

02 April 2024

MISC

Three LNG Charter Contracts in the Bag

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MISC has secured three 15-year time-charter contracts from Qatar Energy, commencing in 2026. We estimate the daily charter rate (DCR) at USD120,000, which shall potentially add RM75m net profit to MISC per annum. We maintain our forecasts but lift our TP by 2% to RM7.69 (from RM7.51) and maintain our MARKET PERFORM call.

MISC has secured three time-charter contracts for assets named Polaris Five, Polaris Six, and Polaris Seven with Qatar Energy, covering a firm period of 15 years starting from 2026. These three LNG vessels will be constructed by Samsung Heavy Industries. We estimate that the DCR for each of the three vessels could be around USD120,000, at a slight premium to recent market rates to reflect bigger ship capacity.

The potential capex for the three vessels is estimated at USD780m, based on the latest market price and referencing the capacity of 165,000 cbm from MISC's Feb 2024 monthly newsletter, similar to the ship capacity for its 2022 contract win from Qatar Energy. The latest vessel investment will increase MISC's net gearing of 0.26x as at end-Dec 2023 to 0.35x which is still highly manageable.

Assuming an 80:20 debt-to-equity ratio and a 75% EBITDA margin, the three new vessels will contribute RM75m net profit annually, accounting for 4% of FY24F earnings. We do not foresee any issues with project execution given its involvement in a similar contract for Qatar Energy as part of a consortium that includes MISC, Kawasaki Kisen Kaisha, Nippon Yusen Kabushiki Kaisha, and China LNG Shipping.

Forecasts. Maintained as contributions from the three vessels will not come in during our forecast period.

Valuations. However, we lift our SoP-TP by 2% to RM7.69 (from RM7.51), having reflected enhancement from the three new LNG vessels based on DCF with a WACC of 7%. Our TP also reflects a 5% premium given a 4-star ESG rating as appraised by us (see page 5).

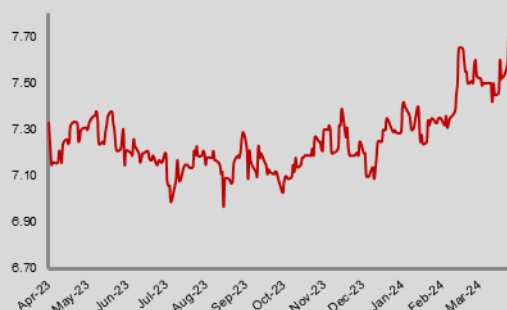
We like MISC due to: (i) recent fleet expansion and modernization, (ii) success in securing mega FPSO projects (i.e. Mero-3) and new contracts from international clients, and (iii) margin expansion coupled with improved earnings visibility following diversification into less commoditized specialised vessels. However, incoming FPSO Mero 3 project's execution risks remain high particularly when final acceptance is expected to approach in 4QC24. Maintain **MARKET PERFORM**

Risks to our call include: (i) lower-than-expected utilisation and spot rates for its fleet, (ii) Mero-3 additional cost overruns and project delays, and (iii) further production cuts by major oil producers.

MARKET PERFORM ↔

Price : **RM7.66**
Target Price : **RM7.69** ↑

Share Price Performance



KLCI 1,452.74
YTD KLCI chg -2.9%
YTD stock price chg -4.1%

Stock Information

| | |
|-----------------------|----------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | MISC MK Equity |
| Market Cap (RM m) | 32,094.3 |
| Shares outstanding | 4,463.7 |
| 52-week range (H) | 7.61 |
| 52-week range (L) | 6.94 |
| 3-mth avg. daily vol. | 1,708,783 |
| Free Float | 21% |
| Beta | 0.7 |

Major Shareholders

| | |
|--------------------------|-------|
| Petroleum Nasional Bhd | 51.0% |
| Employees Provident Fund | 12.3% |
| Amanah Saham Bumiputera | 6.8% |

Summary Earnings Table

| FY Dec (RM m) | 2023A | 2024F | 2025F |
|------------------------|-------------|-------------|-------------|
| Revenue | 14272 | 13043 | 13644 |
| EBIT | 2621 | 2082 | 2168 |
| PBT | 2094 | 2064 | 2151 |
| Net Profit (NP) | 2124 | 2136 | 2219 |
| Core NP (CNP) | 2164 | 2136 | 2219 |
| Consensus (CNP) | - | 2325 | 2447 |
| Earnings Revision (%) | - | - | - |
| Core EPS (sen) | 47.6 | 47.9 | 49.7 |
| CNP Growth (%) | 16.5 | 0.6 | 3.9 |
| DPS (sen) | 36.0 | 30.0 | 30.0 |
| BVPS (RM) | 4.99 | 5.12 | 5.41 |
| Core PER (x) | 16.0 | 15.9 | 15.3 |
| Price/BV (x) | 1.5 | 1.5 | 1.4 |
| Net Gearing (x) | 0.2 | 0.3 | 0.2 |
| Div. Yield (%) | 4.7 | 3.9 | 3.9 |



02 April 2024

| Sum-of-Parts valuation | | |
|---------------------------|---------------|-------------------------|
| | (RM m) | Valuation metric |
| LNG | 17,505 | DCF at 7% discount rate |
| Offshore | 13,980 | DCF at 6% discount rate |
| Petroleum shipping | 10,760 | 0.8x PBV |
| MMHE | 707 | 0.4x PBV |
| Net Debt | (10,257) | Based on FY24F |
| Sum-of-parts value | 32,694 | |
| No. of share (m) | 4,463.8 | |
| ESG premium / discount | 5% | |
| SoP/share (RM) | 7.69 | |

Source: Company, Kenanga Research

02 April 2024

Income Statement

| FY Dec (RM m) | 2021A | 2022A | 2023A | 2024F | 2025F |
|--------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 10671.7 | 13867.0 | 14271.7 | 13042.7 | 13643.8 |
| EIT | 1900.2 | 1969.3 | 2621.0 | 2082.2 | 2168.0 |
| Interest | -417.3 | -651.2 | -730.5 | -403.5 | -403.5 |
| Associate | 301.1 | -25.1 | 113.7 | 295.3 | 295.3 |
| PBT | 1774.7 | 1874.3 | 2093.7 | 2064.5 | 2151.3 |
| Taxation | -41.1 | -39.3 | -134.8 | -20.6 | -21.5 |
| MI | 97.7 | -12.1 | 164.6 | 92.5 | 89.4 |
| Net Profit | 1831.3 | 1822.9 | 2123.5 | 2136.4 | 2219.2 |
| Core profit | 1263.1 | 2369.0 | 2164.1 | 2136.4 | 2219.2 |

Balance Sheet

| FY Dec (RM m) | 2021A | 2022A | 2023A | 2024F | 2025F |
|--------------------|--------------|--------------|--------------|--------------|--------------|
| Fixed Assets | 39057 | 39256 | 38508 | 38579 | 38647 |
| Intangible | 1061 | 1002 | 949 | 949 | 949 |
| Other LT assets | 4563 | 9661 | 11695 | 11990 | 12285 |
| Inventories | 120 | 98 | 93 | 347 | 366 |
| Receivables | 3356 | 3859 | 4481 | 3573 | 3738 |
| Other CA | 1413 | 1654 | 1603 | 1603 | 1603 |
| Cash | 7952 | 7134 | 7732 | 7288 | 7796 |
| Total Assets | 57521 | 62664 | 65060 | 64329 | 65385 |
| Payables | 4098 | 5148 | 6111 | 4675 | 4940 |
| ST Borrowings | 8309 | 3606 | 1719 | 1719 | 1719 |
| Other ST Liability | 20 | 14 | 120 | 114 | 114 |
| LT Borrowings | 8720 | 14256 | 15826 | 15826 | 15826 |
| Other LT Liability | 1449 | 1337 | 1325 | 1325 | 1325 |
| Minorities Int. | 762 | 845 | 680 | 587 | 498 |
| Perpetual | 0 | 0 | 0 | 0 | 0 |
| Net Assets | 34163 | 37459 | 39279 | 40083 | 40963 |
| Share Capital | 8923 | 8923 | 8923 | 8923 | 8923 |
| Reserves | 25240 | 28536 | 30363 | 31160 | 32040 |
| Equity | 34163 | 37459 | 39286 | 40083 | 40963 |

Cashflow Statement

| FY Dec (RM m) | 2021A | 2022A | 2023A | 2024F | 2025F |
|---------------|---------|---------|---------|---------|---------|
| Operating CF | 2908.8 | 2993.5 | 5696.3 | 3208.2 | 4159.5 |
| Investing CF | -3135.4 | -1943.0 | -1866.2 | -1909.5 | -1908.5 |
| Financing CF | 1499.0 | -1991.6 | -3920.4 | -1742.7 | -1742.7 |

Financial Data & Ratios

| FY Dec | 2021A | 2022A | 2023A | 2024F | 2025F |
|-----------------------------------|---------|---------|--------|---------|--------|
| Growth (%) | | | | | |
| Revenue | 13.51 | 29.94 | 2.92 | -8.61 | 4.61 |
| EBIT | -2.12 | 3.64 | 33.09 | -20.56 | 4.12 |
| PBT | 1535.84 | 5.61 | 11.71 | -1.39 | 4.20 |
| Net Profit | 1594.03 | -0.46 | 16.49 | 0.61 | 3.87 |
| Profitability (%) | | | | | |
| EBIT | 17.81 | 14.20 | 18.37 | 15.96 | 15.89 |
| PBT Margin | 16.63 | 13.52 | 14.67 | 15.83 | 15.77 |
| Net Margin | 11.84 | 17.08 | 15.16 | 16.38 | 16.26 |
| Effective Tax Rate | 2.32 | 2.10 | 6.44 | 1.00 | 1.00 |
| ROA | 2.20 | 3.78 | 3.33 | 3.32 | 3.39 |
| ROE | 3.70 | 6.32 | 5.51 | 5.33 | 5.42 |
| DuPont Analysis | | | | | |
| Net Margin (%) | 11.84 | 17.08 | 15.16 | 16.38 | 16.26 |
| Assets Turnover (x) | 0.19 | 0.22 | 0.22 | 0.20 | 0.21 |
| Leverage Factor (x) | 1.68 | 1.67 | 1.66 | 1.60 | 1.60 |
| ROE (%) | 3.70 | 6.32 | 5.51 | 5.33 | 5.42 |
| Leverage | | | | | |
| Debt/Asset | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Debt/Equity | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 |
| N. Debt/(Cash Net Debt/Equity (x) | 9076.7 | 10727.5 | 9813.4 | 10257.4 | 9749.1 |
| 0.3 | 0.3 | 0.2 | 0.3 | 0.2 | |
| Valuations | | | | | |
| EPS (sen) | 41.0 | 40.8 | 47.6 | 47.9 | 49.7 |
| DPS (sen) | 33.0 | 33.0 | 36.0 | 30.0 | 30.0 |
| BVPS (RM) | 4.4 | 4.9 | 5.0 | 5.1 | 5.4 |
| PER (x) | 18.5 | 18.6 | 16.0 | 15.9 | 15.3 |
| Div. Yield | 4.3 | 4.3 | 4.7 | 3.9 | 3.9 |
| P/BV (x) | 1.7 | 1.6 | 1.5 | 1.5 | 1.4 |

02 April 2024

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 | MP | 0.580 | 0.580 | 0.0% | 3,435.1 | N | 12/2024 | 13.8 | 12.6 | 144.4% | -8.8% | 4.2 | 4.6 | 0.5 | 13.4% | 0.0 | 0.0% |
| DIALOG GROUP BHD | OP | 2.32 | 3.10 | 33.6% | 13,090.8 | Y | 06/2024 | 9.3 | 10.3 | 4.0% | 11.0% | 25.0 | 22.5 | 2.2 | 9.1% | 4.2 | 1.8% |
| ICON OFFSHORE | REJECT | 0.815 | 0.800 | -1.8% | 441.4 | Y | 12/2024 | 5.3 | 8.1 | 285.3% | 52.9% | 15.3 | 10.0 | 1.2 | 8.0% | 0.0 | 0.0% |
| MISC BHD | MP | 7.66 | 7.69 | 0.4% | 34,192.3 | Y | 12/2024 | 51.9 | 53.9 | 7.0% | 3.9% | 14.8 | 14.2 | 0.8 | 5.8% | 30.0 | 3.9% |
| PETRONAS CHEMICALS GROUP BHD | MP | 6.75 | 6.88 | 1.9% | 54,000.0 | Y | 12/2024 | 44.9 | 45.9 | 111.1% | 2.3% | 15.0 | 14.7 | 1.3 | 8.7% | 22.4 | 3.3% |
| PETRONAS DAGANGAN BHD | MP | 21.80 | 23.70 | 8.7% | 21,657.3 | Y | 12/2024 | 99.7 | 109.8 | 1.1% | 10.1% | 21.9 | 19.9 | 3.6 | 16.9% | 79.8 | 3.7% |
| PETRON MALAYSIA REFINING | MP | 4.67 | 4.74 | 1.5% | 1,260.9 | Y | 12/2024 | 99.6 | 89.6 | -1.1% | -10.0% | 4.7 | 5.2 | 0.5 | 10.6% | 20.0 | 4.3% |
| UZMA BHD | OP | 1.30 | 1.45 | 11.5% | 503.4 | Y | 06/2024 | 13.4 | 14.1 | 32.8% | 5.6% | 9.7 | 9.2 | 0.9 | 9.9% | 0.0 | 0.0% |
| VELESTO ENERGY BHD | OP | 0.295 | 0.310 | 5.1% | 2,423.6 | Y | 12/2024 | 1.8 | 2.1 | 46.6% | 17.3% | 16.6 | 14.2 | 0.9 | 5.7% | 0.0 | 0.0% |
| WAH SEONG CORP BHD | OP | 1.26 | 1.48 | 17.5% | 975.6 | Y | 12/2024 | 12.1 | 14.8 | 20.0% | 22.6% | 10.4 | 8.5 | 1.2 | 12.5% | 0.0 | 0.0% |
| YINSON HOLDINGS BHD | OP | 2.36 | 3.41 | 44.5% | 7,143.9 | N | 01/2025 | 12.9 | 18.4 | 24.7% | 42.6% | 18.3 | 12.8 | 1.7 | 9.4% | 3.9 | 1.6% |
| Simple Average | | | | | 141,914.6 | | | | | 41.7% | 5.1% | 15.2 | 14.4 | 1.4 | 9.9% | | 1.7% |

Source: Kenanga Research

02 April 2024

Stock ESG Ratings:

| | Criterion | Rating | | | | |
|-----------------|-----------------------------------|--------|---|---|---|--|
| GENERAL | Earnings Sustainability & Quality | ★ | ★ | ★ | | |
| | Community Investment | ★ | ★ | ★ | ★ | |
| | Workers Safety & Wellbeing | ★ | ★ | ★ | | |
| | Corporate Governance | ★ | ★ | ★ | ★ | |
| | Anti-Corruption Policy | ★ | ★ | ★ | ★ | |
| | Emissions Management | ★ | ★ | ★ | | |
| SPECIFIC | Transition to Low Carbon Future | ★ | ★ | ★ | | |
| | Conservation & Biodiversity | ★ | ★ | ★ | ★ | |
| | Effluent & Waste Management | ★ | ★ | ★ | | |
| | Water Management | ★ | ★ | ★ | ★ | |
| | Supply Chain Management | ★ | ★ | ★ | ★ | |
| | 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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