

14 August 2020

MISC Berhad

Strong 1HFY20, But Expect Weaker 2H

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1HFY20 core net profit of RM1.4b (+53% YoY) is deemed broadly within expectations, on anticipation of a weaker 2HFY20. Results were helped by strong spot rates earlier in the year due to the global shortage of oil storage space, but rates have been in a decline after April 2020. The trend is largely expected to continue into the 2HFY20, with 3Q also typically being a seasonally weaker quarter for spot rates. Maintain OP, with TP of RM8.90, as a defensive dividend play (fetching ~4% yield) among the blue chip counters.

Broadly within expectations. MISC reported 1HFY20 core net profit of RM1.4b (arrived after adjusting for non-core items e.g. impairments, gains on disposals, write-offs, and provisions), coming in at 66%/69% of our/consensus full-year earnings forecasts. Nonetheless, we deem this as broadly within expectations, in anticipation of a weaker 2HFY20. 1HFY20 core earnings has been boosted by high petroleum shipping charter rates as a result of a global shortage in oil storage space earlier in the year. However, spot charter rates have tapered off post-April 2020, and the trend is largely expected to exacerbate into 2HFY20. This is on top of the fact that 3Q is generally a seasonally weaker quarter for spot tanker rates. Meanwhile, the group also announced a dividend of 7.0 sen per share, bring YTD dividends to 14.0 sen per share, also within expectations.

Improved YoY results, but earnings declined sequentially. 1HFY20 posted a 53% surge in core earnings YoY, thanks to the aforementioned stronger spot charter rates, lifting its petroleum shipping segment. This was sufficient to offset widened losses in its heavy engineering segment as its yards were unable to operate fully during the MCO.

For the individual quarter of 2QFY20, core earnings surged 30% YoY, mainly due to similar reasons of improved spot charter rates. Its LNG segment was also marginally higher thanks to higher earnings days following no dry-docking activities during the quarter. These were partially offset by widened losses incurred in heavy engineering. Sequentially however, 2QFY20 core earnings declined 29% QoQ, suffering from lower charter rates for its petroleum shipping, coupled with losses incurred in its heavy engineering due to yard suspensions during the MCO period.

Largely expecting a weaker 2HFY20. Tanker spot rates have been in a declining trend post-April 2020, and are expected to continue to remain under pressure for the time being, with recovery dependent on global oil demand recovery. As such, we can safely expect 2HFY20 to post weaker half-on-half earnings, with 3Q also being a seasonally weaker quarter for charter rates. Currently, 24% of the group's petroleum tankers are on spot charters. Moving forward, we expect the group's exposure towards spot rate fluctuations to gradually reduce over the longer-term as deliveries of longer-term charters start to come in. Meanwhile, the group is also confident of bagging the Mero-3 FPSO contract from Petrobras soon, which could act as a positive share price catalyst. As we understand, Petrobras and MISC are currently at their advanced stages of exclusive negotiations, and hence, the contract should most likely be awarded before end of the year.

Maintain OUTPERFORM, and TP of RM8.90, pegged to 1.1x PBV at +2SD from mean. Post-results, we marginally raised our FY20E/21E earnings by 4%/6% as we lowered our finance cost assumptions to account for the lower interest rates environment.

Overall, we continue to like MISC as a defensive play among blue chip counters, given its reliable and consistent dividend pay-outs (fetching ~4% yields). The group is also among the least impacted from the current oil and gas down cycle.

Risks to our call include: (i) weaker-than-forecasted charter rates, (ii) stronger-than-expected MYR/USD exchange rates, (iii) lower-than-expected number of operating vessels.

OUTPERFORM ↔

Price : RM7.87
Target Price : RM8.90 ↔

Share Price Performance



KLCI 1,576.42
YTD KLCI chg -0.8%
YTD stock price chg -5.4%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker MISC MK Equity
Market Cap (RM m) 35,129.7
Shares outstanding 4,463.7
52-week range (H) 9.37
52-week range (L) 6.52
3-mth avg daily vol: 3,384,002
Free Float 29%
Beta 0.7

Major Shareholders

Petroleum Nasional Bhd 57.6%
Employees Provident Fund 9.1%
Amanah Saham Bumiputera 4.2%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Revenue	8,963	9,266	10,258
EBIT	1,951	2,753	2,570
PBT	1,512	2,353	2,170
Net Profit (NP)	1,426	2,235	2,062
Core NP (CNP)	1,610	2,235	2,062
Consensus (CNP)		2,028	2,123
Earnings Revision (%)		4.2	6.4
Core EPS (sen)	36.1	50.1	46.2
CNP growth (%)	21.7	38.9	-7.8
DPS (sen)	33.0	30.0	30.0
BVPS (RM)	7.8	8.0	8.1
Core PER (x)	21.8	15.7	17.0
Price/BV (x)	1.0	1.0	1.0
Net Gearing (x)	0.2	0.3	0.3
Div. Yield (%)	4.2	3.8	3.8



14 August 2020

Result Highlights

Y/E : Dec (RM'm)	2Q FY20	1Q FY20	Q-o-Q Chg	2Q FY19	Y-o-Y Chg	1H FY20	1H FY19	Y-o-Y Chg
Revenue	2,186.3	2,513.8	-13.0%	2,161.7	1.1%	4,700.1	4,439.4	5.9%
Cost of sales	(1,401.1)	(1,505.7)	-6.9%	(1,511.3)	-7.3%	(2,906.8)	(3,029.1)	-4.0%
Gross profit	785.2	1,008.1	-22.1%	650.4	20.7%	1,793.3	1,410.3	27.2%
Other operating income	1.4	135.2	-99.0%	58.0	-97.6%	136.6	147.0	-7.1%
General and administrative expenses	(263.7)	(298.2)	-11.6%	(224.1)	17.7%	(561.9)	(481.1)	16.8%
Operating profit	522.9	845.1	-38.1%	484.3	8.0%	1,368.0	1,076.2	27.1%
Write-off / remeasurement of receivables	0.0	(935.2)	N/A	0.0	N/A	(935.2)	0.0	N/A
Provision for litigation claims	0.0	(1,049.2)	N/A	0.0	N/A	(1,049.2)	0.0	N/A
Impairments	(306.0)	0.0	N/A	(51.1)	498.8%	(306.0)	(51.1)	498.8%
Gain on acquisition of business	0.0	0.0	N/A	0.0	N/A	0.0	23.7	N/A
Gain of disposal of ships and PPE	21.6	0.0	N/A	0.0	N/A	21.6	17.5	23.4%
Finance cost	(100.5)	(95.8)	4.9%	(115.6)	-13.1%	(196.3)	(249.8)	-21.4%
Share of profit of joint ventures	48.0	89.7	-46.5%	101.5	-52.7%	137.7	144.6	-4.8%
Profit before tax	186.0	(1,145.4)	-116.2%	419.1	-55.6%	(959.4)	961.1	-199.8%
Taxation	(21.7)	(5.6)	287.5%	(17.2)	26.2%	(27.3)	(43.2)	-36.8%
Non-controlling interests	135.2	(5.8)	-2431.0%	(2.1)	-6538.1%	129.4	(7.6)	-1802.6%
Net profit	299.5	(1,156.8)	-125.9%	399.8	-25.1%	(857.3)	910.3	-194.2%
Core Net profit	583.9	827.6	-29.4%	450.9	29.5%	1,411.5	920.2	53.4%
Operating margin	23.9%	33.6%		22.4%		29.1%	24.2%	
PBT margin	8.5%	-45.6%		19.4%		-20.4%	21.6%	
Net margin	13.7%	-46.0%		18.5%		-18.2%	20.5%	
Core net margin	26.7%	32.9%		20.9%		30.0%	20.7%	
Effective tax rate	11.7%	-0.5%		4.1%		-2.8%	4.5%	

Source: Company, Kenanga Research

Segment Breakdown (USD)

Segment Results Y/E : Dec (USD'm)	2Q FY20	1Q FY20	Q-o-Q Chg	2Q FY19	Y-o-Y Chg	1H FY20	1H FY19	Y-o-Y Chg
Revenue								
LNG shipping	160.2	166.4	-3.7%	158.7	0.9%	326.6	311.5	4.8%
Petroleum shipping	251.8	293.7	-14.3%	239.0	5.4%	545.5	525.9	3.7%
Offshore	53.4	56.9	-6.2%	62.4	-14.4%	110.3	128.4	-14.1%
Heavy Engineering	35.2	82.8	-57.5%	66.9	-47.4%	118.0	116.5	1.3%
Core PBT								
LNG shipping	72.8	77.5	-6.1%	67.6	7.7%	150.3	137.4	9.4%
Petroleum shipping	39.4	71.0	-44.5%	(1.2)	-3383.3%	110.4	16.8	557.1%
Offshore	30.8	49.3	-37.5%	42.4	-27.4%	80.1	75.1	6.7%
Heavy Engineering	(23.6)	1.4	-1785.7%	(2.1)	1023.8%	(22.2)	(9.3)	138.7%
Core PBT Margin								
LNG shipping	45.4%	46.6%		42.6%		46.0%	44.1%	
Petroleum shipping	15.6%	24.2%		-0.5%		20.2%	3.2%	
Offshore	57.7%	86.6%		67.9%		72.6%	58.5%	
Heavy Engineering	-67.0%	1.7%		-3.1%		-18.8%	-8.0%	

Source: Company, Kenanga Research

14 August 2020

Segment Breakdown (MYR)

Segment Results Y/E : Dec (RM'm)	2Q FY20	1Q FY20	Q-o-Q Chg	2Q FY19	Y-o-Y Chg	1H FY20	1H FY19	Y-o-Y Chg
Revenue								
LNG	692.0	695.9	-0.6%	657.9	5.2%	1,387.9	1,283.3	8.2%
Petroleum	1,090.1	1,228.0	-11.2%	992.5	9.8%	2,318.1	2,166.2	7.0%
Offshore	230.8	238.1	-3.1%	258.8	-10.8%	468.9	528.7	-11.3%
Heavy Engineering	155.2	346.5	-55.2%	277.0	-44.0%	501.7	479.8	4.6%
Others, Eliminations and Adjustments	18.2	5.3	243.4%	(24.5)	-174.3%	23.5	(18.6)	-226.3%
Operating Profit								
LNG	352.5	361.7	-2.5%	318.9	10.5%	714.2	643.1	11.1%
Petroleum	201.8	336.5	-40.0%	33.1	509.7%	538.3	168.0	220.4%
Offshore	134.3	160.2	-16.2%	139.6	-3.8%	294.5	281.9	4.5%
Heavy Engineering	(100.2)	5.6	-1889.3%	(8.6)	1065.1%	(94.6)	(37.7)	150.9%
Others, Eliminations and Adjustments	(65.5)	(18.9)	246.6%	1.3	-5138.5%	(84.4)	20.9	-503.8%
Operating Margin								
LNG	50.9%	52.0%		48.5%		51.5%	50.1%	
Petroleum	18.5%	27.4%		3.3%		23.2%	7.8%	
Offshore	58.2%	67.3%		53.9%		62.8%	53.3%	
Heavy Engineering	-64.6%	1.6%		-3.1%		-18.9%	-7.9%	

Source: Company, Kenanga Research

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14 August 2020

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
BUMI ARMADA BHD	0.255	1,500.9	N	12/2020	1.4%	4.8%	10.3%	12.5%	5.3	4.8	4.3	0.5	0.4	9.2%	0.0%	0.300	OP
DAYANG ENTERPRISE HLDGS BHD	1.23	1,424.1	Y	12/2020	-25.9%	7.7%	-38.7%	9.5%	6.1	9.9	9.0	0.9	0.8	8.8%	0.0%	1.30	MP
DIALOG GROUP BHD	3.64	20,523.4	Y	06/2020	17.7%	6.1%	4.5%	9.7%	38.3	36.7	33.4	5.4	5.1	14.4%	1.1%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.390	624.0	Y	12/2020	3.2%	28.4%	-289.5%	-113.0%	N.A.	N.A.	N.A.	0.3	0.3	-2.8%	0.0%	0.390	MP
MISC BHD	7.87	35,129.7	Y	12/2020	3.4%	10.7%	38.8%	-7.7%	21.8	15.7	17.0	1.0	1.0	6.3%	3.8%	8.90	OP
PANTECH GROUP HOLDINGS BHD	0.380	285.1	Y	02/2021	-41.9%	57.1%	-47.6%	79.8%	8.6	16.5	9.2	0.5	0.5	2.8%	2.6%	0.310	UP
PETRONAS CHEMICALS GROUP BHD	6.02	48,160.0	Y	12/2020	-16.5%	10.4%	-33.1%	36.2%	17.1	25.6	18.8	1.6	1.6	6.2%	2.0%	5.75	MP
PETRONAS DAGANGAN BHD	21.20	21,061.2	Y	12/2020	-16.7%	12.2%	-42.7%	68.5%	25.7	44.8	26.6	3.5	3.5	7.8%	1.8%	17.95	UP
SAPURA ENERGY BHD	0.130	2,077.3	Y	01/2021	-11.4%	10.8%	-124.0%	-249.3%	N.A.	N.A.	N.A.	0.2	0.2	-3.5%	0.0%	0.050	UP
SERBA DINAMIK HOLDINGS	1.71	5,765.4	Y	12/2020	15.0%	15.0%	9.6%	12.1%	11.6	10.6	9.4	2.4	1.8	19.5%	3.2%	2.70	OP
UZMA BHD	0.610	195.2	Y	06/2020	14.6%	2.3%	186.6%	10.1%	20.1	7.0	6.4	0.4	0.4	5.6%	0.0%	0.670	MP
VELESTO ENERGY BHD	0.155	1,273.4	Y	12/2020	-9.9%	0.0%	-19.4%	24.4%	39.8	49.4	39.7	0.5	0.4	0.9%	0.0%	0.140	UP
WAH SEONG CORP BHD	0.510	394.9	Y	12/2020	-56.3%	45.5%	-203.6%	-148.5%	5.6	N.A.	N.A.	0.4	0.4	-7.2%	0.0%	0.510	UP
YINSON HOLDINGS BHD	6.30	6,717.7	Y	01/2021	-26.7%	-1.1%	76.5%	5.3%	31.3	17.7	16.8	4.2	3.6	22.0%	1.0%	7.10	OP
Simple Average					-10.7%	15.0%	-33.7%	-17.9%	19.3	21.7	17.3	1.6	1.4	6.4%	1.1%		

Source: Bloomberg, Kenanga Research

14 August 2020

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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