MISC Berhad

(3816 | MISC MK) Main | Transportation & Logistics

***Maintain* BUY**

Increased Upstream Demand Bode Well for 1Q23

***Unchanged* Target Price: RM8.16**

KEY INVESTMENT HIGHLIGHTS

- **Maintain BUY with unchanged target price of RM8.16**
- **MISC's 1QFY22 core earnings of RM544m (+53%yoy) to RM544m live up to our expectations**
- **Higher tanker rates in MISC's Petroleum Shipping and Products segment contributed to the higher earnings**
- **Global offshore E&P capex spending to support MISC's financial performance in the coming quarters**

Maintain BUY, TP: RM8.16. MISC Berhad (MISC)'s 1QFY23 core earnings came in within our yearly earnings estimates. This is after adjusting for impairment and gains on disposal of ships. Premised on this, we maintain a **BUY** call for MISC with an unchanged **target price** of **RM8.16**.

Earnings up 53%yoy. MISC's 1QFY23 core earnings adjusted added +53.4%yoy to RM544m. The higher earnings were mainly contributed by the group's Petroleum & Product Shipping segment. Meanwhile, 1QFY23 revenue was up by +7.4%yoy.

Gas Assets & Solutions. Earnings down -1.6%yoy to RM384.8m impacted by marginal drop in to RM755.9m (-0.2%yoy). This was due to vessel disposal and contract expiry, offset by two LNGC deliveries.

We observe that there is a preference shift to fixed time charters due to the uncertainties in the shipping market. Nonetheless, we believe demand for LNG shipping will continue to grow in line with the increased pressure of Russia's export sanctions and increased economic activities in China. This will lead to a promising stream of income from long-term charters.

Petroleum & Product Shipping. Earnings surged nearly 10-fold to RM312.5m, while revenue gained +36.6%yoy to RM1.2b. Higher freight rates margin contributed to the higher earnings and revenue for this segment.

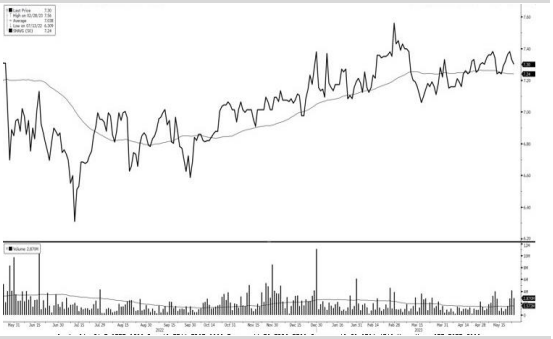
We are optimistic for this segment as seen in the strong tanker rate in 1QCY23. Moving forward, we expect the tanker market will continue to be supported by trade patterns and eased concerns. Nevertheless, we are expecting a slight moderation in the rates due to OPEC+ supply cuts.

Offshore Business. Earnings gained +38%yoy to RM166.7m, while revenue dropped -24.1%yoy to RM584.6m. FPSO construction cost was lower in 1QCY23 in comparison with 1QFY22 during China's lockdowns, which contributed to the higher earnings, offset by lower recognition of revenue from the conversion of FPSO unit.

The upstream players had increased their capex spending under the notion of a stable yet elevated oil prices and improved oil demand is expected in CY23. Subsequently, we believe the FPSO market will continue to grow with in tandem with the higher demand for exploration and production operations in South America and West Africa.

RETURN STATISTICS	
Price @ 24th May 2023 (RM)	7.30
Expected share price return (%)	+10.3
Expected dividend yield (%)	+4.5
Expected total return (%)	**+14.8**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.3	0.8
3 months	1.1	0.6
12 months	-4.6	4.0

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	14,701	15,723	16,936
Operating Profit	4,116	4,245	4,573
Profit Before Tax	2,281	2,659	3,326
Core PATAMI	2,236	2,606	3,260
Core EPS	0.5	0.6	0.7
DPS	0.4	0.4	0.5
Dividend Yield	4.5%	5.3%	6.6%

KEY STATISTICS	
FBM KLCI	1,409.62
Issue shares (m)	4,463.75
Estimated free float (%)	19.9
Market Capitalisation (RM'm)	32,585.3
52-wk price range	RM6.53–RM7.75
3-mth average daily volume (m)	1.5
3-mth average daily value (RM'm)	11.2
Top Shareholders (%)	
Petroliam Nasional Bhd	51.0
Employees Provident Fund	13.2
Amanah Saham Nasional Bhd	6.8

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Marine & Heavy Engineering. Earnings added +11.1%yoy to RM7m, while revenue gained +18.8%yoy to RM496.2m. Higher earnings and revenue for this segment were due to ongoing Heavy Engineering projects and higher dry-docking and repair activities in Marine.

While we are positive on this segment under the basis of improved weather and higher demand for ship repairs and maintenance, the cautious outlook remained on the increasing competition from China's shipyards and the limited availability for dry-docking operations for older LNGCs.

Demand to remain upbeat. As of 1QCY23, MISC had 37 FPSOs on order of which 16 orders were from Brazil. This is driven by strong demand for FPSOs and delayed start-ups post-pandemic. In the coming quarters, we are expecting a stronger demand for FPSOs in tandem with the growth in the upstream business. Global offshore E&P capex spending is expected to increase +12.5% in CY23, with Latin America and Asia Pacific accounting more than half. We opine that the stabilising oil prices, the increase in energy demand and long-term contracts for charter ships would continue to drive MISC's performance.

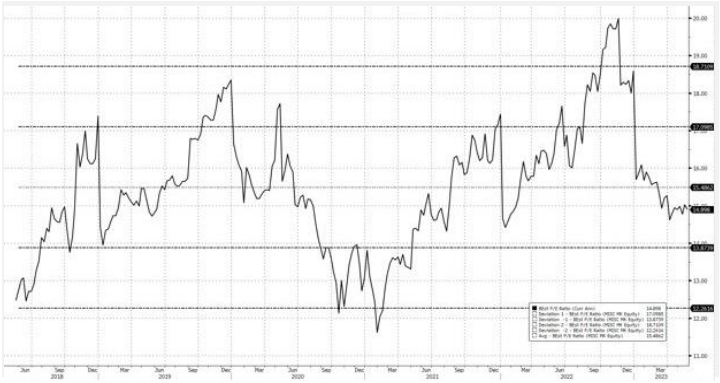
Key risks. Key risks for MISC's operations remain to be: (i) volatile oil prices that could impact charter rates and vessel utilisaiton, (ii) geopolitical risks and trade sanctions, (iii) stringent regulations based on ESG for the ships, and (iv) increased competition between regional shipyards for charter contracts.

Earnings estimates. At this juncture, we make no changes to our earnings estimates.

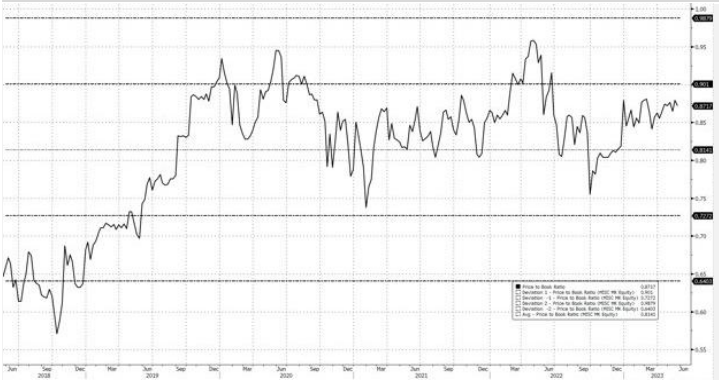
Target price. We make no changes to our target price, by pegging a PER of 16x to a revised EPS23 of 51sen. The PER is based on a 5-year average PER for the marine and logistics sectors.

FORWARD BAND

BEst PE Ratio



BEst P/Bk Ratio



Source: Bloomberg, MIDFR

MISC: 1Q23 RESULTS SUMMARY

All in RM'm unless stated otherwise			Quarterly Results			Cumulative		
Income Statement	**1QFY23**	**4QFY22**	**1QFY22**	**QoQ**	**YoY**	**1QFY23**	**1QFY22**	**YoY**
Revenue	3,078.7	4,173.0	2,867.6	-26.2%	7.4%	3,078.7	2,867.6	7.4%
Cost of Sales	(2,186.4)	(2,867.9)	(2,209.7)	23.8%	1.1%	(2,186.4)	(2,209.7)	1.1%
Gross Profit	892.3	1,305.1	657.9	-31.6%	35.6%	892.3	657.9	35.6%
Net Operating Expenses	562.6	(210.8)	(141.0)	366.9%	499.0%	562.6	(141.0)	499.0%
Operating Profit	1,454.9	1,094.3	516.9	33.0%	181.5%	1,454.9	516.9	181.5%
Net one off gains/(losses)	(21.6)	(265.7)	22.6	91.9%	-195.6%	(21.6)	22.6	-195.6%
Finance costs	(176.3)	(178.3)	(152.9)	1.1%	-15.3%	(176.3)	(152.9)	-15.3%
Profit/(Loss) before tax	1,257.0	650.3	386.6	93.3%	225.1%	1,257.0	386.6	225.1%
Taxation	(16.6)	0.8	(11.6)	-2175.0%	-43.1%	(16.6)	(11.6)	-43.1%
PAT	1,240.4	651.1	375.0	90.5%	230.8%	1,240.4	375.0	230.8%
Minority Interest	1.9	(6.1)	1.4	131.1%	35.7%	1.9	1.4	35.7%
PATAMI	612.9	645.0	376.4	**-5.0%**	**62.8%**	612.9	376.4	**62.8%**
Core Earnings	544.0	600.0	354.6	-9.3%	53.4%	544.0	354.6	53.4%

SEGMENTAL BREAKDOWN

Revenue	**1Q23**	**4Q22**	**1Q22**	**QoQ**	**YoY**	**FY22**	**FY21**	**YoY**
Gas Assets & Solutions	755.9	803.1	757.7	-5.9%	-0.2%	755.9	757.7	-0.2%
Petroleum & Product Shipping	1,212.2	1,382.8	887.3	-12.3%	36.6%	1,212.2	887.3	36.6%
Offshore Business	584.6	1,542.1	770.1	-62.1%	-24.1%	584.6	770.1	-24.1%
Marine & Heavy Engineering	496.2	424.0	417.8	17.0%	18.8%	496.2	417.8	18.8%
Operating Profit/Loss								
Gas Assets & Solutions	384.8	460.1	391.2	-16.4%	-1.6%	384.8	391.2	-1.6%
Petroleum & Product Shipping	312.5	403.0	32.2	-22.5%	870.5%	312.5	32.2	870.5%
Offshore Business	166.7	311.4	120.8	-46.5%	38.0%	166.7	120.8	38.0%
Marine & Heavy Engineering	7.0	9.7	6.3	-27.8%	11.1%	7.0	6.3	11.1%

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	10,671.7	13,867.0	14,701.1	15,722.5	16,936.4
EBITDA	2,617.50	3,707.20	4,116.32	4,245.06	4,572.83
D&A	528.9	3,108.2	2,462.92	2,551.6	2,560.7
EBIT	1,948.40	3,102.00	3,381.26	3,458.94	3,726.01
Net interest	97.7	-12.1	22.6	26.3	32.9
Profit before tax	1,774.7	1,874.3	2,281.3	2,658.9	3,326.0
Tax	-41.1	-39.3	-22.8	-26.6	-33.3
Core PATAMI	1,831.3	1,822.9	2,235.9	2,606.0	3,259.8

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	23,386.3	24,285.9	26,631.54	28,143.96	29,049.12
Intangible assets	1,060.9	1,001.6	1,001.6	1,001.6	1,001.6
Non-current assets	44,680.3	49,919.4	52,265.0	53,777.5	54,682.6
Cash	6,385.8	7,134.0	6,741.28	8,328.57	9,930.77
Trade debtors	4,221.8	3,858.6	4,875.5	5,341.7	5,982.3
Current assets	12,218.8	12,744.8	13,363.6	15,439.4	17,722.4
Trade creditors	3,798.6	5,147.6	3,136.1	3,753.4	4,715.6
Short-term debt	3,235.5	3,605.5	3,605.5	3,605.5	3,605.5
Current liabilities	7,144.9	8,767.1	6,755.6	7,372.9	8,335.1
Long-term debt	11,423.5	14,256.0	12,087.6	12,578.7	12,963.8
Non-current liabilities	12,897.9	15,592.9	13,424.5	13,915.6	14,300.7
Share capital	8,923.3	8,923.3	8,923.3	8,923.3	8,923.3
Retained earnings	18,122.0	18,979.9	19,161.5	19,951.2	20,939.1
Equity	34,297.90	38,304.20	35,580.52	36,448.30	37,378.46

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	1,774.7	1,874.3	2,281.3	2,658.9	3,326.0
Depreciation & amortisation	528.9	3,108.2	2,462.92	2,551.6	2,560.7
Changes in working capital	-60.3	-1,989.0	-634.9	128.8	281.4
Operating cash flow	874.3	2,993.5	4,109.3	5,339.4	6,168.1
Capital expenditure	-1,773.8	-2,293.5	-2,725.8	-2,812.5	-2,942.8
Investing cash flow	-1,667.1	-1,943.0	-2,619.6	-2,416.1	-2,592.8
Debt raised/(repaid)	809.3	-241.8	503.3	491.1	385.1
Dividends paid	-560.1	-1,473.0	-1,580.9	-1,842.6	-2,304.9
Financing cash flow	477.1	-1,991.6	-1,244.7	-1,423.5	-2,091.8
Net cash flow	-315.7	-941.1	245.0	1,499.7	1,483.5
Beginning cash flow	5,545.1	6,994.3	6,406.1	6,741.3	8,328.6
Ending cash flow	5,368.6	6,406.1	6,741.3	8,328.6	9,930.8

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	24.5%	26.7%	28.0%	27.0%	27.0%
PBT margin	16.6%	13.5%	15.5%	16.9%	19.6%
Core PAT margin	17.2%	13.1%	15.2%	16.6%	19.2%

Source: Bloomberg, 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