

07 May 2021

# MISC Berhad

## Weaker Core Earnings in 1QFY21

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**Weaker 1QFY21 is within expectations, dragged by hugely lower spot tanker freight rates coupled with steep losses in its heavy engineering segment. Moving forward, spot tanker rates still remain sluggish, although we are mildly sanguine of a slightly stronger 2HFY21 given the increase in oil productions globally, led by OPEC+. Maintain OP and TP of RM8.10, backed by stable dividends of ~5% yields.**

**1QFY21 within expectations.** 1QFY21 core net profit of RM454m (arrived after adjusting for non-core items e.g. impairments) is deemed to be within expectations, coming in at 21% of our, and 24% of consensus, full-year forecast. The interim dividend of 7.0 sen per share is also within expectations.

**Weaker earnings.** YoY, 1QFY21 core net profit plunged 45% amidst: (i) huge drop in spot tanker freight rates, dragging the group's petroleum shipping segment, and (ii) steep losses in its heavy engineering segment from higher project cost provisions given delayed offshore commissioning works, leading to push-back in completion target dates for ongoing projects. Nonetheless, the weaker earnings were slightly offset by stronger offshore segment, as a result of finance lease construction gains from the Mero-3 FPSO.

Sequentially, 1QFY21 core net profit dipped 5% QoQ. While the quarter saw a small turnaround in its petroleum shipping segment as a result of mildly improved spot tanker freight rates, coupled with higher earnings days for its LNG shipping, the quarter was also dragged by: (i) aforementioned steep losses in heavy engineering, and (ii) weaker offshore segment, as the last quarter recognised contract extension gain for the FPSO Espirito Santo.

**Challenging spot tanker rates.** While the recent blockage in the Suez Canal did nudge up spot rates slightly, overall spot tanker rates continue to remain sluggish. Vessel demolition activities continue to remain slow, on top of sizable remaining order-book deliveries. Nonetheless, we are hopeful of a possibly better 2HFY21, in anticipation of increased oil productions globally, led by OPEC+, which would help boost demand for petroleum tankers.

**Maintain OUTPERFORM**, with unchanged TP of RM8.10, pegged to 1.1x PBV. Post-results, we make no changes to our FY21-22E numbers.

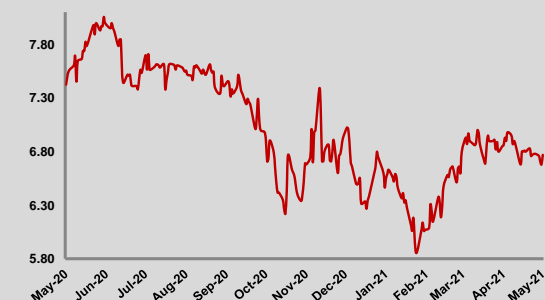
Our OUTPERFORM call is premised on its stable and attractive dividend yields of ~5%, coupled with its ESG-compliant angle, inclusion in the F4GBM Index as well as it receiving a 4-star ESG rating by FTSE Russell (the top 25% ESG Ratings amongst PLCs in FBM Emas that have been assessed by FTSE Russell).

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

# OUTPERFORM ↔

Price : **RM6.77**  
Target Price : **RM8.10** ↔

## Share Price Performance



KLCI 1,578.33  
YTD KLCI chg -3.0%  
YTD stock price chg -1.5%

## Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MISC MK Equity
Market Cap (RM m)	30,219.6
Shares outstanding	4,463.7
52-week range (H)	8.55
52-week range (L)	5.96
3-mth avg daily vol:	2,389,394
Free Float	31%
Beta	0.7

## Major Shareholders

Petroleum Nasional Bhd	51.0%
Employees Provident Fund	11.1%
Amanah Saham Bumiputera	6.7%

## Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Revenue	9,401	11,305	12,131
EBIT	245	2,677	2,700
PBT	(124)	2,277	2,300
<b>Net Profit (NP)</b>	<b>(43)</b>	<b>2,164</b>	<b>2,185</b>
<b>Core NP (CNP)</b>	<b>2,159</b>	<b>2,164</b>	<b>2,185</b>
Consensus (CNP)		1,969	2,179
Earnings Revision (%)		-	-
Core EPS (sen)	48.4	48.5	48.9
CNP growth (%)	34.1	0.2	1.0
DPS (sen)	33.0	33.0	33.0
BVPS (RM)	7.2	7.4	7.5
Core PER (x)	14.0	14.0	13.8
Price/BV (x)	0.9	0.9	0.9
Net Gearing (x)	0.2	0.3	0.3
Div. Yield (%)	4.9	4.9	4.9



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## Result Highlights

Y/E : Dec (RM m)	1Q FY21	4Q FY20	Q-o-Q Chg	1Q FY20	Y-o-Y Chg	3M FY21	3M FY20	Y-o-Y Chg
Revenue	2,540.9	2,641.6	-3.8%	2,513.8	1.1%	2,540.9	2,513.8	1.1%
Cost of sales	(1,874.9)	(2,093.5)	-10.4%	(1,505.7)	24.5%	(1,874.9)	(1,505.7)	24.5%
<b>Gross profit</b>	<b>666.0</b>	<b>548.1</b>	<b>21.5%</b>	<b>1,008.1</b>	<b>-33.9%</b>	<b>666.0</b>	<b>1,008.1</b>	<b>-33.9%</b>
Other operating income	65.0	53.6	21.3%	135.2	-51.9%	65.0	135.2	-51.9%
General and administrative expenses	(267.2)	(282.4)	-5.4%	(298.2)	-10.4%	(267.2)	(298.2)	-10.4%
<b>Operating profit</b>	<b>463.8</b>	<b>319.3</b>	<b>45.3%</b>	<b>845.1</b>	<b>-45.1%</b>	<b>463.8</b>	<b>845.1</b>	<b>-45.1%</b>
Write-off / remeasurement of receivables	0.0	89.0	N.M.	(935.2)	N.M.	0.0	(935.2)	N.M.
Provision for litigation claims	0.0	0.0	N.M.	(1,049.2)	N.M.	0.0	(1,049.2)	N.M.
Impairments	(24.6)	(15.8)	55.7%	(113.8)	-78.4%	(24.6)	0.0	N.A.
Gain of disposal of ships and PPE	0.4	3.4	-88.2%	0.0	N.A.	0.4	0.0	N.A.
Finance cost	(93.1)	(94.0)	-1.0%	(95.8)	-2.8%	(93.1)	(95.8)	-2.8%
Share of profit of joint ventures	59.2	252.7	-76.6%	89.7	-34.0%	59.2	89.7	-34.0%
<b>Profit before tax</b>	<b>405.7</b>	<b>554.6</b>	<b>-26.8%</b>	<b>(1,145.4)</b>	<b>-135.4%</b>	<b>405.7</b>	<b>(1,145.4)</b>	<b>-135.4%</b>
Taxation	(10.1)	1.9	N.M.	(5.6)	80.4%	(10.1)	(5.6)	80.4%
Non-controlling interests	34.2	(0.5)	N.M.	(5.8)	-689.7%	34.2	(5.8)	-689.7%
<b>Net profit</b>	<b>429.8</b>	<b>556.0</b>	<b>-22.7%</b>	<b>(1,156.8)</b>	<b>N.M.</b>	<b>429.8</b>	<b>(1,156.8)</b>	<b>N.M.</b>
<b>Core Net profit</b>	<b>454.0</b>	<b>479.4</b>	<b>-5.3%</b>	<b>827.6</b>	<b>-45.1%</b>	<b>454.0</b>	<b>827.6</b>	<b>-45.1%</b>
Operating margin	18.3%	12.1%		33.6%		18.3%	33.6%	
PBT margin	16.0%	21.0%		-45.6%		16.0%	-45.6%	
Net margin	16.9%	21.0%		-46.0%		16.9%	-46.0%	
Core net margin	17.9%	18.1%		32.9%		17.9%	32.9%	
Effective tax rate	2.5%	-0.3%		-0.5%		2.5%	-0.5%	

Source: Company, Kenanga Research

## Segment Breakdown (USD)

Segment Results Y/E : Dec (USD m)	1Q FY21	4Q FY20	Q-o-Q Chg	1Q FY20	Y-o-Y Chg	3M FY21	3M FY20	Y-o-Y Chg
<b>Revenue</b>								
LNG shipping	168.6	158.7	6.2%	166.4	1.3%	168.6	166.4	1.3%
Petroleum shipping	195.4	171.1	14.2%	293.7	-33.5%	195.4	293.7	-33.5%
Offshore	171.1	145.2	17.8%	56.9	200.7%	171.1	56.9	200.7%
Heavy Engineering	84.5	167.3	-49.5%	82.8	2.1%	84.5	82.8	2.1%
<b>Core PBT</b>								
LNG shipping	66.0	50.6	30.4%	77.5	-14.8%	66.0	77.5	-14.8%
Petroleum shipping	0.7	(23.8)	N.M.	71.0	-99.0%	0.7	71.0	-99.0%
Offshore	63.8	90.7	-29.7%	49.3	29.4%	63.8	49.3	29.4%
Heavy Engineering	(25.7)	(2.8)	817.9%	N.M.	-1935.7%	(25.7)	1.4	N.M.
<b>Core PBT Margin</b>								
LNG shipping	39.1%	31.9%		46.6%		39.1%	46.6%	
Petroleum shipping	0.4%	-13.9%		24.2%		0.4%	24.2%	
Offshore	37.3%	62.5%		86.6%		37.3%	86.6%	
Heavy Engineering	-30.4%	-1.7%		1.7%		-30.4%	1.7%	

Source: Company, Kenanga Research

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Segment Breakdown (MYR)								
Segment Results Y/E : Dec (RM m)	1Q FY21	4Q FY20	Q-o-Q Chg	1Q FY20	Y-o-Y Chg	3M FY21	3M FY20	Y-o-Y Chg
<b>Revenue</b>								
LNG	685.7	651.4	5.3%	695.9	-1.5%	685.7	695.9	-1.5%
Petroleum	795.1	694.3	14.5%	1,228.0	-35.3%	795.1	1,228.0	-35.3%
Offshore	696.0	604.6	15.1%	238.1	192.3%	696.0	238.1	192.3%
Heavy Engineering	343.5	696.5	-50.7%	346.5	-0.9%	343.5	346.5	-0.9%
Others, Eliminations and Adjustments	20.6	(5.2)	-496.2%	5.3	288.7%	20.6	5.3	288.7%
<b>Operating Profit</b>								
LNG	300.9	237.8	26.5%	361.7	-16.8%	300.9	361.7	-16.8%
Petroleum	34.4	(78.0)	-144.1%	336.5	-89.8%	34.4	336.5	-89.8%
Offshore	239.3	172.4	38.8%	160.2	49.4%	239.3	160.2	49.4%
Heavy Engineering	(101.9)	(7.7)	1223.4%	5.6	-1919.6%	(101.9)	5.6	-1919.6%
Others, Eliminations and Adjustments	(8.9)	(5.2)	71.2%	(18.9)	-52.9%	(8.9)	(18.9)	-52.9%
<b>Operating Margin</b>								
LNG	43.9%	36.5%		52.0%		43.9%	52.0%	
Petroleum	4.3%	-11.2%		27.4%		4.3%	27.4%	
Offshore	34.4%	28.5%		67.3%		34.4%	67.3%	
Heavy Engineering	-29.7%	-1.1%		1.6%		-29.7%	1.6%	
Source: Company, Kenanga Research								

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## 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	0.425	2,502.8	N	12/2021	4.3%	0.0%	-6.4%	7.1%	5.2	5.6	5.2	0.8	0.7	13.2%	0.0%	0.490	OP
DAYANG ENTERPRISE HLDGS BHD	1.45	1,818.7	Y	12/2021	13.6%	16.1%	42.9%	60.5%	25.1	17.6	10.9	1.1	1.0	6.0%	0.0%	1.80	OP
DIALOG GROUP BHD	3.04	17,152.7	Y	06/2021	-33.7%	26.3%	1.8%	11.5%	28.5	28.0	25.1	4.1	3.8	14.1%	1.0%	4.35	OP
MISC BHD	6.77	30,219.6	Y	12/2021	20.3%	7.3%	0.2%	1.0%	14.0	14.0	13.8	0.9	0.9	6.6%	4.9%	8.10	OP
PETRONAS CHEMICALS GROUP BHD	8.19	65,520.0	Y	12/2021	9.3%	10.3%	30.8%	16.4%	34.1	26.1	22.4	2.2	2.1	8.1%	1.9%	7.50	MP
PETRONAS DAGANGAN BHD	19.50	19,372.4	Y	12/2021	10.2%	10.2%	58.9%	48.3%	68.0	42.8	28.8	3.4	3.4	8.0%	2.3%	17.60	UP
SAPURA ENERGY BHD	0.140	2,237.1	Y	01/2022	16.3%	10.6%	-182.1%	-153.3%	N.A.	N.A.	N.A.	0.3	0.3	-2.8%	0.0%	0.210	OP
SERBA DINAMIK HOLDINGS	1.60	5,935.4	Y	12/2021	12.0%	12.0%	10.0%	10.0%	9.4	8.5	7.8	1.8	1.4	18.7%	3.5%	2.80	OP
UZMA BHD	0.705	225.6	Y	06/2021	-6.8%	2.3%	851.9%	20.2%	83.6	8.8	7.3	0.5	0.5	5.5%	0.0%	1.00	OP
VELESTO ENERGY BHD	0.155	1,273.4	Y	12/2021	-14.5%	20.9%	-168.4%	-42.3%	N.A.	N.A.	77.6	0.6	0.6	-1.3%	0.0%	0.110	UP
WAH SEONG CORP BHD	0.860	665.9	Y	12/2021	34.8%	15.8%	-59.0%	203.6%	N.A.	29.6	9.8	0.9	0.9	3.1%	0.0%	0.720	MP
YINSON HOLDINGS BHD	5.15	5,487.0	Y	01/2022	-6.6%	-15.5%	-10.0%	-16.6%	8.8	9.8	11.8	3.1	2.4	27.4%	1.2%	6.95	OP
<b>Simple Average</b>					<b>4.9%</b>	<b>9.7%</b>	<b>47.5%</b>	<b>13.9%</b>	<b>30.7</b>	<b>19.1</b>	<b>20.1</b>	<b>1.6</b>	<b>1.5</b>	<b>8.9%</b>	<b>1.2%</b>		

Source: Bloomberg, Kenanga Research

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**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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