MISC Berhad

(3816 | MISC MK) Main | Transportation & Logistics

***Maintain* NEUTRAL**

Contract renegotiation spiked 3Q22 earnings

***Revised* Target Price: RM7.70**
(previously RM7.48)

KEY INVESTMENT HIGHLIGHTS

- **3Q22 earnings up by >100%yoy to RM821; came in above expectation**
- **Revenue increased by +34%yoy from higher freight rates, activities**
- **High LNG demand expected until end year**
- **FY23-24 earnings forecast revised up +31% and +23%**
- **Maintain NEUTRAL with revised TP of RM7.70 per share**

Earnings back into black. MISC Berhad (MISC) reversed its previous losses with profit surging by over >100% on-year and on-quarter to RM820.6m in 3QFY22, from RM401m in 3QFY21 and from a loss of -RM19.1m in 2QFY22. For the cumulative 9 months, earnings dropped by -14%yoy to RM1.18b. Consequently, MISC's earnings came in above our expectation at 97% of full-year estimate. The higher earnings were due to one-off compensation for a contract renegotiation and the gain from the construction of an FPSO.

Revenue up +34%yoy. The group reported a rise in revenue by +34.3%yoy and +12.5%qoq to RM3.61b. For the cumulative 9 months, revenue increased by +27.8% to RM9.69b. 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, and (iii) higher recognition of construction revenue of an FPSO.

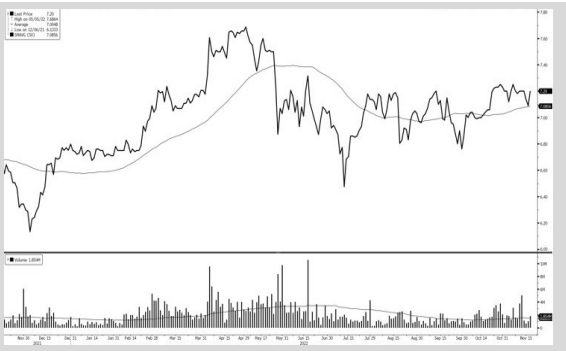
Gas Asset and Solutions. This segment's revenue rose by +6.6%yoy and +3.6%qoq to RM790.1m, while profit shot up +13.2%yoy and +7.6%qoq to RM355.1m. Cumulatively for 9 months, both revenue and earnings are up by +9.1%yoy to RM2.31b and +18.5%yoy to RM1.08b respectively.

Petroleum & Product Shipping. This segment reported a slip in revenue by +63.1%yoy and +83.2%qoq to RM1.27b. Meanwhile, profit slid by surged >100% on-year and on-quarter to RM470.7m from a loss of -RM8.3m in 3QFY21 and RM115.1m in 2QFY22. For the cumulative 9 months, revenue and earnings increased by +39.3%yoy to RM3.28b and +159.6% to RM618m.

Offshore Business. This segment recorded a gain in revenue by +49.4%yoy and +25.8%qoq to RM1.12b. However, earnings slipped -21.9%yoy to RM190-76.7%, but gained >100%qoq from a loss of -RM20.1m. Cumulatively for 9 months, revenue increased by +38.1%yoy to RM2.78b while earnings lost -47.1%yoy to RM354.4m.

RETURN STATISTICS	
Price @ 17th November 2022 (RM)	7.20
Expected share price return (%)	+6.9
Expected dividend yield (%)	+1.6
Expected total return (%)	**+8.54**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	2.6	-1.9
3 months	6.5	4.5
12 months	4.5	10.0

KEY STATISTICS	
FBM KLCI	1,449.32
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star Rating)	☆☆☆☆
Issue shares (m)	4463.75
Estimated free float (%)	20.24
Market Capitalisation (RM'm)	32,138.97
52-wk price range	RM6.33 - RM7.92
Beta vs FBM KLCI (x)	0.76
Monthly velocity (%)	0.00
Monthly volatility (%)	6.35
3-mth average daily volume (m)	1.57
3-mth average daily value (RM'm)	11.17
Top Shareholders (%)	
Petroliam Nasional Bhd	51.00
Employees Provident Fund Board	12.58
Amanah Saham Nasional Bhd	6.73

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Marine & Heavy Engineering. This segment reported a rise in revenue by +5.1%yoy and +2.1%qoq to RM409.2m. Meanwhile, earnings surged >100%yoy to RM19m from a deficit of -RM20.1m in 3QFY21, but lost -26.4%qoq. For the cumulative 9 months, revenue and earnings gained +18.6%yoy to RM1.23b and +134.5%yoy to RM51.1m respectively.

Robust orderbook. As of 3QFY22, MISC had completed repair & maintenance of 72 vessels of various categories including 8 LNGCs. Additionally, the group was awarded the provision of Front-End Engineering Design (FEED) Competition for the Kasawari Carbon Capture & Storage (CCS) project from PETRONAS Carigali, and a contract from Sarawak Shell Berhad (SSB) to undertake the Engineering, Procurement and Construction (EPC) of the offshore platform for the Rosmari-Marjoram gas project. The group's orderbook backlog stood at RM2.2b, with approximately RM15-16b-worth of heavy engineering tenders submitted. 2 LNGCs is expected to be completed in 1HCY23, as well as 1 VLCC in 1HCY23 and 2 VLCCs in 4QCY23.

Table 1: MISC's Business Deliveries as of 3QFY22

Segments	Date	Subsidiary/Consortium	Updates	Timeline
Gas Assets & Solutions	September 2022	• Polaris LNG Three (Polaris 3) • Polaris LNG Four (Polaris 4)	• Signed 2 Time Charter Parties (TCPs) with Exxon Mobil Corporation's wholly owned subsidiary, SeaRiver Maritime LLC. (SeaRiver) • 2 newbuild Liquefied Natural Gas Carriersu LNGCs for operations in international waters • LNGC constructed by Daewoo Shipbuilding & Marine Engineering of Korea	• Chartered for 10 years • Commencing 2026
	November 2022	Consortium with Nippon Yusen Kabushiki (NYK), Kawasaki Kisen Kaisha (K-Line) and China LNG Shipping (CLNG)	• Awarded TCPs by QatarEnergy for 5 174,000 m3 newbuild LNGC • LNGC built by Hudong-Zhonghua Shipbuilding Addition to 7 long-term timecharter contracts secured earlier in August • Each member will have equal equity interest of 25% in each awarded LNGC • Shareholders' agreements through its wholly-owned subsidiary, Portovenere and Lerici Labuan (PLL)	Delivery in 2025
Petroleum & Product Shipping	September 2022	• PTT • AET	• Memorandum of Understanding (MoU) for the development and construction of 2 zero-emission Aframaxes powered by green ammonia • Jointly PTT and AET encourage the use of green ammonia as a main propulsion fuel • AET will select a suitable shipyard for the vessels	Delivery in 4Q 2025 and 1Q 2026

Source: Company, MIDFR

Demand in LNGC surged. Due to increased demand for LNG cargoes as winter approaches and Europe accelerates its FSRU-based LNG import projects, LNGC spot rates increased by 46%qoq in 3QFY22. This had a dampening effect on Asian LNG import and power generation projects. The push for energy security, the rising LNG demand, and the shortage of LNG supply in advance of the winter season all contributed to an increase in time charter prices. As a result, a rise in new orders is anticipated throughout the year, led by the LNGC orders from Qatar and the soaring demand from Europe, which saw 124 vessels ordered in 3QFY22.

Cautious outlook on shipping market. The increase in the FID of planned liquefaction projects and growing demand for LNG are expected to be positive catalysts to MISC's shipping business. VLCC earnings is expected to rebound due to the increase in US crude flows to the Far East and South Asia. The uptrend continues in mid-size tanker spot rates due to reshuffling of trade routes prompted by EU's ban on Russian imports and the greater tonne-mile growth caused by the Russia-Ukraine conflict. Oil supply continues to be tight this winter, capping any rise in freight rates. The risks to the demand outlook remain to be the disruption in Chinese oil demand and the global economy slowdown. The tanker market orderbook trend remained low due to: (i) high newbuilding prices, (ii) lack of yard space, (iii) prevailing tonnage oversupply, and (iv) uncertainty over decarbonisation targets. Overall scrapping activities remains low despite some slight pickup in the midsize tanker segment.

Offshore activities to recover. Global offshore E&P capex spending is expected to reach USD131b this year – an increase of 18% from CY21, with Latin America and Asia Pacific accounting for nearly half of the total. New FPSO projects over the in the near to mid-term are expected to be mostly centered around South America, particularly in Brazil and Guyana.

Revised FY23-24 earnings estimates. With the resiliency in the market and taking MISC's 3QFY22 earnings into account, we revise our FY23 and FY24 earnings projection upward by +31% and +23% respectively. As such, we revise our **target price to RM7.70** (previously RM7.48), by pegging a PER of 21x to a revised EPS23 of 37sen. The PER is based on a 10-year average PER for marine and tankers subsectors.

Maintain NEUTRAL with TP: RM7.70. All in, we maintain our **NEUTRAL** call on MISC, with **target price of RM7.70 per share.** As global oil demand and supply continue to recover, we continue to remain cautious on MISC's future prospects, especially on the basis of freight rate hikes and weakening demand from China that could disrupt the timely execution of the group's projects. Additionally, the volatile oil and gas market due to the ongoing Russia-Ukraine war, the upcoming Russian sanctions and tight crude supply remain to be major risks. Despite the surge in earnings in 3QFY22, we recognise that it is likely a one-off event. Nevertheless, we reiterate our positive view for the group, on the basis of: (i) rising demand for both petroleum and LNG in Europe and East Asia, (ii) ongoing long-term contracts and resilient orderbook, and (iii) the bright prospects in the shipping and tanker market in the near term.

INVESTMENT STATISTICS

Income Statement	2020A	2021A	2022F	2023F	2024F
Revenue	9,401.2	10,671.7	12,725.2	13,326.3	13,708.0
Cost of sales	(6,521.4)	(8,054.2)	(9,289.4)	(9,994.7)	(10,281.0)
Gross profit	2,879.8	2,617.5	3,435.8	3,331.6	3,427.0
Net operating expenses	(862.5)	(669.1)	(763.5)	(693.0)	(795.1)
Operating profit	2,017.3	1,948.4	2,672.3	2,638.6	2,631.9
Net one off gains/(losses)	(1,772.8)	243.6	(500.0)	(400.0)	(350.0)
Finance costs	(368.1)	(417.3)	(630.0)	(550.0)	(500.0)
Profit/(Loss) before tax	(123.6)	1,774.7	1,542.3	1,688.6	1,781.9
Taxation	(46.2)	(41.1)	(15.4)	(16.9)	(17.8)
PATAMI	(43.0)	1,831.3	1,526.9	1,671.7	1,764.1
EPS	-0.01	0.41	0.34	0.37	0.40
Dividends yield	4.5%	1.8%	1.3%	1.6%	1.8%

Source: Company, MIDFR

Table 2: MISC'S 3QFY22 RESULTS SUMMARY

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results					Cumulative		
Income Statement	**3Q22**	**2Q22**	**3Q21**	**QoQ**	**YoY**	**9M22**	**9M21**	**YoY**
Revenue	3,614.1	3,212.3	2,691.8	12.5%	34.3%	9,694.0	7,586.5	27.8%
Cost of Sales	(2,548.0)	(2,534.2)	(2,013.2)	-0.5%	-26.6%	(7,291.9)	(5,544.6)	-31.5%
Gross Profit	1,066.1	678.1	678.6	57.2%	57.1%	2,402.1	2,041.9	17.6%
Net Operating Expenses	(36.2)	(217.2)	(194.3)	83.3%	81.4%	(394.4)	(466.8)	15.5%
Operating Profit	1,029.9	460.9	484.3	123.5%	112.7%	2,007.7	1,575.1	27.5%
Net one off gains/(losses)	(19.6)	(313.8)	21.6	93.8%	-190.7%	(310.8)	62.2	-599.7%
Finance costs	(172.5)	(147.5)	(103.8)	-16.9%	-66.2%	(472.9)	(294.8)	-60.4%
Profit/(Loss) before tax	837.8	(0.4)	402.1	nm	108.4%	1,224.0	1,342.5	-8.8%
Taxation	(15.4)	(13.1)	(10.8)	-17.6%	-42.6%	(40.1)	(31.5)	-27.3%
PAT	822.4	(13.5)	391.3	6191.9%	110.2%	1,183.9	1,311.0	-9.7%
Minority Interest	(1.8)	(5.6)	9.7	67.9%	-118.6%	(6.0)	58.6	-110.2%
PATAMI	820.6	(19.1)	401.0	4396.3%	104.6%	1,177.9	1,369.6	-14.0%

SEGMENTAL BREAKDOWN

Revenue	3Q22	2Q22	3Q21	QoQ	YoY	9M22	9M21	YoY
LNG Shipping	790.1	762.5	741.2	3.6%	6.6%	2,310.3	2,117.4	9.1%
Petroleum Shipping	1,265.2	690.5	775.9	83.2%	63.1%	3,284.4	2,358.2	39.3%
Offshore Business	1,119.8	890.4	749.7	25.8%	49.4%	2,780.3	2,012.8	38.1%
Heavy Engineering	409.2	400.6	389.3	2.1%	5.1%	1,227.6	1,035.3	18.6%
Operating Profit/Loss								
LNG Shipping	355.1	330.0	313.7	7.6%	13.2%	1,076.3	908.2	18.5%
Petroleum Shipping	470.7	115.1	(8.3)	308.9%	5771.1%	618.0	238.1	159.6%
Offshore Business	190.0	43.6	243.3	335.8%	-21.9%	354.4	669.4	-47.1%
Heavy Engineering	19.0	25.8	(20.1)	-26.4%	194.5%	51.1	(148.3)	134.5%

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