

03 October 2019

MISC Berhad

Maiden LNG Bunker Vessel

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MISC, in a 51:49 JV with Avenir, has been awarded a 3-year charter contract by Petronas for one LNG bunker vessel, with contract value of USD28m and expected commencement by 1Q20. The smallish contract size means inconsequential earnings and balance sheet impact, but we are positive on the contract nonetheless, as it represents MISC's first entry into bunker vessel space. Maintain OUTPERFORM and TP of RM8.80.

LNG bunker vessel charter contract. MISC, through collaboration with Avenir LNG Limited, has been awarded a time charter party by Petronas for the provision of one LNG bunker vessel for operations primarily in Malaysian and Singaporean waters. A joint-venture company, Future Horizon (L) Pte Ltd, will be formed to manage the commercial operations of the vessel, with ship management to be provided by MISC. The JV entity will be 51% owned by MISC and 49% by Avenir. The charter will be for a period of three years with an estimated contract value of USD28m (or RM117m), and expected commencement by 1Q20.

Dipping its toe into bunker vessels. Given the smallish contract size, we expect inconsequential earnings (i.e. <1% of FY20E) and balance sheet impact (net-gearing of 0.2x as at end-2Q19). Nonetheless, we are positive on the contract as it represents MISC's first venture into bunker vessels. As such, we believe this could lead to more job wins from this space moving forward.

Outlook ahead. Elsewhere, MISC is also eyeing to tap the global FPSO market, identifying it as one of the key growth areas for the company moving forward. We gathered that the company is preparing a bid for a mega-FPSO project in Brazil by end of this year, with a capex of ~USD2b. Meanwhile for the shorter-term, a low earnings base in FY18A could potentially set rebounds potential for the coming 1-2 years (FY19E earnings growth of +30%).

Maintain OUTPERFORM, with unchanged TP of RM8.80, pegged to 1.1x PBV on FY20E at +2SD from its 5-year mean. No changes made to FY19-20E numbers.

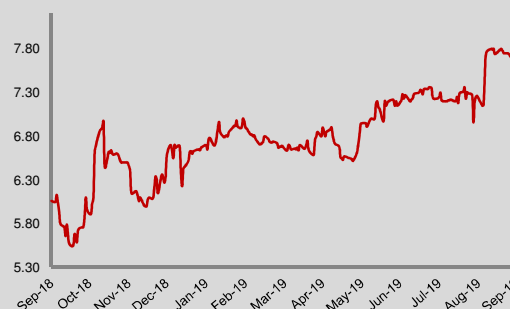
All things aside, we continue to like MISC given its stable dividend fetching ~4% yield, which is one of the better ones among FBMKLCI constituent stocks, thus providing some defence for the stock, while also helping to limit the share's downside risks over the longer-term.

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 : RM7.84
Target Price : RM8.80 ↔

Share Price Performance



KLCI	1,574.90
YTD KLCI chg	-6.8%
YTD stock price chg	17.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MISC MK Equity
Market Cap (RM m)	34,995.8
Shares Outstanding	4,463.7
52-week range (H)	8.04
52-week range (L)	5.48
3-mth avg daily vol:	2,742,247
Free Float	16%
Beta	0.9

Major Shareholders

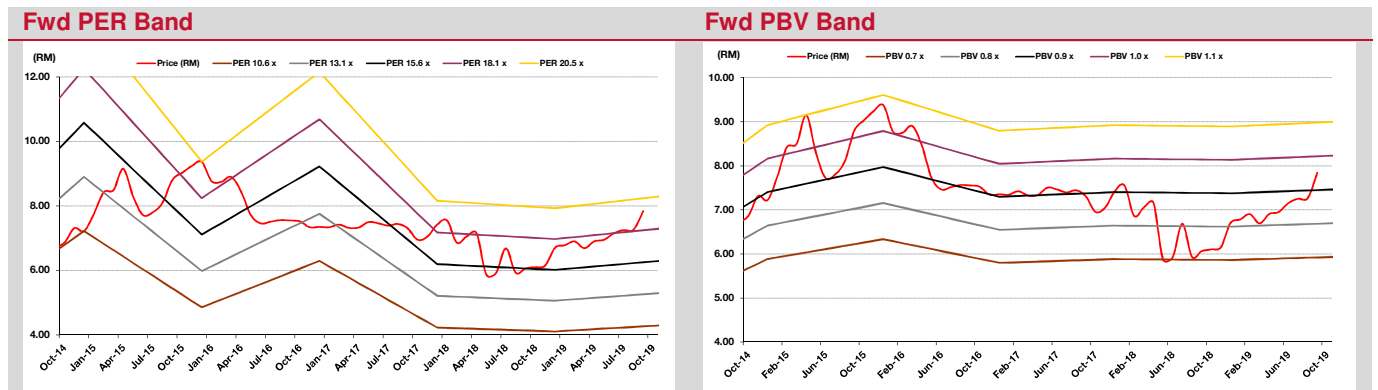
Petroleum Nasional Bhd	62.7%
Employees Provident Fund	5.7%
Skim Amanah Saham Bumiputera	4.8%

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 (x)	26.5	20.3	19.3
Price/BV (x)	1.0	1.0	1.0
Net Gearing (x)	0.2	0.3	0.3
Div. Yield (%)	3.8	3.8	3.8

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)	17.2	13.4	26.5	20.3	19.3
FY Dec (RM mil)	2016A	2017A	2018A	2019E	2020E	Div. Yield (%)	3.8	3.8	3.8	3.8	3.8
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	0.310	1,821.7	N	12/2019	-15.9%	0.0%	34.4%	2.3%	8.1	6.0	5.9	0.5	0.5	9.0%	0.0%	0.200	UP
DAYANG ENTERPRISE HLDGS BHD	1.69	1,630.5	Y	12/2019	22.2%	4.4%	-33.9%	9.1%	9.9	15.0	13.8	1.4	1.4	9.5%	0.0%	1.45	UP
DIALOG GROUP BHD	3.40	19,170.2	Y	06/2020	17.7%	6.1%	4.5%	9.7%	35.8	34.2	31.2	5.1	4.8	14.4%	1.2%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.820	1,312.0	Y	12/2019	-10.1%	43.0%	845.5%	139.3%	N.A.	90.5	37.8	0.5	0.5	0.6%	0.0%	1.05	OP
MISC BHD	7.84	34,995.8	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	26.5	20.3	19.3	1.0	1.0	4.9%	3.8%	8.80	OP
PANTECH GROUP HOLDINGS BHD	0.490	367.5	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.4	8.3	7.8	0.7	0.6	7.6%	3.3%	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	23.56	23,405.8	Y	12/2019	-5.6%	2.0%	12.9%	7.7%	28.0	24.8	23.0	4.0	3.8	15.6%	2.8%	22.45	MP
SAPURA ENERGY BHD	0.270	4,303.6	Y	01/2020	5.9%	20.7%	-	236.1%	N.A.	N.A.	52.9	0.3	0.3	-1.4%	0.0%	0.330	OP
SERBA DINAMIK HOLDINGS	4.26	6,255.8	Y	12/2019	23.2%	14.3%	17.2%	13.3%	16.3	13.9	12.3	3.0	2.6	20.2%	2.2%	5.25	OP
UZMA BHD	0.915	292.8	Y	06/2020	-7.6%	-0.1%	117.5%	44.1%	30.2	13.9	9.6	0.6	0.6	4.2%	0.0%	0.610	UP
VELESTO ENERGY BHD	0.320	2,629.0	Y	12/2019	5.3%	6.2%	119.7%	152.0%	N.A.	173.0	68.6	0.9	0.9	0.5%	0.0%	0.350	OP
WAH SEONG CORP BHD	0.615	473.8	Y	12/2019	-47.7%	-7.7%	-18.8%	-18.1%	7.5	9.3	11.3	0.5	0.5	5.4%	0.0%	0.620	MP
YINSON HOLDINGS BHD	6.65	7,186.2	Y	01/2020	0.1%	70.1%	-17.9%	66.8%	27.3	33.3	19.9	4.2	3.8	11.9%	0.9%	7.75	OP
Simple Average					-1.6%	11.9%	45.5%	49.2%	19.1	35.4	23.5	1.8	1.7	8.1%	1.2%		

Source: Bloomberg, Kenanga Research

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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