

21 November 2022

MISC Berhad

Buoyed by Strong Freight Rates

By Steven Chan / steven.chan@kenanga.com.my

MISC's 9MFY22 results exceeded expectations, thanks to strong petroleum shipping freight rates, albeit dampened by cost escalation at its Mero-3 FPSO. Overall, we like MISC for its cash flow resiliency, coupled with it being a beneficiary of strong shipping rates, but cost escalation may persist in the near term. We raise our FY22F/FY23F earnings by 56%/21%, increase our TP by 4% to RM7.30 (from RM7.05) and maintain our MARKET PERFORM call.

Results exceeded expectations. MISC's 9MFY22 core net profit of RM1,472m (arrived after stripping-off impairments and gains on disposal) beat expectations. The number already exceeded our full-year forecast by 19% while coming in at 94% of full-year consensus estimate. This key variance against our forecast came from stronger performance in the petroleum and product shipping segment, driven by higher spot freight rates coupled with a contract renegotiation compensation recognised during the quarter.

Earnings helped by stronger freight rates. YoY, 9MFY22 results stayed mostly flat with a marginal 2% core net earnings growth. While petroleum shipping hugely benefitted from the surge in spot freight rates, this was offset by weaker offshore business contributions amidst cost escalations for its Mero-3 FPSO.

Briefing highlights. The key takeaways from its analyst briefing last Thursday are as follows:

- Petroleum tanker rates grew from strength to strength.** Petroleum shipping market rates have continued to strengthen, supported by the rebounding oil production, shift to long-haul trade flows arising from the Ukraine invasion, as well as the increase of US crude flows to the Far East and South Asia. Note that 28% of the group's petroleum shipping fleet is exposed to the spot market.
- Concentrate on execution of FPSO projects on hand.** The Mero-3 FPSO, which is currently undergoing conversion works at CIMC Raffles shipyard, has suffered cost escalations arising from the supply chain disruptions and recent lockdowns in parts of China. Hence, the group is now focused on successfully executing and delivering the projects at hand, before selectively pursuing bidding opportunities in targeted markets.

Forecasts. We raise our FY22F/FY23F earnings by 56%/21%, to account for the higher contributions from petroleum shipping amidst the surge in freight rates.

Maintain MARKET PERFORM. Following the earnings upgrade, our SoP-TP has also been raised to RM7.30 (from RM7.05 previously) (see Page 3). Note that our valuations reflect a 5% premium to account for MISC's 4-star ESG rating as appraised by us (see Page 5).

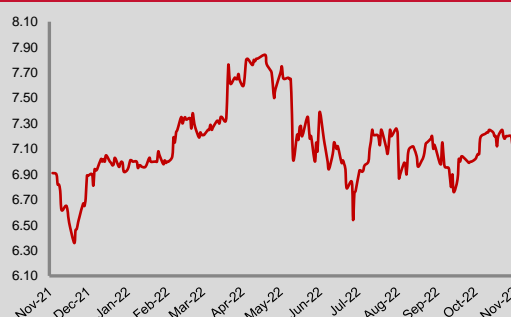
Overall, we like MISC for: (i) its long-term LNG contracts providing cash flow resiliency, and (ii) being a beneficiary of the recovery in petroleum tanker spot rates. However, over the short term, we believe the group could face some project cost escalations, especially for its Mero-3 FPSO project.

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 : RM7.20
Target Price : RM7.30 ↑

Share Price Performance



KLCI	1,449.32
YTD KLCI chg	-7.5%
YTD stock price chg	2.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MISC MK Equity
Market Cap (RM m)	32,139.0
Shares outstanding	4,463.7
52-week range (H)	7.92
52-week range (L)	6.33
3-mth avg daily vol:	1,573,182
Free Float	20%
Beta	0.8

Major Shareholders

Petroleum Nasional Bhd	51.0%
Employees Provident Fund	12.6%
Amanah Saham Bumiputera	6.7%

Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Revenue	10,672	11,481	11,104
EBIT	1,948	2,625	2,189
PBT	1,775	2,025	1,589
Net Profit (NP)	1,831	1,924	1,509
Core NP (CNP)	1,889	1,924	1,509
Consensus (CNP)		1,597	1,879
Earnings Revision (%)		+56.0	+20.8
Core EPS (sen)	42.3	43.1	33.8
CNP growth (%)	-12.5	1.9	-21.5
DPS (sen)	33.0	33.0	33.0
BVPS (RM)	7.7	7.8	7.8
Core PER (x)	17.0	16.7	21.3
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

21 November 2022

Result Highlights								
Y/E : Dec (RM m)	3Q FY22	2Q FY22	Q-o-Q Chg	3Q FY21	Y-o-Y Chg	9M FY22	9M FY21	Y-o-Y Chg
Revenue	3,614.1	3,212.3	12.5%	2,691.8	34.3%	9,694.0	7,586.5	27.8%
Cost of sales	(2,548.0)	(2,534.2)	0.5%	(2,013.2)	26.6%	(7,291.9)	(5,544.6)	31.5%
Gross profit	1,066.1	678.1	57.2%	678.6	57.1%	2,402.1	2,041.9	17.6%
Other operating income	307.3	92.5	232.2%	44.4	592.1%	480.9	329.6	45.9%
General and administrative expenses	(343.5)	(309.7)	10.9%	(238.7)	43.9%	(875.3)	(796.4)	9.9%
Operating profit	1,029.9	460.9	123.5%	484.3	112.7%	2,007.7	1,575.1	27.5%
Impairments	0.0	(309.8)	-100.0%	(9.0)	-100.0%	(309.8)	(75.6)	309.8%
Loss from deconsolidation	0.0	0.0	N.M.	0.0	N.M.	0.0	(2.3)	-100.0%
Gain of disposal of ships	5.8	5.7	1.8%	0.0	N.M.	15.3	4.0	282.5%
Finance cost	(172.5)	(147.5)	16.9%	(103.8)	66.2%	(472.9)	(294.8)	60.4%
Share of profit of associates	0.7	0.6	16.7%	1.2	-41.7%	2.6	2.8	
Share of profit of joint ventures	(26.1)	(10.3)	153.4%	29.4	-188.8%	(18.9)	133.3	-114.2%
Profit before tax	837.8	(0.4)	N.M.	402.1	108.4%	1,224.0	1,342.5	-8.8%
Taxation	(15.4)	(13.1)	17.6%	(10.8)	42.6%	(40.1)	(31.5)	27.3%
Non-controlling interests	(1.8)	(5.6)	-67.9%	9.7	-118.6%	(6.0)	58.6	-110.2%
Net profit	820.6	(19.1)	N.M.	401.0	104.6%	1,177.9	1,369.6	-14.0%
Core Net profit	814.8	285.0	185.9%	410.0	98.7%	1,472.4	1,443.5	2.0%
Operating margin	28.5%	14.3%		18.0%		20.7%	20.8%	
PBT margin	23.2%	0.0%		14.9%		12.6%	17.7%	
Net margin	22.7%	-0.6%		14.9%		12.2%	18.1%	
Core net margin	22.5%	8.9%		15.2%		15.2%	19.0%	
Effective tax rate	1.8%	N.M.		2.7%		3.3%	2.3%	

Source: Company, Kenanga Research

Segment Breakdown (USD)								
Segment Results Y/E : Dec (USD m)	3Q FY22	2Q FY22	Q-o-Q Chg	3Q FY21	Y-o-Y Chg	9M FY22	9M FY21	Y-o-Y Chg
Revenue								
Gas & Asset Solutions	176	175	0.6%	177	-0.6%	532	513	3.8%
Petroleum & Product Shipping	283	261	8.4%	185	53.0%	756	571	32.5%
Offshore Business	242	205	18.0%	179	35.2%	631	487	29.5%
Marine & Heavy Engineering	91	92	-1.1%	93	-2.2%	283	251	12.9%
Core PBT								
Gas & Asset Solutions	69	67	3.0%	65	6.2%	220	193	13.9%
Petroleum & Product Shipping	93	16	481.3%	(10)	-1030.0%	109	35	210.5%
Offshore Business	21	(11)	-290.9%	55	-61.8%	21	165	-87.3%
Marine & Heavy Engineering	3	5	-40.0%	(5)	-160.0%	9	(38)	-123.6%
Core PBT Margin								
Gas & Asset Solutions	39.2%	38.3%		36.7%		41.4%	37.7%	
Petroleum & Product Shipping	32.9%	6.1%		-5.4%		14.4%	6.2%	
Offshore Business	8.7%	-5.4%		30.7%		3.3%	33.8%	
Marine & Heavy Engineering	3.3%	5.4%		-5.4%		3.2%	-15.2%	

Source: Company, Kenanga Research

21 November 2022

Segment Breakdown (MYR)								
Segment Results	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
Y/E : Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Revenue								
Gas & Asset Solutions	790.1	762.5	3.6%	741.2	6.6%	2,310.3	2,117.4	9.1%
Petroleum & Product Shipping	1,265.2	1,131.8	11.8%	775.9	63.1%	3,284.4	2,358.2	39.3%
Offshore Business	1,119.8	890.4	25.8%	749.7	49.4%	2,780.3	2,012.8	38.1%
Marine & Heavy Engineering	409.2	400.6	2.1%	389.3	5.1%	1,227.6	1,035.3	18.6%
Others	29.8	27.0	10.4%	35.7	-16.5%	91.4	62.8	45.5%
Operating Profit								
Gas & Asset Solutions	355.1	330.0	7.6%	313.7	13.2%	1,076.3	908.2	18.5%
Petroleum & Product Shipping	470.7	115.1	308.9%	(8.3)	-5771.1%	618.0	238.1	159.6%
Offshore Business	190.0	43.6	335.8%	243.3	-21.9%	354.4	669.4	-47.1%
Marine & Heavy Engineering	19.0	25.8	-26.4%	(20.1)	-194.5%	51.1	(148.3)	-134.5%
Others	(4.9)	(53.6)	-90.9%	(44.3)	-88.9%	(92.1)	(92.3)	-0.2%
Operating Margin								
Gas & Asset Solutions	44.9%	43.3%		42.3%		46.6%	42.9%	
Petroleum & Product Shipping	37.2%	10.2%		-1.1%		18.8%	10.1%	
Offshore Business	17.0%	4.9%		32.5%		12.7%	33.3%	
Marine & Heavy Engineering	4.6%	6.4%		-5.2%		4.2%	-14.3%	
Others	-16.4%	-198.5%		-124.1%		-100.8%	-147.0%	

Source: Company, Kenanga Research

Sum-of-Parts Valuation		
	RM m	Valuation Metric
Gas Asset & Solutions	16,095.8	DCF at 7% discount rate
Petroleum & Product Shipping	9,029.9	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)	
Total	30,937.67	
Number of shares	4,463.7	
ESG premium / discount	5%	
SoP value per share (RM)	7.30	

Source: Company, Kenanga Research

21 November 2022

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	0.415	0.630	51.81%	2,456.0	N	12/2022	11.4	11.1	-0.8%	-2.3%	3.6	3.7	0.5	15.5%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	1.28	1.70	32.81%	1,481.9	Y	12/2022	10.2	11.2	170.1%	10.1%	12.5	11.4	1.0	8.6%	0.0	0.0%
DIALOG GROUP BHD	OP	2.10	3.10	47.62%	11,849.4	Y	06/2023	9.5	9.9	5.1%	4.8%	22.2	21.2	2.2	10.2%	2.8	1.3%
MISC BHD	MP	7.20	7.30	1.39%	32,139.0	Y	12/2022	43.1	33.8	1.9%	-21.6%	16.7	21.3	0.9	5.6%	33.0	4.6%
PETRONAS CHEMICALS GROUP BHD	OP	8.62	11.00	27.61%	68,960.0	Y	12/2022	87.2	68.8	-3.9%	-21.1%	9.9	12.5	1.8	19.0%	43.6	5.1%
PETRONAS DAGANGAN BHD	MP	22.82	22.25	-2.50%	22,670.6	Y	12/2022	54.2	68.5	-1.8%	26.6%	42.1	33.3	4.1	9.6%	54.2	2.4%
SAPURA ENERGY BHD	MP	4.43	4.65	4.97%	1,196.1	Y	12/2022	161.1	98.1	82.8%	-39.1%	2.7	4.5	0.5	20.1%	16.0	3.6%
UZMA BHD	OP	0.390	0.580	48.72%	137.3	Y	06/2023	5.3	7.1	28.6%	32.2%	7.3	5.5	0.3	3.5%	0.0	0.0%
VELESTO ENERGY BHD	OP	0.135	0.160	18.52%	1,109.1	Y	12/2022	(0.7)	1.1	-135.6%	41.3%	N.A.	12.8	0.5	-2.8%	0.0	0.0%
WAH SEONG CORP BHD	MP	0.570	0.640	12.28%	441.4	Y	12/2022	4.6	7.3	51.9%	56.4%	12.3	7.8	0.7	5.9%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.24	3.15	40.63%	6,490.6	N	01/2023	21.9	24.1	16.3%	10.3%	10.2	9.3	1.7	18.3%	6.0	2.7%
Simple Average								37.1	31.0	19.5%	8.9%	14.0	13.0	1.3	10.3%		1.8%

Source: 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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

