & Logistics

***Maintain* NEUTRAL**

Increased activities offset by higher costs

***Revised* Target Price: RM7.48**
(previously RM7.83)

KEY INVESTMENT HIGHLIGHTS

- **2Q22 earnings down by >100%yoy to deficit of -RM19m; came in below expectations**
- **Revenue increase by +37%yoy from higher activities**
- **High LNG demand expected to contribute long-term**
- **FY23-24 earnings forecast revised down -27% and -12%**
- **Maintain NEUTRAL with revised TP of RM7.48 per share**

2QFY22 earnings in red. MISC Berhad (MISC) reported a significant downslide in 2QFY22 earnings by >100% – settling at a loss of -RM19.1m in comparison to RM538.8m in 2QFY21 and RM376.4m in 1QFY22. For the cumulative first half, earnings dropped by -63.1%yoy to RM357.3m. This came in below our one-year earnings forecast at 43.2% and consensus' at 39.1%. The lower earnings are due to increase in total construction costs of an FPSO, caused by global supply chain issues and China lockdowns.

Revenue increase +37%yoy. The group reported a rise in revenue by +36.5%yoy and +12%qoq to RM3.21b. For the cumulative first half, revenue increased by +24.2% to RM6.08b. This is contributed by: (i) higher freight rates for mid-sized tankers, (ii) higher earning days for its Petroleum & Product Shipping (PPS) and Gas Asset & Solutions (GAS) segments, (iii) higher recognition of an FPSO construction and conversion, (iv) higher dry-docking activities, and (v) higher activities in ongoing projects.

Gas Asset and Solutions. This segment's revenue rose up by +10.4%yoy and +0.6%qoq to RM762.5m, while profit shot up +12.4%yoy but slipped -15.6%qoq to RM330m. Cumulatively for the first half, both revenue and earnings are up by +10.5%yoy to RM1.52b and +21.3%yoy to RM721.2m respectively.

Petroleum & Product Shipping. This segment reported a slip in revenue by -12.3%yoy and -22.2%qoq to RM690.5m. Meanwhile, profit slid by -45.7%yoy to RM115.1m, but surged >100%qoq from RM32.2m in 1QFY22. For the cumulative first half, revenue increased by +27.6%yoy to RM2.02b but earnings lost -40.2%yoy to RM147.3m.

Offshore Business. This segment recorded a jump in revenue by +57%yoy and +15.6%qoq to RM890.4m. However, earnings recorded a loss by -76.7%yoy and -63.9%qoq to RM43.6m. Cumulatively for the first half, revenue increased by +33.2%yoy to RM1.66b while earnings lost -61.4%yoy to RM164.4m.

RETURN STATISTICS	
Price @ 18th August 2022 (RM)	7.37
Expected share price return (%)	+8.88
Expected dividend yield (%)	+1.10
Expected total return (%)	**+9.98**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-0.9	-6.6
3 months	-3.2	-9.4
12 months	-0.9	-1.0

KEY STATISTICS	
FBM KLCI	1,516.62
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star Rating)	☆☆☆☆
Issue shares (m)	4463.75
Estimated free float (%)	19.90
Market Capitalisation (RM'm)	30,665.93
52-wk price range	RM6.33 - RM7.92
Beta vs FBM KLCI (x)	0.82
Monthly velocity (%)	0.00
Monthly volatility (%)	6.35
3-mth average daily volume (m)	2.43
3-mth average daily value (RM'm)	17.54
Top Shareholders (%)	
Petroliam Nasional Bhd	51.00
Employees Provident Fund Board	12.77
Amanah Saham Nasional Bhd	6.

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Marine & Heavy Engineering. This segment reported a rise in revenue by +48.3%yoy but slipped by -4.1%qoq to RM400.6m. Meanwhile, earnings surged >100% to RM25.8m from a deficit of -RM26.3m in 2QFY21 and from RM6.3m in 1QFY22.

Robust LNG demand bodes well for long-term. LNG carrier spot rates had spiked +82%qoq in 2QCY22 due to higher demand for LNG cargo in the European region in a bid to reduce reliance on Russian gas, in addition to the expected restocking of inventory for the upcoming winter season in the Northern Hemisphere. scenarios suggested a great opportunity for MISC to expand its portfolio for long-term charters and accelerate investment in liquefaction infrastructure, subsequently pushing towards better energy security. Meanwhile, lockdowns in China had been proven to be advantageous for dry-docking operations. These MISC also reported improvement in newbuilding orders in 2022; indicating a strong demand recovery outlook. As of 2QCY22, 78 vessels were ordered.

Low orderbook for shipping business. VLCC tankers had recorded weaker earnings due to lower oil demand from China and a reshuffling of global oil trading patterns due to the Russia-Ukraine war. Mid-size tankers were more favoured, hence Suezmaxes and Aframaxes had seen significant tonne-mile growth as China and India increased their oil imports from Russia. The overall orderbook trend remained low due to: (i) high newbuilding prices, (ii) lack of yard space, (iii) ongoing tonnage oversupply and (iv) uncertainty on ESG targets. Nevertheless, the group continues to focus on building long-term secured income through its shuttle tanker business and renewal of its tanker fleet.

Offshore and marine remain resilient. Elevated oil prices since early CY22, in addition to global capex spending for E&P expected to reach USD132b by end year, are expected to drive MISC's upstream ventures. New FPSO projects until CY23 are expected to centre around South America, most notably in Brazil and Guyana. MISC's marine business remains optimistic, amid uncertainties caused by: (i) prolonged supply chain disruptions, (ii) volatile commodity prices, and (iii) nationwide labour shortage; mitigated by the elevated crude prices and increased dry-docking activities.

Revised FY22-23 earnings estimates. Despite the bright long-term prospects, taking MISC's 2QFY22 earnings into account, we revise our FY23 and FY24 earnings projection downward by -27% and -12% respectively. As such, we revise our target price to RM7.48 (previously RM7.93), by pegging a PER of 23x to a revised EPS23 of 32sen. The PER is based on a 10-year average PER for marine and tankers subsector.

Maintain NEUTRAL with TP: RM7.48. All in, we maintain our **NEUTRAL** call on MISC, with **target price of RM7.48 per share.** Despite a positive outlook on MISC's near-term prospects, as global oil demand and supply continue to recover, we are still cautious on interest rate hikes and further weakening demand from China lockdowns that could affect the timely execution of the group's projects, in addition to the volatile oil and gas market due to the ongoing Russia-Ukraine war and tight supply. Nevertheless, we believe MISC will take on mitigation strategies to minimise impacts from these challenges in the long run. We reiterate our positive view for the group, despite the below than expected performance on the basis of: (i) rising demand for both petroleum and LNG as winter approaches, (ii) ongoing long-term contracts to support financial performance in the near-term, and (iii) increasing dry-docking activities as vessels gear up for seaborne trade.

INVESTMENT STATISTICS

Income Statement	2020A	2021A	2022F	2023F	2024F
Revenue	9,401.2	10,671.7	12,501.0	13,090.9	13,465.5
Cost of sales	(6,521.4)	(8,054.2)	(9,375.8)	(9,818.2)	(10,099.2)
Gross profit	2,879.8	2,617.5	3,125.3	3,272.7	3,366.4
Net operating expenses	(862.5)	(669.1)	(1,009.2)	(1,060.4)	(1,090.7)
Operating profit	2,017.3	1,948.4	2,116.1	2,212.4	2,275.7
Net one off gains/(losses)	(1,772.8)	243.6	(600.0)	(500.0)	(450.0)
Finance costs	(368.1)	(417.3)	(600.0)	(520.0)	(470.0)
Profit/(Loss) before tax	(123.6)	1,774.7	916.1	1,192.4	1,355.7
Taxation	(46.2)	(41.1)	(9.2)	(11.9)	(13.6)
PATAMI	(43.0)	1,831.3	906.9	1,180.4	1,342.1
EPS	-0.01	0.41	0.20	0.26	0.30
Dividends yield	4.5%	1.8%	0.8%	1.1%	1.3%

Source: Company, MIDFR

MISC BHD: 2QFY22 RESULTS SUMMARY

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results					Cumulative		
Income Statement	**2Q22**	**1Q22**	**2Q21**	**QoQ**	**YoY**	**6M22**	**6M21**	**YoY**
Revenue	3,212.3	2,867.6	2,353.8	12.0%	36.5%	6,079.9	4,894.7	24.2%
Cost of Sales	(2,534.2)	(2,209.7)	(1,656.5)	-14.7%	-53.0%	(4,743.9)	(3,531.4)	-34.3%
Gross Profit	678.1	657.9	697.3	3.1%	-2.8%	1,336.0	1,363.3	-2.0%
Net Operating Expenses	(217.2)	(141.0)	(70.3)	-54.0%	-209.0%	(358.2)	(272.5)	-31.4%
Operating Profit	460.9	516.9	627.0	-10.8%	-26.5%	977.8	1,090.8	-10.4%
Net one off gains/(losses)	(313.8)	22.6	5.6	-1488.5%	-5703.6%	(291.2)	40.6	-817.2%
Finance costs	(147.5)	(152.9)	(97.9)	3.5%	-50.7%	(300.4)	(191.0)	-57.3%
Profit/(Loss) before tax	(0.4)	386.6	534.7	-100.1%	-100.1%	386.2	940.4	-58.9%
Taxation	(13.1)	(11.6)	(10.6)	-12.9%	-23.6%	(24.7)	(20.7)	-19.3%
PAT	(13.5)	375.0	524.1	-103.6%	-102.6%	361.5	919.7	-60.7%
Minority Interest	(5.6)	1.4	14.7	-500.0%	-138.1%	(4.2)	48.9	-108.6%
PATAMI	(19.1)	376.4	538.8	**-105.1%**	**-103.5%**	357.3	968.6	**-63.1%**

SEGMENTAL BREAKDOWN

Revenue	**2Q22**	**1Q22**	**2Q21**	**QoQ**	**YoY**	**6M22**	**6M21**	**YoY**
LNG Shipping	762.5	757.7	690.5	0.6%	10.4%	1,520.2	1,376.2	10.5%
Petroleum Shipping	690.5	887.3	787.2	-22.2%	-12.3%	2,019.2	1,582.0	27.6%
Offshore Business	890.4	770.1	567.1	15.6%	57.0%	1,660.5	1,247.0	33.2%
Heavy Engineering	400.6	417.8	270.1	-4.1%	48.3%	818.4	613.1	33.5%
Operating Profit/Loss								
LNG Shipping	330.0	391.2	239.0	-15.6%	38.1%	721.2	594.5	21.3%
Petroleum Shipping	115.1	32.2	20.1	257.5%	472.6%	147.3	246.4	-40.2%
Offshore Business	43.6	120.8	98.9	-63.9%	-55.9%	164.4	426.1	-61.4%
Heavy Engineering	25.8	6.3	2.3	309.5%	1021.7%	32.1	(128.2)	125.0%

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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology