MISC Berhad

LOI from Petrobras for Mero 3 FPSO

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OUTPERFORM ↔

Price : RM7.83

Target Price : RM8.90 ↔

MISC had accepted a letter of intent (LOI) from Petrobras for the Mero 3 FPSO, chartered for 22.5 years commencing 1HFY24. Contract value, although undisclosed, is guesstimated to be ~USD5.8b (~USD700k/day), with capex of ~USD2b. No surprise from this award, as we have well anticipated it, marking MISC's maiden FPSO project in Brazil, as well as the group's largest to date. Maintain OUTPERFORM, with TP of RM8.90.

LOI of Mero 3 FPSO. MISC had accepted a LOI from Petrobras for the provision, operation and maintenance services of the Mero 3 FPSO, located offshore Rio de Janeiro in the Libra block, Santos Basin, Brazil. The term of charter is for 22.5 years, and is expected to commence operation in 1HFY24.

Gathered details on the FPSO. As no other information regarding the FPSO was disclosed in the announcement, we believe the commercial terms are still pending finalisation. Nonetheless, we gathered that the day rate of the contract could be around ~USD700k, thus implying a total contract value of ~USD5.8b. Total capex for the project is understood to be around USD2b – much higher than other Brazilian FPSO projects, given its higher local content requirement. The FPSO will be named "Marechal Duque de Caxias" and will feature topside modules capable of processing 180k barrels of oil and 12m cubic metres per day of natural gas.

Maiden FPSO project in Brazil. The contract win came as no surprise to us, as we had highly anticipated the contract to be awarded to MISC, edging out competition SBM Offshore. Nonetheless, we are still positive on the award, being MISC's first ever FPSO project in Brazil. This will also mark as the company's largest FPSO project to date. Moving forward, with an established footing in Brazil, this could provide some costing advantages and operational expertise in improving the company's future commercial bids in the country, potentially paving the way for more FPSO bids in the future.

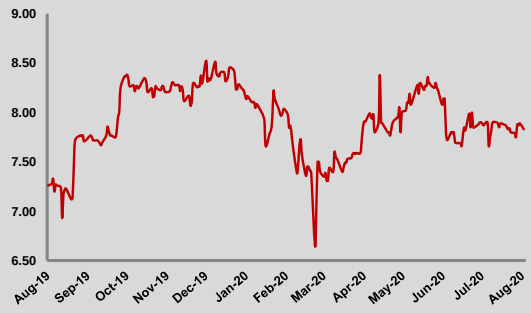
Based on our IRR assumption of 11% and discounting rate of 6%, we arrived at a project NPV of ~USD975m (or ~RM0.90/share impact). From our estimations and assumptions, the contract would provide an average earnings contribution of ~RM400m/year, although finance lease accounting could mean that earnings recognition could be frontloaded towards the earlier years of the contract's tenure. Assuming undertaking a full stake, the capex could see the company's net gearing grow more than double to 0.4x, from 0.2x currently. As such, we do not discount the possibility of MISC seeking for equity partners in the coming future to help alleviate some of the capex burden.

Maintain OUTPERFORM and TP of RM8.90, pegged to 1.1x PBV. No changes to our FY20-21E numbers and TP, as we deem our ascribed premium valuation (+2SD from mean) to more than encompass the value of the Mero 3 FPSO contract.

Overall, we continue to like MISC as a defensive play among blue chip counters given its reliable dividends (fetching ~4% yields). The group is also among the least impacted within the oil and gas sector by the current down cycle, given its long-term contract business nature.

Risks to our call include: (i) weaker-than-forecasted charter rates, (ii) stronger-than-expected MYR/USD exchange rates, (iii) lower-than-expected number of operating vessels.

Share Price Performance



KLCI	1,560.74
YTD KLCI chg	-1.8%
YTD stock price chg	-5.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MISC MK Equity
Market Cap (RM m)	34,951.1
Shares Outstanding	4,463.7
52-week range (H)	9.37
52-week range (L)	6.52
3-mth avg daily vol:	3,120,029
Free Float	29%
Beta	0.7

Major Shareholders

Petroliam Nasional Bhd	57.6%
Employees Provident Fund	9.1%
Amanah Saham Bumiputera	4.2%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Revenue	8,963	9,266	10,258
EBIT	1,951	2,753	2,570
PBT	1,512	2,353	2,170
Net Profit (NP)	**1,426**	**2,235**	**2,062**
Core NP (CNP)	**1,610**	**2,235**	**2,062**
Consensus (NP)		2,103	2,108
Earnings Revision		-	-
Core EPS (sen)	36.1	50.1	46.2
CNP growth (%)	21.7	38.9	-7.8
NDPS (sen)	33.0	30.0	30.0
BVPS (RM)	7.8	8.0	8.1
Core PER (x)	21.7	15.6	17.0
Price/BV (x)	1.0	1.0	1.0
Net Gearing (x)	0.2	0.3	0.3
Div. Yield (%)	4.2	3.8	3.8

Income Statement

FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Revenue	10,068	8,780	8,963	9,266	10,258
EBIT	2,269	1,082	1,929	2,753	2,570
Net Finance Cost	(265)	(262)	(484)	(400)	(400)
PBT	2,004	1,344	1,512	2,353	2,170
Taxation	(13)	(60)	(76)	(118)	(109)
Net Profit	**1,981**	**1,312**	**1,426**	**2,235**	**2,062**
Core Net Profit	**2,613**	**1,322**	**1,610**	**2,235**	**2,062**

Balance Sheet

FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Total PPE	22,982	23,336	23,287	27,594	28,835
Intangible Assets	844	857	841	844	844
Other FA	16,363	17,903	16,483	17,644	17,516
Inventories	199	250	166	185	205
Receivables	4,162	3,949	2,441	4,633	5,129
Other CA	19	15	1,615	19	19
Cash	5,901	5,756	7,031	9,230	10,488
Total Assets	**50,470**	**52,065**	**51,864**	**58,869**	**61,884**
Payables	2,235	2,001	2,109	1,853	2,052
ST Borrowings	7,718	5,778	5,600	7,631	7,631
Other ST Liability	0	0	93	0	0
LT Borrowings	3,946	7,271	7,553	11,649	13,721
Other LT Liability	667	651	756	667	667
NCI	1,061	1,013	1,027	1,080	1,101
Net Assets	**34,844**	**35,351**	**34,727**	**35,989**	**36,711**
Share Capital	8,923	8,923	8,923	8,923	8,923
Retain. Earnings	19,961	19,844	19,744	21,106	21,829
Other Reserves	5,960	6,584	6,060	5,960	5,960
Equity	**34,844**	**35,351**	**34,727**	**35,989**	**36,711**

Cashflow Statement

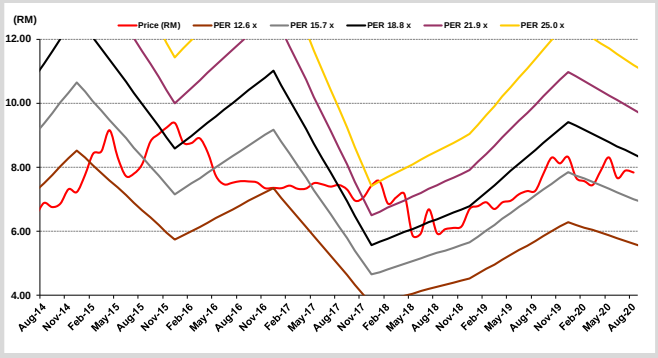
FY Dec (RM m)	2017A	2018A	2019A	2020E	2021E
Operating CF	4,739	4,099	5,579	5,212	5,736
Investing CF	(2,761)	(3,637)	(1,533)	(4,000)	(4,000)
Financing CF	(2,059)	(823)	(3,773)	429	333

Financial Data & Ratios

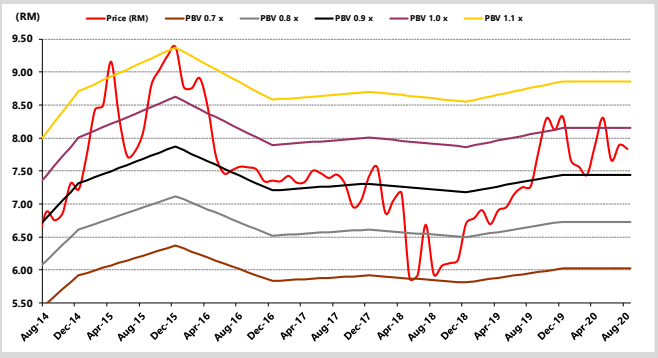
FY Dec	2017A	2018A	2019A	2020E	2021E
Growth (%)					
Revenue	4.9	-12.8	2.1	3.4	10.7
EBIT	3.1	-52.3	78.2	42.7	-6.6
PBT	0.0	-32.9	12.5	55.6	-7.8
Net Profit	-23.2	-33.8	8.8	56.7	-7.8
Core Net Profit	28.3	-49.4	21.7	38.9	-7.8
Profitability (%)					
EBIT Margin	22.5	12.3	21.5	29.7	25.1
PBT Margin	19.9	15.3	16.9	25.4	21.2
Net Margin	19.7	14.9	15.9	24.1	20.1
Core Net Margin	26.0	15.1	18.0	24.1	20.1
Effect. Tax Rate	0.6	4.4	5.0	5.0	5.0
ROE	7.5	3.7	4.6	6.2	5.6
ROA	5.2	2.5	3.1	3.8	3.3
DuPont Analysis					
Net Margin (%)	19.7	14.9	15.9	24.1	20.1
Assets T/over (x)	19.9	16.9	17.3	15.7	16.6
Lev. Factor(x)	1.4	1.5	1.5	1.6	1.7
ROE (%)	7.5	3.7	4.6	6.2	5.6
Leverage					
Debt/Asset (x)	0.2	0.3	0.3	0.3	0.3
Debt/Equity (x)	0.3	0.4	0.4	0.5	0.6
Net Debt/(Cash)	5,763	7,294	6,121	10,051	10,864
N. Debt/Equity (x)	0.2	0.2	0.2	0.3	0.3
Valuations					
Core EPS (sen)	58.5	29.6	36.1	50.1	46.2
NDPS (sen)	30.0	30.0	33.0	30.0	30.0
BV (RM)	7.8	7.9	7.8	8.1	8.2
Core PER (x)	13.4	26.4	21.7	15.6	17.0
Div. Yield (%)	3.8	3.8	4.2	3.8	3.8
P/BV (x)	1.0	1.0	1.0	1.0	1.0

Source: Company, Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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	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 BHD	0.240	1,412.6	N	12/2020	1.4%	4.8%	10.3%	12.5%	5.0	4.5	4.0	0.4	0.4	9.2%	0.0%	0.300	OP
DAYANG ENTERPRISE HLDGS BHD	1.19	1,377.7	Y	12/2020	-25.9%	7.7%	-38.7%	9.5%	5.9	9.6	8.7	0.9	0.8	8.8%	0.0%	1.30	MP
DIALOG GROUP BHD	3.65	20,579.8	Y	06/2020	17.7%	6.1%	4.5%	9.7%	38.4	36.8	33.5	5.4	5.2	14.4%	1.1%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.375	600.0	Y	12/2020	3.2%	28.4%	-289.5%	-113.0%	N.A.	N.A.	N.A.	0.3	0.3	-2.8%	0.0%	0.390	MP
MISC BHD	7.83	34,951.1	Y	12/2020	3.4%	10.7%	38.8%	-7.7%	21.7	15.6	17.0	1.0	1.0	6.3%	3.8%	8.90	OP
PANTECH GROUP HOLDINGS BHD	0.370	277.6	Y	02/2021	-41.9%	57.1%	-47.6%	79.8%	8.4	16.0	8.9	0.5	0.5	2.8%	2.7%	0.310	UP
PETRONAS CHEMICALS GROUP BHD	6.27	50,160.0	Y	12/2020	-16.5%	10.4%	-33.1%	36.2%	17.8	26.6	19.5	1.7	1.6	6.2%	1.9%	5.75	MP
PETRONAS DAGANGAN BHD	21.50	21,359.3	Y	12/2020	-16.7%	12.2%	-42.7%	68.5%	26.0	45.4	27.0	3.6	3.5	7.8%	1.8%	17.95	UP
SAPURA ENERGY BHD	0.120	1,917.5	Y	01/2021	-11.4%	10.8%	-124.0%	-249.3%	N.A.	N.A.	N.A.	0.2	0.2	-3.5%	0.0%	0.050	UP
SERBA DINAMIK HOLDINGS	1.69	5,698.0	Y	12/2020	15.0%	15.0%	9.6%	12.1%	11.5	10.5	9.3	2.3	1.8	19.5%	3.3%	2.70	OP
UZMA BHD	0.585	187.2	Y	06/2020	14.6%	2.3%	186.6%	10.1%	19.3	6.7	6.1	0.4	0.4	5.6%	0.0%	0.670	MP
VELESTO ENERGY BHD	0.150	1,232.3	Y	12/2020	-9.9%	0.0%	-19.4%	24.4%	38.5	47.8	38.4	0.4	0.4	0.9%	0.0%	0.140	UP
WAH SEONG CORP BHD	0.500	387.2	Y	12/2020	-56.3%	45.5%	-203.6%	-148.5%	5.5	N.A.	N.A.	0.4	0.4	-7.2%	0.0%	0.510	UP
YINSON HOLDINGS BHD	6.21	6,621.7	Y	01/2021	-26.7%	-1.1%	76.5%	5.3%	30.8	17.5	16.6	4.1	3.6	22.0%	1.0%	7.10	OP
Simple Average					**-10.7%**	**15.0%**	**-33.7%**	**-17.9%**	**19.1**	**21.5**	**17.2**	**1.5**	**1.4**	**6.4%**	**1.1%**		

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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