

# MISC Berhad

## Cost Escalation Weighing In

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**1HFY22 results missed expectations on construction cost overrun at its offshore division and further project delays at its Mero-3 FPSO currently undergoing conversion works due to lockdowns in China and the persistent global supply chain issues. We cut our FY22-23F earnings by 23% each, lower our SOP-derived TP by 7% to RM7.05 (from RM7.55). Maintain MARKET PERFORM.**

**1HFY22 results missed expectations.** MISC reported 1HFY22 core net profit of RM658m (arrived after stripping off impairments and gains on disposals) – coming in below expectations at only 41% and 36% of our and consensus full-year forecasts, respectively. This is largely due to the poorer offshore business contributions, which suffered from construction costs overrun for its Mero-3 FPSO given the recent lockdowns in parts of China, where conversion works are currently being done.

**Poorer results overall.** 1HFY22 saw core earnings plunging 36% YoY, largely dragged by the aforementioned poorer offshore business, coupled with the lower contribution from petroleum shipping as last year saw the recognition of a contract renegotiation compensation gain. This masked the better spot tanker rates which the segment has thus far enjoyed throughout this year. Meanwhile, the weaker results were also partially offset by the better gas and asset solutions segment (formerly known as LNG shipping) on the back of higher working days coupled with lower dry-docking activities.

**Delay in Mero-3 delivery.** The lockdowns in parts of China as well as the global supply chain issues are expected to lead to continued delays and cost overruns for its Mero-3 FPSO. The Mero-3 FPSO, which will serve Petrobras' giant Mero field in the Santos basin, is currently undergoing conversion works at CIMC Raffles shipyard, with the delivery date now likely to be pushed further to 2024 (from initially expected 2023). On a more positive note, spot rates for petroleum shipping tankers are now enjoying a multi-year high, in tandem with the growth in global oil demand. This is expected to bolster its petroleum shipping segment, which currently has ~28% of its fleet exposed to the spot market.

**Forecasts.** We lowered our FY22-23F earnings by 23% each to account for the weaker offshore business due to the continued costs escalation.

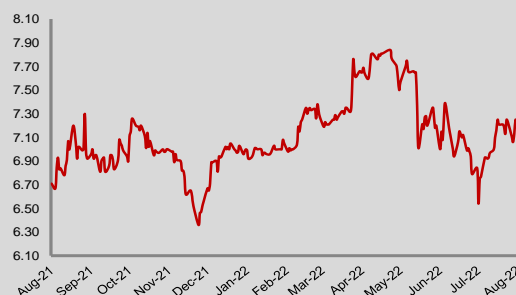
**Maintain MARKET PERFORM.** Following our earnings cut, our SoP-TP is also lowered to RM7.05 (from RM7.55 previously). Note that our valuations have already taken into account our in-house ESG rating of 4-star for the stock.

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

# MARKET PERFORM ↔

Price : **RM6.87**  
Target Price : **RM7.05** ↓

## Share Price Performance



KLCI 1,516.62  
YTD KLCI chg -3.2%  
YTD stock price chg -2.6%

## Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MISC MK Equity
Market Cap (RM m)	30,665.9
Shares outstanding	4,463.7
52-week range (H)	7.92
52-week range (L)	6.33
3-mth avg daily vol:	2,425,224
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	2022F	2023F
Revenue	10,672	10,582	11,025
EBIT	1,948	1,898	1,915
PBT	1,775	1,298	1,315
<b>Net Profit (NP)</b>	<b>1,831</b>	<b>1,233</b>	<b>1,250</b>
<b>Core NP (CNP)</b>	<b>1,889</b>	<b>1,233</b>	<b>1,250</b>
Consensus (CNP)		1,828	1,961
Earnings Revision (%)		-23.0	-22.8
Core EPS (sen)	42.3	27.6	28.0
CNP growth (%)	-12.5	-34.7	1.4
DPS (sen)	33.0	33.0	33.0
BVPS (RM)	7.7	7.6	7.5
Core PER (x)	16.2	24.9	24.5
Price/BV (x)	0.9	0.9	0.9
Net Gearing (x)	0.3	0.4	0.5
Div. Yield (%)	4.8	4.8	4.8

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## Result Highlights

Y/E : Dec (RM m)	2Q FY22	1Q FY22	Q-o-Q Chg	2Q FY21	Y-o-Y Chg	1H FY22	1H FY21	Y-o-Y Chg
Revenue	3,212.3	2,867.6	12.0%	2,353.8	36.5%	6,079.9	4,894.7	24.2%
Cost of sales	(2,534.2)	(2,209.7)	14.7%	(1,656.5)	53.0%	(4,743.9)	(3,531.4)	34.3%
<b>Gross profit</b>	<b>678.1</b>	<b>657.9</b>	<b>3.1%</b>	<b>697.3</b>	<b>-2.8%</b>	<b>1,336.0</b>	<b>1,363.3</b>	<b>-2.0%</b>
Other operating income	92.5	81.1	14.1%	220.2	-58.0%	173.6	285.2	-39.1%
General and administrative expenses	(309.7)	(222.1)	39.4%	(290.5)	6.6%	(531.8)	(557.7)	-4.6%
<b>Operating profit</b>	<b>460.9</b>	<b>516.9</b>	<b>-10.8%</b>	<b>627.0</b>	<b>-26.5%</b>	<b>977.8</b>	<b>1,090.8</b>	<b>-10.4%</b>
Impairments	(309.8)	0.0	N.M.	(42.0)	637.6%	(309.8)	(66.6)	365.2%
Loss from deconsolidation	0.0	0.0	N.M.	(2.3)	N.M.	0.0	(2.3)	N.M.
Gain of disposal of ships	5.7	3.8	50.0%	3.6	58.3%	9.5	4.0	137.5%
Finance cost	(147.5)	(152.9)	-3.5%	(97.9)	50.7%	(300.4)	(191.0)	57.3%
Share of profit of associates	0.6	1.3	-53.8%	1.6	-62.5%	1.9	1.6	
Share of profit of joint ventures	(10.3)	17.5	N.M.	44.7	N.M.	7.2	103.9	-93.1%
<b>Profit before tax</b>	<b>(0.4)</b>	<b>386.6</b>	<b>N.M.</b>	<b>534.7</b>	<b>N.M.</b>	<b>386.2</b>	<b>940.4</b>	<b>-58.9%</b>
Taxation	(13.1)	(11.6)	12.9%	(10.6)	23.6%	(24.7)	(20.7)	19.3%
Non-controlling interests	(5.6)	1.4	N.M.	14.7	N.M.	(4.2)	48.9	N.M.
<b>Net profit</b>	<b>(19.1)</b>	<b>376.4</b>	<b>N.M.</b>	<b>538.8</b>	<b>N.M.</b>	<b>357.3</b>	<b>968.6</b>	<b>-63.1%</b>
<b>Core Net profit</b>	<b>285.0</b>	<b>372.6</b>	<b>-23.5%</b>	<b>579.5</b>	<b>-50.8%</b>	<b>657.6</b>	<b>1,033.5</b>	<b>-36.4%</b>
Operating margin	14.3%	18.0%		26.6%		16.1%	22.3%	
PBT margin	0.0%	13.5%		22.7%		6.4%	19.2%	
Net margin	-0.6%	13.1%		22.9%		5.9%	19.8%	
Core net margin	8.9%	13.0%		24.6%		10.8%	21.1%	
Effective tax rate	N.M.	3.0%		2.0%		6.4%	2.2%	

Source: Company, Kenanga Research

## Segment Breakdown (USD)

Segment Results Y/E : Dec (USD m)	2Q FY22	1Q FY22	Q-o-Q Chg	2Q FY21	Y-o-Y Chg	1H FY22	1H FY21	Y-o-Y Chg
<b>Revenue</b>								
Gas & Asset Solutions	175	181	-3.3%	167	4.8%	356	336	6.0%
Petroleum & Product Shipping	261	212	23.1%	191	36.6%	473	386	22.5%
Offshore Business	205	184	11.4%	137	49.6%	389	308	26.2%
Marine & Heavy Engineering	92	100	-8.0%	73	26.0%	192	158	21.8%
<b>Core PBT</b>								
Gas & Asset Solutions	67	84	-20.2%	63	6.3%	151	128	17.7%
Petroleum & Product Shipping	16	0	N.M.	44	-63.4%	16	45	-64.1%
Offshore Business	(11)	11	N.M.	46	-123.9%	0	110	N.M.
Marine & Heavy Engineering	5	1	400.0%	(7)	-171.4%	6	(33)	N.M.
<b>Core PBT Margin</b>								
Gas & Asset Solutions	38.3%	46.4%		37.7%		42.4%	38.2%	
Petroleum & Product Shipping	6.1%	0.0%		22.9%		3.4%	11.6%	
Offshore Business	-5.4%	6.0%		33.6%		0.0%	35.6%	
Marine & Heavy Engineering	5.4%	1.0%		-9.6%		3.1%	-20.7%	

Source: Company, Kenanga Research

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## Segment Breakdown (MYR)

Segment Results Y/E : Dec (RM m)	2Q FY22	1Q FY22	Q-o-Q Chg	2Q FY21	Y-o-Y Chg	1H FY22	1H FY21	Y-o-Y Chg
<b>Revenue</b>								
Gas & Asset Solutions	762.5	757.7	0.6%	690.5	10.4%	1,520.2	1,376.2	10.5%
Petroleum & Product Shipping	1,131.8	887.3	27.6%	787.2	43.8%	2,019.2	1,582.3	27.6%
Offshore Business	890.4	770.1	15.6%	567.1	57.0%	1,660.5	1,263.1	31.5%
Marine & Heavy Engineering	400.6	417.8	-4.1%	302.5	32.4%	818.4	646.0	26.7%
Others	27.0	34.7	-22.2%	6.5	315.4%	61.6	27.1	127.3%
<b>Operating Profit</b>								
Gas & Asset Solutions	330.0	391.2	-15.6%	293.6	12.4%	721.2	594.5	21.3%
Petroleum & Product Shipping	115.1	32.2	257.5%	212.0	-45.7%	147.3	246.4	-40.2%
Offshore Business	43.6	120.8	-63.9%	186.8	-76.7%	164.4	426.1	-61.4%
Marine & Heavy Engineering	25.8	6.3	309.5%	(26.3)	N.M	32.1	(128.2)	N.M
Others	(53.6)	(33.6)	59.5%	(39.1)	37.1%	(87.2)	(48.0)	81.7%
<b>Operating Margin</b>								
Gas & Asset Solutions	43.3%	51.6%		42.5%		47.4%	43.2%	
Petroleum & Product Shipping	10.2%	3.6%		26.9%		7.3%	15.6%	
Offshore Business	4.9%	15.7%		32.9%		9.9%	33.7%	
Marine & Heavy Engineering	6.4%	1.5%		-8.7%		3.9%	-19.8%	

Source: Company, Kenanga Research

## 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	14,336.51	DCF at 6% discount rate
Marine & Heavy Engineering	552.07	0.4x PBV
Net Cash / (Debt)	(9,076.7)	
<b>Total</b>	<b>30,034.68</b>	
Number of shares	4,463.7	
ESG premium / discount	5%	
<b>SoP value per share (RM)</b>	<b>7.05</b>	

Source: Company, Kenanga Research

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## Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BUMI ARMADA BHD	OP	0.355	0.630	77.46%	2,100.9	N	12/2022	10.2	10.6	-10.7%	3.4%	3.5	3.4	0.5	14.1%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	0.990	1.30	31.31%	1,146.2	Y	12/2022	7.5	8.8	98.2%	17.5%	13.2	11.2	0.8	6.4%	0.0	0.0%
DIALOG GROUP BHD	OP	2.42	3.10	28.10%	13,655.0	Y	06/2023	9.5	9.9	5.1%	4.8%	25.6	24.4	2.5	10.2%	2.8	1.2%
MISC BHD	MP	6.87	7.05	2.62%	30,665.9	Y	12/2022	27.6	28.0	-34.7%	1.4%	24.9	24.5	0.9	3.6%	33.0	4.8%
PETRONAS CHEMICALS GROUP BHD	OP	8.75	11.00	25.71%	70,000.0	Y	12/2022	87.2	68.8	-3.9%	-21.1%	10.0	12.7	1.8	19.0%	43.6	5.0%
PETRONAS DAGANGAN BHD	UP	23.02	17.85	-22.46%	22,869.3	Y	12/2022	54.2	68.5	-1.8%	26.6%	42.5	33.6	4.1	9.6%	54.2	2.4%
SAPURA ENERGY BHD	UP	0.045	0.005	-88.89%	719.1	Y	01/2023	(3.0)	(2.2)	-115.1%	-174.3%	N.A.	N.A.	(3.2)	-4904.0%	0.0	0.0%
UZMA BHD	OP	0.350	0.540	54.29%	123.2	Y	06/2022	2.7	4.6	-60.4%	72.1%	13.0	7.6	0.2	1.9%	0.0	0.0%
VELESTO ENERGY BHD	UP	0.085	0.100	17.65%	698.3	Y	12/2022	(0.8)	(0.5)	-136.7%	-168.7%	N.A.	N.A.	0.3	-2.8%	0.0	0.0%
WAH SEONG CORP BHD	MP	0.615	0.790	28.46%	476.2	Y	12/2022	4.6	7.3	51.9%	56.4%	13.2	8.5	0.8	5.9%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.07	2.50	20.77%	6,021.4	N	01/2023	19.0	23.0	1.2%	20.7%	10.9	9.0	1.6	16.1%	6.0	2.9%
Simple Average								19.9	20.6	-18.8%	-14.7%	17.4	15.0	0.9	-438.2%		1.5%

Source: Kenanga Research

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**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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