

31 May 2024

## MISC

### Buoyed by Strong Petroleum Tanker Rates

By Lim Sin Kiat, CFA / [limsk@kenanga.com.my](mailto:limsk@kenanga.com.my)

MISC's 1QFY24 results beat expectations. Its 1QFY24 core net profit rose 28% YoY due to stronger-than-expected petroleum tanker freight rates. The petroleum tanker market will remain firm in the near term but incoming supply might limit further upside. We raise our FY24-25F net profit forecasts by 11% and 5%, respectively, lift our TP by 5% to RM8.09 (from RM7.69) but maintain our MARKET PERFORM call.

Its 1QFY24 core profit of RM696.7m (excluding an EI of RM74m gain from ship disposal and RM12.6m impairment loss on receivables) beat expectations, coming in at 33% and 30% of our full-year forecast and the full-year consensus estimate, respectively. The variance against our forecast came largely from high-than-expected petroleum tanker freight rates. It declared an interim DPS of 8 sen, on track to meet our full-year forecast of 30 sen.

YoY, its 1QFY24 revenue rose 18% due to stronger petroleum tanker rates and higher revenue recognition from the marine and heavy engineering division. Its core net profit improved by a steeper 28% as higher freight rates filtered down almost entirely to the bottom line (while operating cost remained relatively stables), partially offset by weaker JV contributions.

QoQ, its topline declined by 15% due to weaker performance in the gas and asset solutions division, attributed to fewer vessel earning days and reduced offshore business revenue, primarily from lower FPSO conversion revenue. Its core profit only declined by 7% due to lower cost.

**Briefing highlights.** The key takeaways from MISC's analysts briefing are as follows:

1. The gas and asset solutions division is expected to remain stable in FY24 and gradually grow as more contracted LNG vessels start contributing from FY25F onwards. However, the spot market for LNG remains tepid due to the heavy pipeline of new vessels entering the market. Consequently, the potential rates for new vessels remain unexciting.
2. It believes the petroleum tanker market will remain firm due to growing long-haul demand as ships avoid the hot spots of geopolitical tensions. However, the order book for newbuild tankers will increase YoY in FY24 as ship owners place more orders, potentially limiting further significant upside to the spot tanker rates.
3. The Mero 3 project achieved a physical completion of 94.2% as at end-1QFY24 and sailed away on 24 Feb 2024. The asset will achieve 100% completion after hook up and commissioning is completed and the final acceptance is secured from the client.

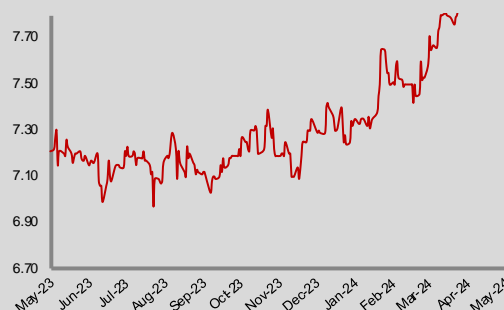
**Forecasts.** We raise our FY24-25F earnings forecasts by 11% and 5%, respectively, after lifting our petroleum tanker rate assumptions to USD34,000/day and USD35,000/day (from USD31,000/day and USD34,000/day).

**Valuations.** We raise our SoP-TP by 5% to RM8.09 (from RM7.69) as we assume higher petroleum tanker market values in view of the stronger petroleum market outlook. There is no change to our valuation based on ESG given a 4-star ESG rating as appraised by us (see Page 5).

## MARKET PERFORM ↔

Price : **RM8.28**  
Target Price : **RM8.09** ↑

### Share Price Performance



KLCI 1,604.26  
YTD KLCI chg 10.3%  
YTD stock price chg 13.6%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MISC MK Equity
Market Cap (RM m)	36,959.8
Shares outstanding	4,463.7
52-week range (H)	8.49
52-week range (L)	6.94
3-mth avg. daily vol:	3,614,583
Free Float	21%
Beta	0.8

### 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	13261	13753
EBIT	2621	2300	2278
PBT	2094	2282	2261
<b>Net Profit (NP)</b>	<b>2124</b>	<b>2362</b>	<b>2332</b>
<b>Core NP (CNP)</b>	<b>2152</b>	<b>2362</b>	<b>2332</b>
Consensus (CNP)	-	2325	2447
Earnings Revision (%)	-	+10.6	+5.1
Core EPS (sen)	47.6	52.9	52.3
CNP growth (%)	16.5	11.2	-1.2
DPS (sen)	36.0	30.0	30.0
BVPS (RM)	4.99	5.12	5.41
Core PER (x)	17.4	15.7	15.9
Price/BV (x)	1.7	1.6	1.5
Net Gearing (x)	0.2	0.3	0.2
Div. Yield (%)	4.3	3.6	3.6

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**Investment case.** We like MISC due to: (i) its 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 to less commoditized specialised vessels (e.g. DP Shuttles, VLECs). However, the petroleum tanker market could be nearing its short-term peak, as the additional demand from changing shipping behaviours due to geopolitical tensions has largely been priced in. Maintain **MARKET PERFORM**.

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

**Result Highlights**

	1Q	4Q	Q-o-Q	1Q	Y-o-Y
FYE Dec (RM m)	FY24	FY24	Chg	FY23	Chg
Revenue	3,638.3	4,278.3	-15.0%	3,078.7	18.2%
Cost of sales	(2,573.6)	(3,175.8)	-19.0%	(2,186.4)	17.7%
<b>Gross profit</b>	<b>1,064.7</b>	<b>1,102.5</b>	<b>-3.4%</b>	<b>892.3</b>	<b>19.3%</b>
Other operating income	152.6	228.7	-33.3%	247.9	-38.4%
Admin expenses	(335.3)	(456.5)	-26.5%	(314.7)	6.5%
<b>Operating profit</b>	<b>892.9</b>	<b>938.3</b>	<b>-4.8%</b>	<b>661.8</b>	<b>34.9%</b>
Finance cost	(185.3)	(181.7)	2.0%	(166.7)	11.2%
Share of profit of associates	0.6	0.1	500.0%	0.3	100.0%
Share of profit of joint ventures	9.2	40.0	-77.0%	72.0	-87.2%
<b>EI</b>	<b>63.2</b>	<b>(125.2)</b>	<b>-150.5%</b>	<b>69.8</b>	<b>-9.5%</b>
<b>Profit before tax</b>	<b>780.6</b>	<b>671.5</b>	<b>16.2%</b>	<b>637.2</b>	<b>22.5%</b>
Taxation	(17.3)	(35.0)	-50.6%	(16.6)	4.2%
Non-controlling interests	(6.1)	0.0	nm	(1.9)	221.1%
<b>PATAMI</b>	<b>759.9</b>	<b>627.3</b>	<b>21.1%</b>	<b>612.9</b>	<b>24.0%</b>
<b>Core Net profit</b>	<b>696.7</b>	<b>752.5</b>	<b>-7.4%</b>	<b>543.1</b>	<b>28.3%</b>
Core EPS (sen)	15.6	16.9	-7.4%	12.2	28.3%
DPS (sen)	8.0	12.0		7.0	
Operating margin	24.5%	21.9%		21.5%	
PBT margin	21.5%	15.7%		20.7%	
Net margin	20.9%	14.7%		19.9%	
Core net margin	19.1%	17.6%		17.6%	
Effective tax rate	2.2%	5.2%		2.6%	

Source: Company, Kenanga Research

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<b>Segment Breakdown (USD)</b>					
<b>Segment Results</b>	<b>1Q</b>	<b>4Q</b>	<b>Q-o-Q</b>	<b>1Q</b>	<b>1Q</b>
<b>FYE Dec (USD m)</b>	<b>FY24</b>	<b>FY24</b>	<b>Chg</b>	<b>FY23</b>	<b>FY24</b>
<b>Revenue</b>					
Gas & Asset Solutions	164.0	186.0	-11.8%	172.0	-4.7%
Petroleum	288.0	296.0	-2.7%	276.0	4.3%
Offshore Business	113.0	189.0	-40.2%	133.0	-15.0%
Marine & Heavy Engineering	209.0	140.0	49.3%	113.0	85.0%
<b>Core PBT</b>					
Gas & Asset Solutions	64.0	52.0	23.1%	61.0	4.9%
Petroleum	77.0	79.0	-2.5%	59.0	30.5%
Offshore Business	5.0	20.0	-75.0%	32.0	-84.4%
Marine & Heavy Engineering	2.0	2.0	0.0%	1.0	100.0%
<b>Core PBT Margin</b>					
Gas & Asset Solutions	39.0%	28.0%		35.5%	
Petroleum	26.7%	26.7%		21.4%	
Offshore Business	4.4%	10.6%		24.1%	
Marine & Heavy Engineering	1.0%	1.4%		0.9%	

Source: Company, Kenanga Research

<b>Sum-of-Parts valuation</b>		
	<b>(RM m)</b>	<b>Valuation metric</b>
LNG	17,505	DCF at 7% discount rate
Offshore	13,980	DCF at 6% discount rate
Petroleum shipping	12,320	Tanker market value
MMHE	707	0.4x PBV
Net Debt	(10,101)	Based on FY24F
<b>Sum-of-parts value</b>	<b>34,410</b>	
No. of share (m)	4,463.8	
ESG premium / discount	5%	
<b>SOP / share</b>	<b>8.09</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.
<b>Stocks Under Coverage</b>																	
BUMI ARMADA BHD	MP	0.585	0.580	-0.9%	3,467.8	N	12/2024	13.8	12.6	144.4%	-8.8%	4.2	4.6	0.5	13.4%	0.00	0.00%
DIALOG GROUP BHD	OP	2.44	3.18	30.3%	13,767.9	Y	06/2024	10.2	10.6	13.9%	4.1%	24.0	23.0	2.3	10.0%	4.31	1.77%
KEYFIELD INTERNATIONAL	OP	2.39	2.69	12.6%	1,912.0	N	12/2024	17.8	25.4	35.1%	42.3%	13.4	9.4	2.8	29.7%	3.44	1.44%
MISC BHD	MP	8.28	8.09	7.4%	36,959.8	Y	12/2024	52.9	52.3	11.2%	1.2%	15.7	15.9	1.6	5.8%	30.00	3.62%
PETRONAS CHEMICALS GROUP	MP	6.71	6.28	-6.4%	53,680.0	Y	12/2024	34.8	41.9	71.3%	20.3%	19.3	16.0	1.3	6.8%	17.41	2.59%
PETRONAS DAGANGAN BHD	OP	19.42	23.70	22.0%	19,292.9	Y	12/2024	99.7	109.8	1.1%	10.1%	19.5	17.7	3.2	16.9%	79.78	4.11%
PETRON MALAYSIA REFINING	MP	5.00	4.74	-5.2%	1,350.0	Y	12/2024	99.6	89.6	-1.1%	-10.0%	5.0	5.6	0.5	10.6%	20.00	4.00%
VELESTO ENERGY BHD	OP	0.275	0.340	23.6%	2,259.3	Y	12/2024	1.8	2.3	46.6%	28.8%	15.5	12.0	0.9	5.7%	0.00	0.00%
WASCO BHD	MP	1.56	1.48	-5.1%	1,207.9	Y	12/2024	12.1	14.8	20.0%	22.6%	12.9	10.5	1.5	12.5%	0.00	0.00%
YINSON HOLDINGS BHD	OP	2.32	3.41	47.0%	7,023.7	N	01/2025	17.4	19.4	45.2%	11.0%	13.3	12.0	1.4	10.2%	5.00	2.16%
<b>SECTOR AGGREGATE</b>					<b>145,006.4</b>					<b>32.7%</b>	<b>10.2%</b>	<b>16.3</b>	<b>14.8</b>	<b>1.5</b>	<b>11.0%</b>		<b>1.60%</b>

Source: Kenanga Research

**Stock ESG Ratings:**

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

☆ 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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**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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

