MISC Berhad

(3816 | MISC MK) Main | Transportation & Logistics

***Upgrade to* BUY**

(previously NEUTRAL)

Ended FY22 higher on increased yard activities

***Revised* Target Price: RM8.16**

(previously RM7.77)

KEY INVESTMENT HIGHLIGHTS

- **4QFY22 earnings up by +40%yoy to RM645m**
- **FY22 came in above our expectation**
- **Revenue increase by +35%yoy on higher freight rates**
- **High LNG demand and imports**
- **FY23-24 earnings forecast revised up +35% and +48%**
- **Upgrade to BUY with revised TP of RM8.16 per share**

Earnings grew 40%yoy. In 4QFY22, MISC Berhad (MISC) reported a rise in earnings by +39.7%yoy but dropped -21.4%qoq to RM645m. For FY22, earnings dropped marginally by -0.5%yoy to RM1.82b, which came above our one-year estimate by +19% but within consensus expectation. The elevated profits were in line with higher revenue coupled with higher dry-docking activities and partial recovery of COVID-19 claims in Marine & Heavy Engineering segment.

Revenue increase +35%yoy. In 4QFY22, the group reported a rise in revenue by +35.3%yoy and +15.5%qoq to RM4.17b. For FY22, revenue gained +29.9%yoy to RM13.87b. The increase in revenue is due to higher recognition of construction revenue for an FPSO, and higher tanker rates and earning days in the Petroleum & Product Shipping segment.

Gas Asset and Solutions. In 4QFY22, revenue rose +4.9%yoy and +1.6%qoq to RM803.1m, while profit shot up +34.3%yoy and +29.6%qoq to RM460.1m. For FY22, both revenue and earnings were up by +8%yoy to RM3.11b and +34.9%yoy to RM1.54b respectively.

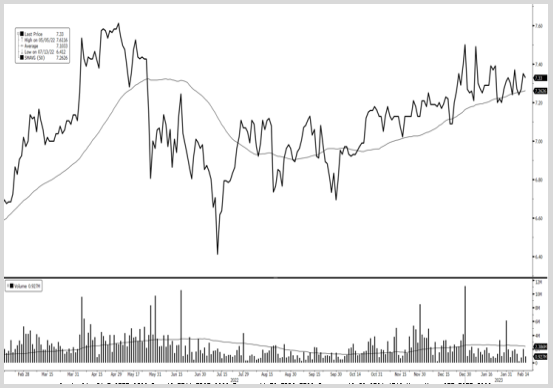
Petroleum & Product Shipping. In 4QFY22, revenue rose +64.2%yoy and +9.3%qoq to RM1.38b. Meanwhile, profit surged >100%yoy from RM42.5m in 4QFY21, but slipped -14.4%qoq to RM403m. For FY22, revenue increased by +45.8%yoy to RM4.67b, while profit surged over 17-fold to RM1.02b.

Offshore Business. In 4QFY22, revenue jumped +50.3%yoy and +37.7%qoq to RM1.54b. Earnings surged >100%yoy from RM136.1m in 4QFY21 and gained +63.9%qoq to RM311.4. For FY22, revenue increased by +42.2%yoy to RM4.32b while earnings fell -9.7%yoy to RM665.8m.

Marine & Heavy Engineering. In 4QFY22, revenue declined by -1.9%yoy but grew +3.6%qoq to RM424m. Earnings surged >100%yoy from a deficit of -RM103.9m in 4QFY21, but shrunk -48.9%qoq, to RM9.7. For FY22, revenue gained +12.6%yoy to RM1.65, while profit surged >100%yoy from a deficit of -RM226.2m in FY21, to RM60.8m.

RETURN STATISTICS	
Price @ 15th February 2023 (RM)	7.33
Expected share price return (%)	+11.7
Expected dividend yield (%)	+2.4
Expected total return (%)	**+14.1**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.5	1.0
3 months	-2.3	0.1
12 months	4.6	12.4

KEY STATISTICS	
FBM KLCI	1,488.19
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star Rating)	☆☆☆☆
Issue shares (m)	4463.75
Estimated free float (%)	19.58
Market Capitalisation (RM'm)	32,719.26
52-wk price range	RM6.53 - RM7.92
Beta vs FBM KLCI (x)	0.81
Monthly velocity (%)	0.00
Monthly volatility (%)	6.35
3-mth average daily volume (m)	2.41
3-mth average daily value (RM'm)	17.47
Top Shareholders (%)	
Petroliam Nasional Bhd	51.00
Employees Provident Fund Board	13.24
Amanah Saham Nasional Bhd	6.67

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Robust orderbook. As of 4QFY22, MISC had 97 vessels of various categories in operation, of which 6% are chartered in, as well as 12 FPSOs. Currently, 16 LNGCs, 3 VLCCs and 1 LNGC are contracted under newbuilds and conversion. The group's orderbook backlog stood at approximately RM24b. Additionally, the group was awarded the provision of Front-End Engineering Design (FEED) Competition for the Kasawari Carbon Capture & Storage (CCS) and undertook the Engineering, Procurement and Construction (EPC) of the offshore platform for the Rosmari-Marjoram gas project. The group also recently welcomed 2 new generation LNGC for long-term charters to SeaRiver Maritime. Mero 3 project is also reportedly progressing well within its designated timeline, despite the unsettled Covid-19 situation in China.

LNG growth supported. Spot rates for LNG shipping remained high in 4QFY22, despite decreasing significantly in December due to unwinding gloating storage activity and the delayed reopening of the US Freeport LNG project. However, prospects remain favourable in the short term, attributable to: (i) the growing demand for LNG in Europe due to the Russia-Ukraine war, (ii) China's demand recovery; and (iii) limited vessel availability. The expanding LNG market will continue to be supported, albeit the future challenge of an increase in newbuild pricing and tight shipbuilding spaces moving forward. Hence, Gas Assets and Solutions is expected to remain robust on the back of its extensive portfolio of long-term charters.

Asia-bound imports increased. Market rates for the petroleum shipping remain strong with average rates further rising in 4QFY22. We opine the outlook on shipping in general is favourable, considering the ongoing changes in trade pattern due to the EU sanctions on Russia. Additionally, Asia-bound imports are increasing since the easing of Covid-19 restrictions. We also believe oil supply will continue to be tight due to the recent OPEC+'s large output cut of 2 million bpd as well as Russia's pledge to cut its own by 500,000bpd this year. Moreover, Petroleum & Product Shipping will continue to focus on its shuttle tanker business and retrofit its fleet with greener-fueled tankers.

Worries continue on global economy. Upstream oil and gas continue to ramp up in tandem with the elevated oil price, higher consumer demand and increased capex by oil majors, despite worries about the global economy and the possibility of a worldwide recession. Demand for FPSOs is anticipated to be favourable, with an increase in planned projects primarily focusing in the South American and the West African regions. The Offshore Business will continue to pursue new opportunities in the market selectively. For the time being, MISC will remain focused on the execution of the current project in hand while undertaking significant mitigation efforts to minimize cost and schedule pressures.

Shipyard competition returns. Despite improvements in global oil demand and growing opportunities in renewable energy, the ongoing geopolitical tensions, the disruption in the supply chain as well as inflationary pressures would pose a challenge to the group's Marine & Heavy Engineering business. Additionally, the current labour scarcity may hinder the timely completion of dry-docking tasks, and China's COVID-19 regulations being loosened may intensify rivalry among shipyards. We believe that opportunities in other regions as well as in renewable energy will help the group to increase the size of its orderbook in the mid-to-long term. We continue to be cautiously positive on its Heavy Engineering and Marine businesses.

Fourth interim dividend. MISC announced its fourth and final dividend payout of 12 sen per share in respect to FY22, amounting to RM535.6m.

Revised FY23-24 earnings estimates. With the overall shipping activities returning back to its pre-pandemic levels, while also taking MISC's FY22 performance into account, we revise our FY23 and FY24 earnings projection upward by +35% and +48% respectively. As such, we revise our **target price to RM8.16** (previously RM7.77), by pegging a PER of 16x to a revised EPS23 of 51sen. The PER is based on a 5-year average PER for the marine and logistics sectors.

Upgrade to BUY. We upgrade our recommendation to a **BUY** call on MISC based on the revised **target price of RM8.16** per share. As global oil demand is projected to increase under a stable crude oil pricing and higher tanker rates, we continue to remain positive, yet cautious on the back of labour demand and shipyard competition. Despite the risks of the volatile oil and shipping market, we remain sanguine on MISC's performance throughout FY23. Once more, we reiterate our positive view on MISC, given the: (i) rising demand for both petroleum and LNG in Europe and East Asia, (ii) the group's strong orderbook, (iii) the positive prospects of the shipping and tanker market, and (iv) the group's continuous contribution and support for CCS and renewable energy projects.

INVESTMENT STATISTICS

Income Statement	2021A	2022A	2023E	2024F	2025F
Revenue	10,671.7	13,867.0	14,750.7	15,815.8	17,108.1
Cost of sales	(8,054.2)	(10,159.8)	(10,325.5)	(11,545.5)	(12,831.1)
Gross profit	2,617.5	3,707.2	4,425.2	4,270.3	4,277.0
Net operating expenses	(669.1)	(605.2)	(737.5)	(790.8)	(855.4)
Operating profit	1,948.4	3,102.0	3,687.7	3,479.5	3,421.6
Net one off gains/(losses)	243.6	(576.5)	(500.0)	(300.0)	0.0
Finance costs	(417.3)	(651.2)	(650.0)	(550.0)	(500.0)
Profit/(Loss) before tax	1,774.7	1,874.3	2,537.7	2,629.5	3,421.6
Taxation	(41.1)	(39.3)	(25.4)	(26.3)	(34.2)
PATAMI	1,733.6	1,835.0	2,512.3	2,603.2	3,387.4
EPS	0.41	0.41	0.56	0.58	0.76
Dividends yield	1.8%	1.6%	2.4%	2.6%	3.9%

Source: Company, MIDFR

Table 2: MISC'S 4QFY22 RESULTS SUMMARY

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results					Cumulative		
Income Statement	**4Q22**	**3Q22**	**4Q21**	**QoQ**	**YoY**	**FY22**	**FY21**	**YoY**
Revenue	4,173.0	3,614.1	3,085.2	15.5%	35.3%	13,867.0	10,671.7	29.9%
Cost of Sales	(2,867.9)	(2,548.0)	(2,509.6)	-12.6%	-14.3%	(10,159.8)	(8,054.2)	-26.1%
Gross Profit	1,305.1	1,066.1	575.6	22.4%	>100%	3,707.2	2,617.5	41.6%
Net Operating Expenses	(210.8)	(36.2)	(202.3)	<-100%	-4.2%	(605.2)	(669.1)	9.6%
Operating Profit	1,094.3	1,029.9	373.3	6.3%	>100%	3,102.0	1,948.4	59.2%
Net one off gains/(losses)	(265.7)	(19.6)	181.4	<-100%	<-100%	(576.5)	243.6	<-100%
Finance costs	(178.3)	(172.5)	(122.5)	-3.4%	-45.6%	(651.2)	(417.3)	-56.1%
Profit/(Loss) before tax	650.3	837.8	432.2	-22.4%	50.5%	1,874.3	1,774.7	5.6%
Taxation	0.8	(15.4)	(9.6)	>100%	>100%	(39.3)	(41.1)	4.4%
PAT	651.1	822.4	422.6	-20.8%	54.1%	1,835.0	1,733.6	5.8%
Minority Interest	(6.1)	(1.8)	39.1	<-100%	<-100%	(12.1)	97.7	<-100%
PATAMI	645.0	820.6	461.7	**-21.4%**	**39.7%**	1,822.9	1,831.3	**-0.5%**

SEGMENTAL BREAKDOWN

Revenue	4Q22	3Q22	4Q21	QoQ	YoY	FY22	FY21	YoY
LNG Shipping	803.1	790.1	765.4	1.6%	4.9%	3,113.4	2,882.8	8.0%
Petroleum Shipping	1,382.8	1,265.2	842.2	9.3%	64.2%	4,667.2	3,200.4	45.8%
Offshore Business	1,542.1	1,119.8	1,026.1	37.7%	50.3%	4,322.4	3,038.9	42.2%
Heavy Engineering	424.0	409.2	432.0	3.6%	-1.9%	1,651.6	1,467.3	12.6%
Operating Profit/Loss								
LNG Shipping	460.1	355.1	342.5	29.6%	34.3%	1,536.6	1,139.1	34.9%
Petroleum Shipping	403.0	470.7	42.5	-14.4%	>100%	1,021.0	57.6	>100%
Offshore Business	311.4	190.0	136.1	63.9%	>100%	665.8	737.7	-9.7%
Heavy Engineering	9.7	19.0	(103.9)	-48.9%	>100%	60.8	(226.2)	>100%

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