

19 November 2021

# MISC Berhad

## Sequential Dip in 3QFY21

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3QFY21 results came below our expectations, dragged by poorer petroleum shipping segment in line with weaker spot charter rates. Nonetheless, heading into the winter months, we are expecting tanker spot rates to pose a modest recovery, while mid-term recovery outlook also seems increasingly promising given OPEC+'s increasing oil supply coupled with the continued economic recovery. Maintain OP, with TP of RM8.05, backed by stable ~5% dividend yields.

**9MFY21 below our expectations.** 9MFY21 recorded core net profit of RM1.4b came in below our expectations, making up only 67% of our full-year forecasts, mainly dragged by the weak spot charter rates for its petroleum shipping. However, the results were above consensus, coming in at 83% of street's estimate, most probably due to the street's overly conservative assumptions on spot rates. Meanwhile, dividend of 7.0 sen per share is within expectation, bringing YTD dividends to 21.0 sen (flat YoY).

**Earnings dragged by poorer petroleum shipping.** Cumulatively, 9MFY21 earnings dipped 14% YoY, mainly dragged by the poorer petroleum shipping segment due to lower freight rates. This was partially offset by the higher offshore business contribution given the recognition of construction gains from Mero-3 FPSO.

For 3QFY21, core net profit came in at RM410m – representing a 53% jump YoY. While losses in its petroleum shipping segment had widened YoY, gains were mainly attributable by better LNG shipping amidst higher earning days from new deliveries, coupled with the aforementioned construction gains from Mero-3 FPSO. Sequentially, core earnings deteriorated 29% QoQ, mainly dragged by its petroleum shipping segment dipping into losses given poorer spot rates, while last quarter also saw a gain from compensation recognition for a contract renegotiation in its petroleum shipping segment.

**Tanker spot rates expected to see gradual recovery.** In the short term, the tanker market is expected to see some modest improvements heading into the winter months. Meanwhile, over the medium term, prospects of a recovery also look more promising, driven by OPEC+ phased supply increases and continued economic recovery, with tanker demand expected to revert close to 2019 levels by 2HFY22. However, for MISC's group earnings, the coming quarters could be partially dragged by lower construction gains from Mero-3 amidst higher project costs recognition – in-line with its finance lease accounting.

**Maintain OUTPERFORM**, with a slightly lowered TP of RM8.05 (from RM8.10 previously) – pegged to unchanged valuations of 1.1x PBV, backed by ~5% yield. Post results, we cut our FY21E/FY22E earnings by 10% each to account for lower spot rate assumption.

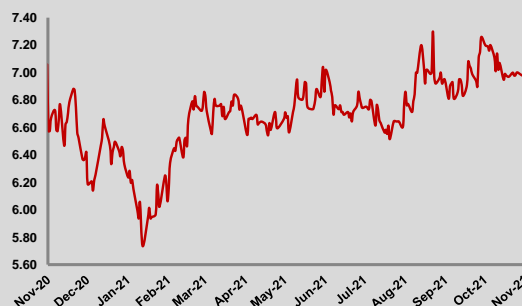
Nonetheless, we continue to like the stock for its stable dividend yields of ~5%, coupled with an ESG-compliant angle, inclusion in the F4GBM Index as well as it receiving a 4-star ESG rating by FTSE Russell (the top 25% ESG Ratings amongst PLCs in FBM Emas that have been assessed by FTSE Russell).

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

# OUTPERFORM ↔

Price : **RM6.96**  
Target Price : **RM8.05** ↓

### Share Price Performance



KLCI 1,523.79  
YTD KLCI chg -6.4%  
YTD stock price chg 1.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MISC MK Equity
Market Cap (RM m)	31,067.7
Shares outstanding	4,463.7
52-week range (H)	7.40
52-week range (L)	5.96
3-mth avg daily vol:	1,608,989
Free Float	30%
Beta	0.7

### Major Shareholders

Petroleum Nasional Bhd	51.0%
Employees Provident Fund	11.9%
Amanah Saham Bumiputera	7.5%

### Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Revenue	9,401	10,136	11,578
EBIT	245	2,446	2,474
PBT	(124)	2,046	2,074
<b>Net Profit (NP)</b>	<b>(43)</b>	<b>1,944</b>	<b>1,971</b>
<b>Core NP (CNP)</b>	<b>2,159</b>	<b>1,944</b>	<b>1,971</b>
Consensus (CNP)		1,736	2,022
Earnings Revision (%)		-10.2	-9.8
Core EPS (sen)	48.4	43.5	44.2
CNP growth (%)	34.1	-10.0	1.4
DPS (sen)	33.0	33.0	33.0
BVPS (RM)	7.2	7.3	7.4
Core PER (x)	14.4	16.0	15.8
Price/BV (x)	1.0	0.9	0.9
Net Gearing (x)	0.2	0.3	0.3
Div. Yield (%)	4.7	4.7	4.7



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Result Highlights								
Y/E : Dec (RM m)	3Q FY21	2Q FY21	Q-o-Q Chg	3Q FY20	Y-o-Y Chg	9M FY21	9M FY20	Y-o-Y Chg
Revenue	2,691.8	2,353.8	14.4%	2,059.5	30.7%	7,586.5	6,759.6	12.2%
Cost of sales	(2,013.2)	(1,656.5)	21.5%	(1,521.1)	32.4%	(5,544.6)	(4,427.9)	25.2%
<b>Gross profit</b>	<b>678.6</b>	<b>697.3</b>	<b>-2.7%</b>	<b>538.4</b>	<b>26.0%</b>	<b>2,041.9</b>	<b>2,331.7</b>	<b>-12.4%</b>
Other operating income	44.4	220.2	-79.8%	64.1	-30.7%	329.6	200.7	64.2%
General and administrative expenses	(238.7)	(290.5)	-17.8%	(272.5)	-12.4%	(796.4)	(834.4)	-4.6%
<b>Operating profit</b>	<b>484.3</b>	<b>627.0</b>	<b>-22.8%</b>	<b>330.0</b>	<b>46.8%</b>	<b>1,575.1</b>	<b>1,698.0</b>	<b>-7.2%</b>
Impairments	(9.0)	(42.0)	-78.6%	(9.6)	-6.3%	(75.6)	(315.6)	-76.0%
Loss from deconsolidation	0.0	(2.3)	-100.0%	0.0	N.A.	(2.3)	0.0	N.A.
Gain of disposal of ships	0.0	3.6	-100.0%	0.0	N.A.	4.0	21.6	-81.5%
Write-off / remeasurement	0.0	0.0	N.A.	0.0	N.A.	0.0	(935.2)	-100.0%
Provision for litigation claims	0.0	0.0	N.A.	0.0	N.A.	0.0	(1,049.2)	-100.0%
Finance cost	(103.8)	(97.9)	6.0%	(77.8)	33.4%	(294.8)	(274.1)	7.6%
Share of profit of joint ventures	30.6	46.3	-33.9%	38.6	-20.7%	136.1	176.3	-22.8%
<b>Profit before tax</b>	<b>402.1</b>	<b>534.7</b>	<b>-24.8%</b>	<b>281.2</b>	<b>43.0%</b>	<b>1,342.5</b>	<b>(678.2)</b>	<b>-298.0%</b>
Taxation	(10.8)	(10.6)	1.9%	(20.8)	-48.1%	(31.5)	(48.1)	-34.5%
Non-controlling interests	9.7	14.7	-34.0%	(2.1)	-561.9%	58.6	127.3	-54.0%
<b>Net profit</b>	<b>401.0</b>	<b>538.8</b>	<b>-25.6%</b>	<b>258.3</b>	<b>55.2%</b>	<b>1,369.6</b>	<b>(599.0)</b>	<b>-328.6%</b>
<b>Core Net profit</b>	<b>410.0</b>	<b>577.2</b>	<b>-29.0%</b>	<b>267.9</b>	<b>53.0%</b>	<b>1,441.2</b>	<b>1,679.4</b>	<b>-14.2%</b>
Operating margin	18.0%	26.6%		16.0%		20.8%	25.1%	
PBT margin	14.9%	22.7%		13.7%		17.7%	-10.0%	
Net margin	14.9%	22.9%		12.5%		18.1%	-8.9%	
Core net margin	15.2%	24.5%		13.0%		19.0%	24.8%	
Effective tax rate	2.7%	2.0%		7.4%		2.3%	-7.1%	

Source: Company, Kenanga Research

Segment Breakdown (USD)								
Segment Results Y/E : Dec (USD m)	3Q FY21	2Q FY21	Q-o-Q Chg	3Q FY20	Y-o-Y Chg	9M FY21	9M FY20	Y-o-Y Chg
<b>Revenue</b>								
LNG shipping	176.7	167.2	5.7%	146.0	21.0%	512.5	472.6	8.4%
Petroleum shipping	184.7	190.6	-3.1%	202.9	-9.0%	570.7	748.4	-23.7%
Offshore	178.9	137.1	30.5%	51.1	250.1%	487.1	161.4	201.8%
Heavy Engineering	92.9	73.2	26.9%	87.7	5.9%	250.6	205.7	21.8%
<b>Core PBT</b>								
LNG shipping	64.9	62.3	4.2%	48.6	33.5%	193.2	198.9	-2.9%
Petroleum shipping	(9.5)	43.9	-121.6%	(4.9)	93.9%	35.1	105.5	-66.7%
Offshore	55.2	45.8	20.5%	22.3	147.5%	164.8	102.7	60.5%
Heavy Engineering	(5.4)	(7.0)	-22.9%	0.2	-2800.0%	(38.1)	(22.0)	73.2%
<b>Core PBT Margin</b>								
LNG shipping	36.7%	37.3%		33.3%		37.7%	42.1%	
Petroleum shipping	-5.1%	23.0%		-2.4%		6.2%	14.1%	
Offshore	30.9%	33.4%		43.6%		33.8%	63.6%	
Heavy Engineering	-5.8%	-9.6%		0.2%		-15.2%	-10.7%	

Source: Company, Kenanga Research

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Segment Breakdown (MYR)								
Segment Results	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
Y/E : Dec (RM'm)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
<b>Revenue</b>								
LNG	741.2	690.5	7.3%	613.4	20.8%	2,117.4	2,001.3	5.8%
Petroleum	775.9	787.2	-1.4%	851.1	-8.8%	2,358.2	3,169.2	-25.6%
Offshore	749.7	567.1	32.2%	215.0	248.7%	2,012.8	683.9	194.3%
Heavy Engineering	389.3	302.5	28.7%	369.4	5.4%	1,035.3	871.1	18.8%
Others	35.7	6.5	449.2%	10.6	236.8%	62.8	34.1	84.2%
<b>Operating Profit</b>								
LNG	313.7	293.6	6.8%	239.0	31.3%	908.2	953.2	-4.7%
Petroleum	(8.3)	212.0	-103.9%	20.1	-141.3%	238.1	558.4	-57.4%
Offshore	243.3	186.8	30.2%	98.9	146.0%	669.4	393.4	70.2%
Heavy Engineering	(20.1)	(26.3)	-23.6%	2.3	-973.9%	(148.3)	(92.3)	60.7%
Others	(44.3)	(39.1)	13.3%	(30.3)	46.2%	(92.3)	(114.7)	-19.5%
<b>Operating Margin</b>								
LNG	42.3%	42.5%		39.0%		42.9%	47.6%	
Petroleum	-1.1%	26.9%		2.4%		10.1%	17.6%	
Offshore	32.5%	32.9%		46.0%		33.3%	57.5%	
Heavy Engineering	-5.2%	-8.7%		0.6%		-14.3%	-10.6%	

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	0.475	2,805.8	N	12/2021	4.3%	0.0%	8.0%	1.3%	5.9	5.4	5.4	0.9	0.8	15.1%	0.0%	0.530	OP
DAYANG ENTERPRISE HLDGS BHD	0.950	1,099.9	Y	12/2021	-14.5%	20.0%	-18.9%	50.9%	16.4	20.3	13.4	0.7	0.7	3.3%	0.0%	1.20	OP
DIALOG GROUP BHD	2.88	16,250.1	Y	06/2022	-38.1%	28.1%	-7.9%	15.4%	27.0	29.3	25.4	3.9	3.6	12.8%	1.0%	3.50	OP
MISC BHD	6.89	30,755.2	Y	12/2021	7.8%	14.2%	-10.0%	1.4%	14.2	15.8	15.6	1.0	0.8	5.7%	4.8%	8.05	OP
PETRONAS CHEMICALS GROUP BHD	8.31	66,480.0	Y	12/2021	48.1%	-8.1%	211.0%	-28.4%	34.6	11.1	15.5	2.2	2.0	18.7%	4.5%	8.55	MP
PETRONAS DAGANGAN BHD	19.88	19,749.9	Y	12/2021	10.2%	10.2%	113.3%	18.9%	69.3	32.5	27.3	3.5	3.5	10.8%	3.1%	18.90	MP
SAPURA ENERGY BHD	0.100	1,597.9	Y	01/2022	11.9%	-40.6%	-879.6%	-118.9%	N.A.	N.A.	N.A.	0.2	0.3	-30.4%	0.0%	0.070	UP
SERBA DINAMIK HOLDINGS	0.350	1,298.4	Y	06/2022	-31.6%	10.0%	-38.2%	6.2%	1.7	2.7	2.6	0.3	0.3	11.5%	0.0%	UR	UR
UZMA BHD	0.565	189.9	Y	06/2022	15.2%	15.0%	27.6%	27.4%	8.3	6.5	5.1	0.4	0.4	6.0%	0.0%	0.750	OP
VELESTO ENERGY BHD	0.140	1,150.2	Y	12/2021	-38.2%	33.9%	-304.1%	-118.9%	N.A.	N.A.	N.A.	0.5	0.5	-3.8%	0.0%	0.130	UP
WAH SEONG CORP BHD	0.740	573.0	Y	12/2021	-14.8%	41.7%	-108.2%	300.0%	N.A.	N.A.	31.9	0.8	0.8	-0.6%	0.0%	0.650	MP
YINSON HOLDINGS BHD	6.10	6,496.2	Y	01/2022	-6.6%	-15.5%	-20.3%	-18.1%	10.5	13.1	16.0	3.6	2.9	24.7%	1.0%	7.35	OP
<b>Simple Average</b>					<b>-3.9%</b>	<b>9.1%</b>	<b>-85.6%</b>	<b>11.4%</b>	<b>20.9</b>	<b>15.2</b>	<b>15.8</b>	<b>1.5</b>	<b>1.4</b>	<b>6.1%</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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