

18 November 2020

## MISC Berhad

### Weak 3QFY20, As Expected

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As expected, 3QFY20 came in weaker, dragged by the sharp drop in spot tanker rates for its petroleum shipping segment, as well as lower number of earnings days for its LNG shipping. After peaking earlier in the year, spot tanker rates are expected to remain weak at the moment, given weak oil demand coupled with supply-side pressure from excess tonnage capacity. Nonetheless, most of MISC's portfolios are still in long-term charters, which will be further boosted by upcoming vessel deliveries, and remain largely unaffected by spot market fluctuations. Maintain OP and TP of RM8.90, as a defensive blue-chip play, fetching ~4% dividend yield.

**Within expectations.** 9MFY20 core net profit of RM1.7b (arrived after adjusting for non-core items e.g. impairments, gains on disposals, write-offs and provisions), came in within expectations at 75% of our and 79% of consensus full-year earnings forecasts. Announced interim dividend of 7.0 sen per share is also within expectations, bring YTD dividend to 21.0 sen per share (flat YoY).

**Weaker quarter, as expected.** As per our expectations, 3QFY20 earnings came in sequentially weaker, with the core net profit of RM268m representing a QoQ decline of 54%. The decline in earnings was largely attributable to: (i) weaker petroleum shipping, due to the sharp drop in spot charter rates, and (ii) lower LNG shipping contribution due to lower number of earning days. YoY, 3QFY20 core earnings declined 17% largely on similar aforementioned reasons. Cumulatively, 9MFY20 core earnings were 35% stronger YoY. This was mostly attributable to the strong spot charter rates for its petroleum shipping in 1HFY20 as a result of global shortage in oil storage space earlier in the year.

**Weak spot tanker rates.** After peaking earlier in the year, spot tanker charter rates have plummeted especially starting from the 2H of the year. The weak spot rates are expected to persist for the time being, given the weak oil trade volumes coupled with supply side pressure from excess tonnage capacity. Nonetheless, most of MISC's petroleum fleet (i.e. 65%) and almost all of its LNG fleet are on term charters, which would provide a steady stream of recurring income and would be largely unaffected by the fluctuations of the spot market. That said, the group is also expecting the deliveries of another 7 LNG vessels and 2 petroleum vessels until 1HFY21 (all of which are long-term charters), which will further boost the group's sustainable and recurring income streams.

**Maintain OUTPERFORM, and TP of RM8.90,** pegged to unchanged valuations of 1.1x PBV. Post-results, we opt to conservatively trim our FY20E/FY21E by 11%/2%, as we lowered our petroleum shipping contribution assumptions, in light of the weakened spot rates.

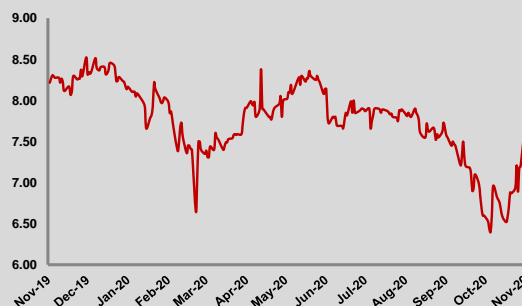
Overall, we continue to like MISC as a defensive play among blue chip counters, given its reliable and consistent dividend pay-outs (fetching ~4% yields).

**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 : RM7.41  
Target Price : RM8.90 ↔

### Share Price Performance



KLCI	1,610.15
YTD KLCI chg	1.3%
YTD stock price chg	-10.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MISC MK Equity
Market Cap (RM m)	33,076.4
Shares outstanding	4,463.7
52-week range (H)	9.37
52-week range (L)	6.38
3-mth avg daily vol:	2,359,159
Free Float	29%
Beta	0.7

### Major Shareholders

Petroleum Nasional Bhd	57.6%
Employees Provident Fund	9.6%
Amanah Saham Bumiputera	4.2%

### Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Revenue	8,963	8,593	9,754
EBIT	1,951	2,501	2,520
PBT	1,512	2,101	2,120
<b>Net Profit (NP)</b>	<b>1,426</b>	<b>1,996</b>	<b>2,014</b>
<b>Core NP (CNP)</b>	<b>1,610</b>	<b>1,996</b>	<b>2,014</b>
Consensus (CNP)		2,123	2,157
Earnings Revision (%)		-10.7	-2.3
Core EPS (sen)	36.1	44.7	45.1
CNP growth (%)	21.7	24.0	0.9
DPS (sen)	33.0	30.0	30.0
BVPS (RM)	7.8	7.9	8.1
Core PER (x)	20.6	16.6	16.4
Price/BV (x)	1.0	0.9	0.9
Net Gearing (x)	0.2	0.3	0.3
Div. Yield (%)	4.5	4.0	4.0

18 November 2020

Result Highlights								
Y/E : Dec (RM m)	3Q FY20	2Q FY20	Q-o-Q Chg	3Q FY19	Y-o-Y Chg	9M FY20	9M FY19	Y-o-Y Chg
Revenue	2,059.5	2,186.3	-5.8%	2,147.8	-4.1%	6,759.6	6,587.2	2.6%
Cost of sales	(1,521.1)	(1,401.1)	8.6%	(1,579.0)	-3.7%	(4,427.9)	(4,608.1)	-3.9%
<b>Gross profit</b>	<b>538.4</b>	<b>785.2</b>	<b>-31.4%</b>	<b>568.8</b>	<b>-5.3%</b>	<b>2,331.7</b>	<b>1,979.1</b>	<b>17.8%</b>
Other operating income	64.1	1.4	4478.6%	64.2	-0.2%	200.7	211.2	-5.0%
General and administrative expenses	(272.5)	(263.7)	3.3%	(256.6)	6.2%	(834.4)	(737.7)	13.1%
<b>Operating profit</b>	<b>330.0</b>	<b>522.9</b>	<b>-36.9%</b>	<b>376.4</b>	<b>-12.3%</b>	<b>1,698.0</b>	<b>1,452.6</b>	<b>16.9%</b>
Write-off of receivables	0.0	0.0	N.A.	0.0	N.A.	(935.2)	0.0	N.A.
Provision for litigation claims	0.0	0.0	N.A.	0.0	N.A.	(1,049.2)	0.0	N.A.
Impairments	(9.6)	(306.0)	-96.9%	(50.0)	-80.8%	(315.6)	(101.1)	212.2%
Gain on acquisition of business	0.0	0.0	N.A.	0.0	N.A.	0.0	23.7	-100.0%
Gain on disposal of ships and PPE	0.0	21.6	-100.0%	(5.2)	-100.0%	21.6	12.3	75.6%
Finance cost	(77.8)	(100.5)	-22.6%	(116.1)	-33.0%	(274.1)	(365.9)	-25.1%
Share of profit of joint ventures	38.6	48.0	-19.6%	82.4	-53.2%	176.3	227.0	-22.3%
<b>Profit before tax</b>	<b>281.2</b>	<b>186.0</b>	<b>51.2%</b>	<b>287.5</b>	<b>-2.2%</b>	<b>(678.2)</b>	<b>1,248.6</b>	<b>-154.3%</b>
Taxation	(20.8)	(21.7)	-4.1%	(16.6)	25.3%	(48.1)	(59.8)	-19.6%
Non-controlling interests	(2.1)	135.2	N.M.	(4.8)	-56.3%	(127.3)	(12.4)	926.6%
<b>Net profit</b>	<b>258.3</b>	<b>299.5</b>	<b>-13.8%</b>	<b>266.1</b>	<b>-2.9%</b>	<b>(599.0)</b>	<b>1,176.4</b>	<b>-150.9%</b>
<b>Core Net profit</b>	<b>267.9</b>	<b>583.9</b>	<b>-54.1%</b>	<b>321.3</b>	<b>-16.6%</b>	<b>1,679.4</b>	<b>1,241.5</b>	<b>35.3%</b>
Operating margin	16.0%	23.9%		17.5%		25.1%	22.1%	
PBT margin	13.7%	8.5%		13.4%		-10.0%	19.0%	
Net margin	12.5%	13.7%		12.4%		-8.9%	17.9%	
Core net margin	13.0%	26.7%		15.0%		24.8%	18.8%	
Effective tax rate	7.4%	11.7%		5.8%		-7.1%	4.8%	

Source: Company, Kenanga Research

Segment Breakdown (USD)								
Segment Results Y/E : Dec (USD m)	3Q FY20	2Q FY20	Q-o-Q Chg	3Q FY19	Y-o-Y Chg	9M FY20	9M FY19	Y-o-Y Chg
<b>Revenue</b>								
LNG shipping	146.0	160.2	-8.9%	156.2	-6.5%	472.6	467.7	1.0%
Petroleum shipping	202.9	251.8	-19.4%	235.1	-13.7%	748.4	761.0	-1.7%
Offshore	51.1	53.4	-4.3%	62.5	-18.2%	161.4	190.9	-15.5%
Heavy Engineering	87.7	35.2	149.1%	61.1	43.5%	205.7	177.6	15.8%
<b>Core PBT</b>								
LNG shipping	48.6	72.8	-33.2%	57.5	-15.5%	198.9	194.9	2.1%
Petroleum shipping	(4.9)	39.4	N.M.	(7.1)	-31.0%	105.5	9.7	987.6%
Offshore	18.0	30.8	-41.6%	34.4	-47.7%	102.7	109.5	-6.2%
Heavy Engineering	0.2	(23.6)	N.M.	(1.0)	N.M.	(22.0)	(10.3)	113.6%
<b>Core PBT Margin</b>								
LNG shipping	33.3%	45.4%		36.8%		42.1%	41.7%	
Petroleum shipping	-2.4%	15.6%		-3.0%		14.1%	1.3%	
Offshore	35.2%	57.7%		55.0%		63.6%	57.4%	
Heavy Engineering	0.2%	-67.0%		-1.6%		-10.7%	-5.8%	

Source: Company, Kenanga Research

18 November 2020

<b>Segment Breakdown (MYR)</b>								
<b>Segment Results</b>	<b>3Q</b>	<b>2Q</b>	<b>Q-o-Q</b>	<b>3Q</b>	<b>Y-o-Y</b>	<b>9M</b>	<b>9M</b>	<b>Y-o-Y</b>
<b>Y/E : Dec (RM m)</b>	<b>FY20</b>	<b>FY20</b>	<b>Chg</b>	<b>FY19</b>	<b>Chg</b>	<b>FY20</b>	<b>FY19</b>	<b>Chg</b>
<b>Revenue</b>								
LNG	613.4	692.0	-11.4%	650.4	-5.7%	2,001.3	1,933.7	3.5%
Petroleum	851.1	1,090.1	-21.9%	980.0	-13.2%	3,169.2	3,146.2	0.7%
Offshore	215.0	230.8	-6.8%	260.2	-17.4%	683.9	788.9	-13.3%
Heavy Engineering	369.4	155.2	138.0%	254.3	45.3%	871.1	734.1	18.7%
Others	10.6	18.2	-41.8%	2.9	265.5%	34.1	(15.7)	-317.2%
<b>Operating Profit</b>								
LNG	239.0	352.5	-32.2%	278.0	-14.0%	953.2	921.1	3.5%
Petroleum	20.1	201.8	-90.0%	21.0	-4.3%	558.4	189.0	195.4%
Offshore	98.9	134.3	-26.4%	117.0	-15.5%	393.4	398.9	-1.4%
Heavy Engineering	2.3	(100.2)	N.M.	(4.8)	N.M.	(92.3)	(42.5)	117.2%
Others	(30.3)	(65.5)	-53.7%	(34.8)	-12.9%	(114.7)	(13.9)	725.2%
<b>Operating Margin</b>								
LNG	39.0%	50.9%		42.7%		47.6%	47.6%	
Petroleum	2.4%	18.5%		2.1%		17.6%	6.0%	
Offshore	46.0%	58.2%		45.0%		57.5%	50.6%	
Heavy Engineering	0.6%	-64.6%		-1.9%		-10.6%	-5.8%	

Source: Company, Kenanga Research

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18 November 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	0.265	1,559.8	N	12/2020	1.4%	4.8%	17.9%	7.2%	5.5	4.7	4.4	0.5	0.4	9.8%	0.0%	0.300	OP
DAYANG ENTERPRISE HLDGS BHD	1.00	1,157.8	Y	12/2020	-35.3%	15.2%	-74.8%	34.2%	4.9	19.6	14.6	0.7	0.7	3.7%	0.0%	1.20	MP
DIALOG GROUP BHD	3.76	21,203.8	Y	06/2021	29.4%	11.7%	7.8%	8.2%	35.2	32.7	30.2	5.1	4.6	14.9%	0.9%	4.35	OP
MALAYSIA MARINE AND HEAVY EN	0.380	608.0	Y	12/2020	-1.8%	29.8%	-371.3%	-144.8%	N.A.	N.A.	N.A.	0.3	0.3	-4.0%	0.0%	0.380	OP
MISC BHD	7.41	33,076.4	Y	12/2020	-4.1%	13.5%	24.0%	0.9%	20.5	16.6	16.4	1.0	0.9	5.6%	4.0%	8.90	OP
PANTECH GROUP HOLDINGS BHD	0.395	295.1	Y	02/2021	-41.9%	57.1%	-47.6%	79.8%	9.0	17.1	9.5	0.5	0.5	2.8%	2.5%	0.310	UP
PETRONAS CHEMICALS GROUP BHD	6.65	53,200.0	Y	12/2020	-16.4%	10.4%	-47.7%	61.6%	18.4	35.1	21.7	1.8	1.7	5.0%	1.4%	6.45	MP
PETRONAS DAGANGAN BHD	19.50	19,372.4	Y	12/2020	-41.6%	32.0%	-60.1%	86.6%	23.6	59.1	31.7	3.2	3.2	5.5%	1.4%	16.00	UP
SAPURA ENERGY BHD	0.120	1,917.5	Y	01/2021	-11.4%	8.7%	-112.1%	-242.4%	N.A.	N.A.	N.A.	0.2	0.2	-1.8%	0.0%	0.050	UP
SERBA DINAMIK HOLDINGS	1.71	5,759.8	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	0.490	156.8	Y	06/2021	-6.8%	2.3%	681.5%	43.1%	58.1	7.4	5.2	0.4	0.3	4.7%	0.0%	0.570	MP
VELESTO ENERGY BHD	0.130	1,068.0	Y	12/2020	-15.8%	6.9%	-222.8%	-131.0%	33.4	N.A.	N.A.	0.4	0.4	-1.4%	0.0%	0.130	UP
WAH SEONG CORP BHD	0.440	340.7	Y	12/2020	-56.3%	45.5%	-283.5%	-185.5%	4.9	N.A.	N.A.	0.3	0.4	-14.1%	0.0%	0.430	UP
YINSON HOLDINGS BHD	5.11	5,442.5	Y	01/2021	44.8%	4.9%	121.4%	4.1%	25.4	11.5	11.0	3.4	2.7	26.4%	1.2%	5.50	OP
<b>Simple Average</b>					<b>-10.1%</b>	<b>18.4%</b>	<b>-25.6%</b>	<b>-26.1%</b>	<b>20.9</b>	<b>21.4</b>	<b>15.4</b>	<b>1.4</b>	<b>1.3</b>	<b>5.5%</b>	<b>1.0%</b>		

Source: Bloomberg, Kenanga Research

18 November 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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