

25 September 2019

MISC Berhad

Contract for Two New LNG Charters

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MISC announced a contract for two new LNG vessels, valued at USD201.6m for a firm charter period of 18 years, commencing 2021. Overall, despite the relatively inconsequential impact towards the group's earnings and balance sheet, we believe this could be indicative of the group's strategy of increasing exposure to long-term charters. Maintain OUTPERFORM with TP of RM8.80, given decent dividend yields as an FBMKLCI constituent.

Two new LNG vessels. MISC announced that it has signed an agreement with Mitsubishi Corporation and Nippon Yusen Kabushiki Kaisha to co-own two new-build LNG vessels. Each LNG vessel will serve Diamond Gas International Pte. Ltd.'s LNG carrier requirements worldwide, particularly LNG volumes from U.S. and Canada, on a time charter contract for a firm period of 18 years. MISC's interest in the total contract value is estimated at USD201.6m. The LNG vessels, currently being built by Hyundai Samho Heavy Industries, are expected to be delivered in 2021 and the time charter contract will commence upon delivery.

Impact of the contract. Based on the contract value of USD201.6m and 18-year charter period, implied rates for the charter would be at around ~USD30k/day. We expect the contract to be able to fetch PBT margins of roughly 50%, thereby contributing to approximately ~RM22m per year from 2021 onwards – somewhat inconsequential to MISC's current earnings base (~1% of FY19/20E earnings). Likewise, we guesstimate MISC's capex portion to be roughly ~USD50m, which would have minimal impact to the company's balance sheet as well, with net-gearing of 0.2x and net-debt of RM7.4b as at end-2Q19. Upon commencement of the charters, we believe this would bring MISC's LNG fleet to 31 vessels, from currently 29.

Overall, despite the relatively inconsequential impact from the contract towards the group's financials, we believe this could be indicative of the group's continued efforts in increasing exposure to longer-term charters, thereby limiting the impact that spot tanker charter rates have on the group.

Maintain OUTPERFORM, with unchanged TP of RM8.80, pegged to 1.1x FY20E PBV at +2SD from its 5-year mean but in-line with the mean of global peers. No changes made to FY19-20E earnings given that the charter only commences in 2021.

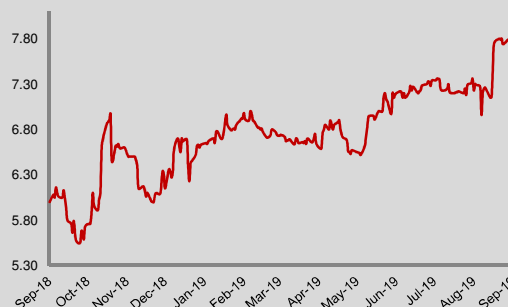
All things aside, we continue to like MISC given its stable dividend fetching ~4% yield, which is one of the better ones among FBMKLCI constituent stocks, thus providing some defence for the stock, while also helping to limit the share's downside risks over the longer-term.

Risks to our call include: (i) weaker-than-forecasted charter rates, (ii) stronger-than-expected Ringgit, (iii) lower-than-expected number of operating vessels, and (iv) slowdown in global economy.

OUTPERFORM ↔

Price : **RM7.74**
Target Price : **RM8.80** ↔

Share Price Performance



KLCI	1,592.33
YTD KLCI chg	-5.8%
YTD stock price chg	15.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MISC MK Equity
Market Cap (RM m)	34,549.4
Shares Outstanding	4,463.7
52-week range (H)	8.04
52-week range (L)	5.48
3-mth avg daily vol:	2,382,163
Free Float	16%
Beta	0.9

Major Shareholders

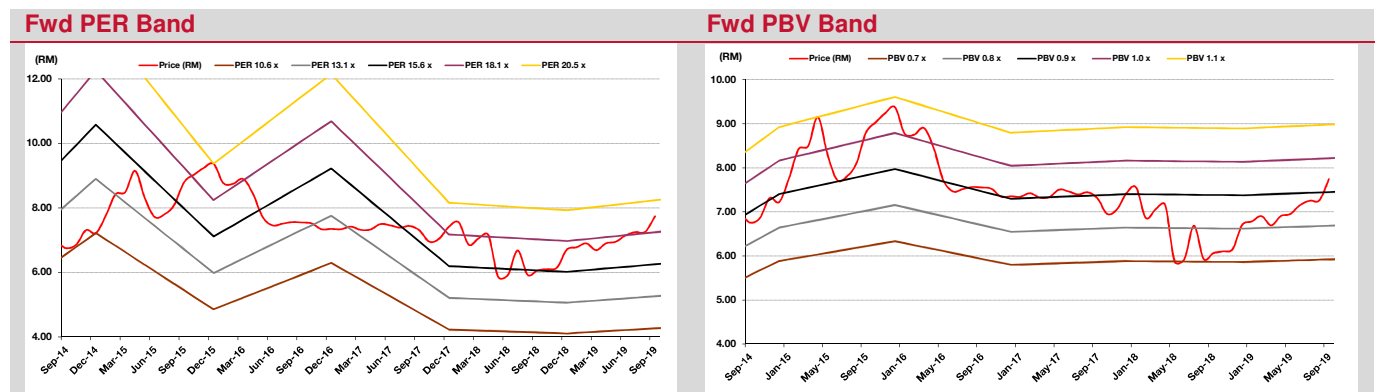
Petroleum Nasional Bhd	62.7%
Employees Provident Fund	5.7%
Skim Amanah Saham Bumiputera	4.8%

Summary Earnings Table

FY Dec (RM' mil)	2018A	2019E	2020E
Revenue	8,780	9,051	8,791
EBIT	1,739	2,101	2,236
PBT	1,344	1,739	1,830
Net Profit (NP)	1,312	1,721	1,812
Core NP (CNP)	1,322	1,721	1,812
Consensus (NP)		1,742	1,869
Earnings Revision		-	-
Core EPS (sen)	29.6	38.6	40.6
CNP growth (%)	-49.4	30.2	5.2
NDPS (sen)	30.0	30.0	30.0
BVPS (RM)	7.9	7.9	8.0
Core PER	26.1	20.1	19.1
Price/BV (x)	1.0	1.0	1.0
Net Gearing (x)	0.2	0.3	0.3
Div. Yield (%)	3.9	3.9	3.9

Income Statement						Financial Data & Ratios					
FY Dec (RM mil)	2016A	2017A	2018A	2019E	2020E	FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Revenue	9,597	10,068	8,780	9,051	8,791	Growth (%)					
EBIT	2,201	2,269	1,082	2,101	2,236	Revenue	-12.0	4.9	-12.8	3.1	-2.9
Net Finance Cost	-198	-265	-262	-362	-406	EBIT	-19.9	3.1	-52.3	94.1	6.4
PBT	2,004	2,004	1,344	1,739	1,830	PBT	-21.9	0.0	-32.9	29.4	5.2
Taxation	-21	-13	-60	-17	-18	Net Profit	4.6	-23.2	-33.8	31.3	5.2
Net Profit	2,582	1,981	1,312	1,721	1,812	Core Net Profit	-32.8	28.3	-49.4	30.2	5.2
Core Net Profit	2,037	2,613	1,322	1,721	1,812	Profitability (%)					
Balance Sheet						EBIT Margin	22.9	22.5	12.3	23.2	25.4
FY Dec (RM mil)	2016A	2017A	2018A	2019E	2020E	PBT Margin	20.9	19.9	15.3	19.2	20.8
Total PPE	26,114	22,982	23,336	26,216	27,594	Net Margin	26.9	19.7	14.9	19.0	20.6
Intangible Assets	939	844	857	844	844	Core Net Margin	21.2	26.0	15.1	19.0	20.6
Other FA	17,285	16,363	17,903	17,786	17,644	Effect. Tax Rate	1.0	0.6	4.4	1.0	1.0
Inventories	213	199	250	181	176	ROE	5.4	7.5	3.7	4.9	5.1
Receivables	5,040	4,162	3,949	4,525	4,396	ROA	3.6	5.2	2.5	3.1	3.1
Other CA	0	19	15	19	19	DuPont Analysis					
Cash	6,559	5,901	5,756	7,590	9,084	Net Margin (%)	26.9	19.7	14.9	19.0	20.6
Total Assets	56,151	50,470	52,065	55,739	58,476	Assets T/over (x)	17.1	19.9	16.9	16.2	15.0
Payables	2,734	2,235	2,001	1,810	1,758	Lev. Factor(x)	1.5	1.4	1.5	1.6	1.6
ST Borrowings	7,373	7,718	5,778	7,631	7,631	ROE (%)	5.4	7.5	3.7	4.9	5.1
Other ST Liability	8	0	0	0	0	Leverage					
LT Borrowings	5,229	3,946	7,271	9,347	11,649	Debt/Asset (x)	0.2	0.2	0.3	0.3	0.3
Other LT Liability	1,477	667	651	667	667	Debt/Equity (x)	0.3	0.3	0.4	0.5	0.5
NCI	1,265	1,061	1,013	1,057	1,071	Net Debt/(Cash)	6,042	5,763	7,294	9,389	10,197
Net Assets	38,066	34,844	35,351	35,226	35,699	N. Debt/Equity (x)	0.2	0.2	0.2	0.3	0.3
Share Capital	4,464	8,923	8,923	8,923	8,923	Valuations					
Retain. Earnings	19,793	19,961	19,844	20,344	20,816	Core EPS (sen)	45.6	58.5	29.6	38.6	40.6
Other Reserves	9,349	5,960	6,584	5,960	5,960	NDPS (sen)	30.0	30.0	30.0	30.0	30.0
Equity	38,066	34,844	35,351	35,226	35,699	BV (RM)	8.5	7.8	7.9	7.9	8.0
Cashflow Statement						Core PER (x)	17.0	13.2	26.1	20.1	19.1
FY Dec (RM mil)	2016A	2017A	2018A	2019E	2020E	Div. Yield (%)	3.9	3.9	3.9	3.9	3.9
Operating CF	4,739	4,739	4,099	4,803	4,603	P/BV (x)	0.9	1.0	1.0	1.0	1.0
Investing CF	-3,339	-2,761	-3,637	-4,000	-4,000						
Financing CF	-1,213	-2,059	-823	804	481						

Source: Kenanga Research



Source: Bloomberg, 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 (RM'm)	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 BERHAD	0.330	1,939.3	N	12/2019	-15.9%	0.0%	34.4%	2.3%	8.6	6.4	6.2	0.6	0.6	9.0%	0.0%	0.200	UP
DAYANG ENTERPRISE HLDGS BHD	1.57	1,514.8	Y	12/2019	22.2%	4.4%	-33.9%	9.1%	9.2	14.0	12.8	1.3	1.3	9.5%	0.0%	1.45	MP
DIALOG GROUP BHD	3.43	19,339.4	Y	06/2020	17.7%	6.1%	4.5%	9.7%	36.1	34.5	31.5	5.1	4.8	14.4%	1.2%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.845	1,352.0	Y	12/2019	-10.1%	43.0%	845.5%	139.3%	N.A.	93.2	39.0	0.6	0.6	0.6%	0.0%	1.05	OP
MISC BHD	7.74	34,549.4	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	26.1	20.1	19.1	1.0	1.0	4.9%	3.9%	8.80	OP
PANTECH GROUP HOLDINGS BHD	0.500	375.0	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.6	8.4	7.9	0.7	0.6	7.6%	3.2%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	7.46	59,680.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	12.0	17.2	15.0	2.0	1.9	11.1%	2.9%	7.70	MP
PETRONAS DAGANGAN BHD	23.42	23,266.7	Y	12/2019	-5.6%	2.0%	12.9%	7.7%	27.8	24.6	22.9	3.9	3.8	15.6%	2.8%	22.45	MP
SAPURA ENERGY BHD	0.290	4,622.4	Y	01/2020	5.9%	20.7%	1875.6%	258.5%	N.A.	95.8	26.7	0.3	0.3	0.4%	0.0%	0.430	OP
SERBA DINAMIK HOLDINGS	4.29	6,299.9	Y	12/2019	23.2%	14.3%	17.2%	13.3%	16.4	14.0	12.4	3.0	2.6	20.2%	2.2%	5.25	OP
UZMA BHD	0.865	276.8	Y	06/2020	-7.6%	-0.1%	117.5%	44.1%	28.5	13.1	9.1	0.6	0.5	4.2%	0.0%	0.610	MP
VELESTO ENERGY BHD	0.325	2,670.1	Y	12/2019	5.3%	6.2%	119.7%	152.0%	N.A.	175.7	69.7	1.0	0.9	0.5%	0.0%	0.350	OP
WAH SEONG CORP BHD	0.630	485.4	Y	12/2019	-47.7%	-7.7%	-18.8%	-18.1%	7.7	9.5	11.6	0.5	0.5	5.4%	0.0%	0.620	MP
YINSON HOLDINGS BHD	6.69	7,228.7	Y	01/2020	0.1%	70.2%	-7.1%	55.9%	27.5	29.6	19.0	4.2	3.8	13.5%	0.9%	7.75	OP
Simple Average					-1.6%	11.9%	212.0%	50.0%	19.0	39.7	21.6	1.8	1.7	8.3%	1.2%		

Source: Bloomberg, Kenanga Research

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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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