

11 August 2022

MISC Berhad

Consortium Wins LNG Carrier Contract

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MISC through a consortium with NYJ, K-Line and CLNG, has been awarded a long-term charter contract for seven LNG carriers, starting 2025. Overall, we are positive on the contract win being a continued replenishment to its LNG fleet, although immediate earnings impact may be smallish. No changes to our MP call albeit with a slightly lowered TP of RM7.55.

LNG charter contract award. MISC announced that through a consortium with Nippon Yusen Kabushiki Kaisha (NYK), Kawasaki Kisen Kaisha (K-Line) and China LNG Shipping (CLNG), the company has been awarded a long-term time charter contract by QatarEnergy for seven 174,000 m³ newbuild liquified natural gas (LNG) carriers to be built by Hyundai Heavy Industries. Each consortium member will have an equal equity interest of 25%, with the long-term charters starting from 2025 onwards. No further details or information were disclosed.

Below are some of our views of the contract win:

- Key assumptions.** While no further details were disclosed (e.g. contract value, contract duration etc), based on our estimated assumptions of: (i) charter period of ~15 years, (ii) capex per vessel of ~USD230m – broadly in-line with current newbuild market rates, and (iii) IRR of ~9%, our back-of-envelope calculations suggest an average earnings per year impact of roughly RM31m (or ~2% of our FY22-23E) taking into account MISC's 25% stake. Impact towards the group's balance sheet should also be minimal (current net-gearing at ~0.3x).
- Further strengthens MISC's LNG segment.** Being the main bread and butter for MISC, the LNG segment continues to be the group's biggest earnings and cash flow contributor (as reference, the segment contributed ~88% of the group's 1QFY22 core earnings). This contract win will further strengthen its current LNG fleet of ~30 vessels.
- More contract wins expected.** With >10 long-term LNG contracts expected to expire in the coming 3-4 years, we expect the group to be more aggressive in its bidding activities in order to make up for the anticipated short-fall of cash flows. The market rates for 3-year LNG carrier charters are currently near a multi-year high, and hence, upcoming contracts secured would yield much better returns should some of these older vessels be repurposed. Meanwhile, we understand that the group is also aggressively bidding for an FPSO contract for TotalEnergies' Cameia project in Angola, in partnership with Saipem.

Overall, we are mildly positive on the contract win, seeing it as a continued replenishment of the group's LNG fleet. We made no changes to our FY22-23E numbers, given the contract's 2025 commencement date and its smallish immediate earnings impact.

Upcoming quarter likely to see provisions. Looking ahead, we expect the upcoming 2QFY22 reported earnings to be weaker, as we anticipate the group to recognise impairments and provisions following the continued delays and cost escalations for its Mero-3 FPSO, currently undergoing conversion and fabrication works at CIMC Raffles shipyard in China.

MARKET PERFORM ↔

Price : **RM7.13**
Target Price : **RM7.55** ↓

Share Price Performance



KLCI 1,492.33
YTD KLCI chg -4.8%
YTD stock price chg 1.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MISC MK Equity
Market Cap (RM m)	31,826.5
Shares Outstanding	4,463.7
52-week range (H)	7.92
52-week range (L)	6.33
3-mth avg daily vol:	2,568,212
Free Float	20%
Beta	0.8

Major Shareholders

Petroleum Nasional Bhd	51.0%
Employees Provident Fund	12.8%
Amanah Saham Bumiputera	6.9%

Summary Earnings Table

FY Dec (RM m)	2021A	2022E	2023E
Revenue	10,672	10,582	11,025
EBIT	1,948	2,136	2,153
PBT	1,775	1,686	1,703
Net Profit (NP)	1,831	1,601	1,618
Core NP (CNP)	1,889	1,601	1,618
Consensus (NP)		1,792	1,939
Earnings Revision		-	-
Core EPS (sen)	42.3	35.9	36.3
CNP growth (%)	-12.5	-15.2	1.1
NDPS (sen)	33.0	33.0	33.0
BVPS (RM)	7.7	7.7	7.7
Core PER (x)	16.9	19.9	19.7
Price/BV (x)	0.9	0.9	0.9
Net Gearing (x)	0.3	0.4	0.5
Div. Yield (%)	4.6	4.6	4.6

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Maintain MARKET PERFORM, albeit with a slightly lower TP of RM7.55 (from RM7.70 previously), as we switched our valuation methodology to sum-of-parts (from 1.0x PBV previously). Note that our valuations have also taken into account our in-house ESG rating of 4-star.

Risks to our call: (i) poorer-than-expected fleet utilisation, (ii) project execution risks, (iii) fluctuation in spot charter rates.

Sum-of-Parts Valuation

	<u>RM m</u>	<u>Valuation Metric</u>
Gas Asset & Solutions	16,095.8	DCF at 7% discount rate
Petroleum & Product Shipping	8,126.9	0.9x PBV
Offshore Business	16,384.59	DCF at 6% discount rate
Marine & Heavy Engineering	552.07	0.4x PBV
Net Cash / (Debt)	(9,076.7)	
Total	32,082.75	
Number of shares	4,463.7	
ESG premium / discount	5%	
SoP value per share (RM)	7.55	

Source: Company, Kenanga Research

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2019A	2020A	2021A	2022E	2023E	FY Dec	2019A	2020A	2021A	2022E	2023E
Revenue	8,963	9,401	10,672	10,582	11,025	Growth (%)					
EBIT	1,929	2,017	1,948	2,136	2,153	Revenue	2.1	4.9	13.5	-0.8	4.2
Net Finance Cost	(484)	(368)	(417)	(450)	(450)	EBIT	78.2	4.6	-3.4	9.6	0.8
PBT	1,512	(124)	1,775	1,686	1,703	PBT	12.5	-108.2	-1535.8	-5.0	1.1
Taxation	(76)	(46)	(41)	(84)	(85)	Net Profit	8.8	-103.0	-4358.8	-12.6	1.1
Net Profit	1,426	(43)	1,831	1,601	1,618	Core Net Profit	21.7	34.1	-12.5	-15.2	1.1
Core Net Profit	1,610	2,159	1,889	1,601	1,618	Profitability (%)					
Balance Sheet						EBIT Margin	21.5	21.5	18.3	20.2	19.5
FY Dec (RM m)	2019A	2020A	2021A	2022E	2023E	PBT Margin	16.9	-1.3	16.6	15.9	15.5
Total PPE	23,287	23,258	23,412	27,412	31,412	Net Margin	15.9	-0.5	17.2	15.1	14.7
Intangible Assets	841	819	1,061	1,061	1,061	Core Net Margin	18.0	23.0	17.7	15.1	14.7
Other FA	16,483	15,386	20,208	20,208	20,208	Effect. Tax Rate	5.0	-37.4	2.3	5.0	5.0
Inventories	166	91	120	119	124	ROE	4.6	6.7	5.5	4.7	4.7
Receivables	2,441	5,240	3,356	3,328	3,467	ROA	3.1	4.2	3.3	2.7	2.5
Other CA	1,615	172	1,413	1,413	1,413	DuPont Analysis					
Cash	7,031	6,855	7,952	6,807	6,118	Net Margin (%)	15.9	-0.5	17.2	15.1	14.7
Total Assets	51,864	51,821	57,521	60,346	63,802	Assets T/over (x)	17.3	18.1	18.6	17.5	17.3
Payables	2,109	3,427	3,998	3,964	4,130	Lev. Factor(x)	1.5	1.6	1.7	1.8	1.9
ST Borrowings	5,600	2,006	8,309	8,240	8,584	ROE (%)	4.6	6.7	5.5	4.7	4.7
Other ST Liability	93	117	120	120	120	Leverage					
LT Borrowings	7,553	11,435	8,720	11,520	14,320	Debt/Asset (x)	0.3	0.3	0.3	0.3	0.4
Other LT Liability	756	1,685	1,449	1,449	1,449	Debt/Equity (x)	0.4	0.4	0.5	0.6	0.7
NCI	1,027	878	762	762	762	Net Debt/(Cash)	6,121	6,585	9,077	12,953	16,786
Net Assets	34,727	32,273	34,163	34,291	34,436	N. Debt/Equity (x)	0.2	0.2	0.3	0.4	0.5
Share Capital	8,923	8,923	8,923	8,923	8,923	Valuations					
Retain. Earnings	19,744	18,228	18,586	18,715	18,860	Core EPS (sen)	48.4	42.3	35.9	36.3	48.4
Other Reserves	6,060	5,122	6,653	6,653	6,653	NDPS (sen)	33.0	33.0	33.0	33.0	33.0
Equity	34,727	32,273	34,163	34,291	34,436	BV (RM)	7.2	7.7	7.7	7.7	7.2
Cashflow Statement						Core PER (x)	14.7	16.9	19.9	19.7	14.7
FY Dec (RM m)	2019A	2020A	2021A	2022E	2023E	Div. Yield (%)	4.6	4.6	4.6	4.6	4.6
Operating CF	5,579	5,588	2,909	4,085	4,103	P/BV (x)	1.0	0.9	0.9	0.9	1.0
Investing CF	(1,533)	4,318	(3,135)	(4,000)	(4,000)						
Financing CF	(3,773)	1,389	1,499	(1,231)	(791)						

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	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	0.360	2,130.5	N	12/2022	12.8%	0.0%	-10.7%	3.4%	3.1	3.5	3.4	0.5	0.5	14.1%	0.0%	0.630	OP
DAYANG ENTERPRISE HLDGS BHD	0.950	1,099.9	Y	12/2022	10.8%	12.0%	46.6%	50.2%	25.1	17.1	11.4	0.8	0.8	4.8%	0.0%	1.25	OP
DIALOG GROUP BHD	2.21	12,470.1	Y	06/2022	13.5%	49.2%	1.7%	13.2%	23.5	23.1	20.4	2.7	2.5	11.3%	1.3%	3.30	OP
MISC BHD	7.13	31,826.5	Y	12/2022	-0.8%	4.2%	-15.2%	1.1%	16.8	19.9	19.7	0.9	0.9	4.7%	4.6%	7.55	MP
PETRONAS CHEMICALS GROUP BHD	8.72	69,760.0	Y	12/2022	16.4%	-10.0%	-3.9%	-21.1%	9.6	10.0	12.7	2.0	1.8	19.0%	5.0%	11.00	OP
PETRONAS DAGANGAN BHD	21.98	21,836.1	Y	12/2022	30.0%	5.0%	-1.8%	26.6%	39.8	40.6	32.1	3.9	3.9	9.6%	2.5%	17.85	UP
SAPURA ENERGY BHD	0.050	799.0	Y	01/2023	-7.0%	0.0%	-115.1%	-174.3%	N.A.	N.A.	N.A.	3.2	(3.5)	-4904.0%	0.0%	0.005	UP
UZMA BHD	0.360	126.7	Y	06/2022	-2.7%	10.0%	-60.4%	72.1%	5.3	13.4	7.8	0.3	0.3	1.9%	0.0%	0.540	OP
VELESTO ENERGY BHD	0.075	616.2	Y	12/2022	-6.8%	9.6%	-136.7%	-168.7%	N.A.	N.A.	N.A.	0.3	0.3	-2.8%	0.0%	0.100	UP
WAH SEONG CORP BHD	0.565	437.5	Y	12/2022	44.1%	26.2%	51.9%	56.4%	N.A.	12.2	7.8	0.7	0.7	5.9%	0.0%	0.790	MP
YINSON HOLDINGS BHD	2.00	5,824.1	N	01/2023	6.1%	-16.6%	1.2%	20.7%	10.6	10.5	8.7	1.8	1.6	16.1%	3.0%	2.50	OP
Simple Average					10.6%	8.1%	-22.0%	-11.0%	16.7	16.7	13.8	1.6	0.9	-438.1%	1.5%		

Source: Bloomberg, Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★	★	
	Management/Workforce Diversity	★	★	★	★	
	Accessibility & Transparency	★	★			
	Corruption-Free Pledge	★	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	★	
SPECIFIC	Diversification from pure O&G	★	★	★		
	Emission Targets and Climate Goals	★	★	★	★	
	Occupational Health and Safety	★	★	★	★	
	Pollution control	★	★	★	★	
	Supply chain auditing	★	★	★	★	
	Energy efficiency	★	★	★	★	
OVERALL		★	★	★	★	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★★ +5% premium to TP
 ★★★★★★ +10% premium to TP

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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