



## Company report

## MISC

(MISC MK EQUITY, MISC.KL)

11 Sep 2020

Quiet for the rest of the year

**HOLD**

(Maintained)

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Rationale for report: Company update

Price	RM7.59
Fair Value	RM7.70
52-week High/Low	RM9.37/RM6.52

## Key Changes

Fair value	↕
EPS	↕

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	8,962.7	10,005.7	10,582.1	11,060.0
Core net profit (RM mil)	1,611.1	1,706.3	1,838.5	1,964.0
FD Core EPS (sen)	36.1	38.2	41.2	44.0
FD Core EPS growth (%)	23.7	5.9	7.7	6.8
Consensus Net Profit (RM mil)	-	2,140.4	2,133.1	2,211.4
DPS (sen)	33.0	33.0	33.0	33.0
PE (x)	20.8	19.7	18.3	17.1
EV/EBITDA (x)	10.6	9.9	9.3	8.7
Div yield (%)	4.4	4.4	4.4	4.4
ROE (%)	4.1	4.8	5.1	5.4
Net Gearing (%)	17.6	17.9	15.8	13.3

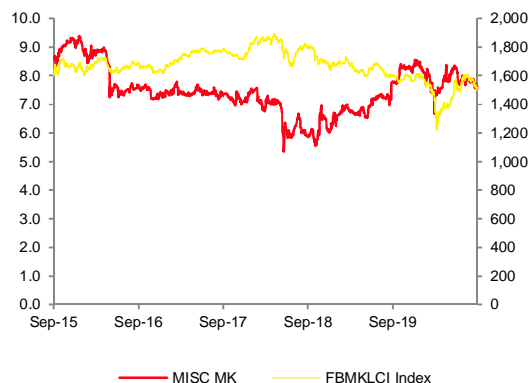
## Stock and Financial Data

Shares Outstanding (million)	4,463.8
Market Cap (RM mil)	33,567.8
Book Value (RM/share)	7.78
P/BV (x)	1.0
ROE (%)	4.1
Net Gearing (%)	17.6

Major Shareholders	Petronas (62.7%) EPF (9.3%)
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Free Float	16.9
Avg Daily Value (RM mil)	22.2

Price performance	3mth	6mth	12mth
Absolute (%)	(8.8)	13.1	(2.6)
Relative (%)	(4.1)	7.6	4.4

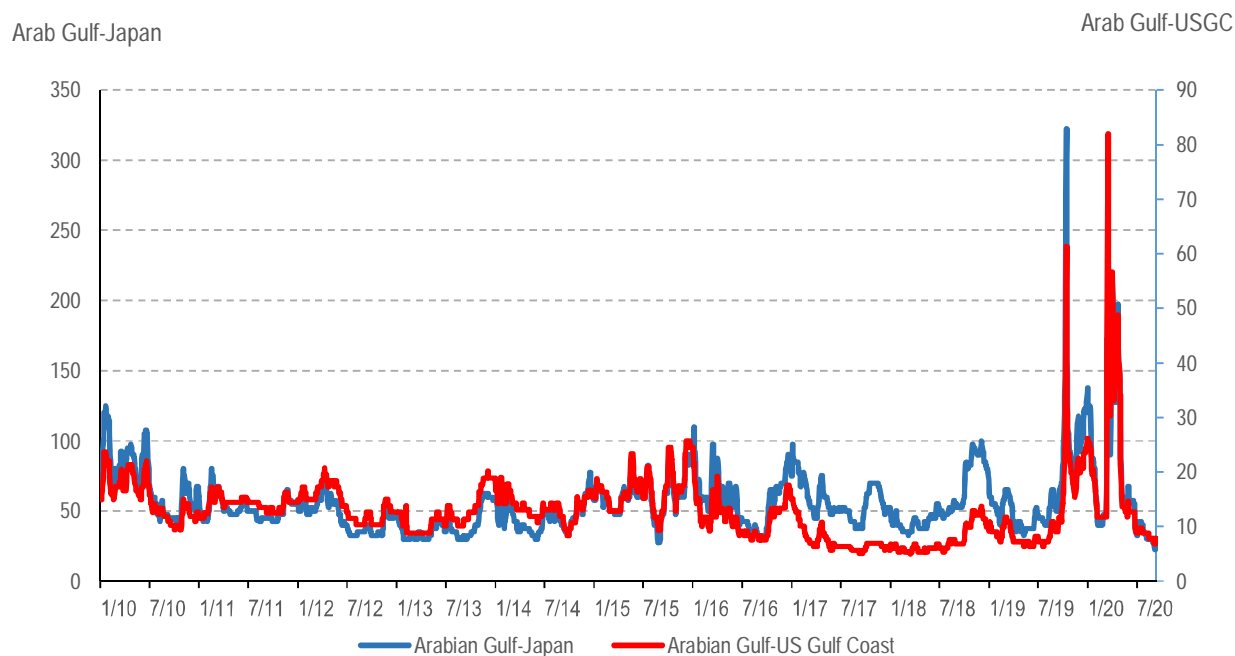


## Investment Highlights

- We maintain our HOLD call on MISC with an unchanged sum-of-parts-based fair value of RM7.70/share, which implies an FY20F EV/EBITDA of 9x – 1 standard deviation below its 2-year average of 10.4x.
- Following an engagement session with MISC's president/group CEO Yee Yang Chien yesterday, we retain our FY20F–FY22F earnings, which are 11%–20% below consensus. These are the salient highlights of the briefing:
  - MISC expects a quiet period for new project acquisitions until the end of this year given the dearth of vessel demand against the backdrop of the Covid-19 global pandemic impact which has deferred multiple projects. However, the group aims to consolidate its operations, adopt a highly selective stance on new bidding projects while focusing on executing the jobs which have already been secured to date.
  - The largest project secured, the Mero-3 (to be named Marechal Duque de Caxias) floating production, storage and offloading (FPSO) vessel charter from Petrobras, will be MISC's key focus on project execution until delivery in 2H2024.
  - For now, we have not included this RM8.4bil (US\$2bil) project, which could potentially add 57 sen to our SOP, based on a 100% equity stake and project IRR of 9%, as MISC has the intention to reduce its stake to below 50% to deconsolidate project debt with other JV partners. Hence the accretion may only reach 4% of our current SOP.
  - Management views this Mero-3 development, which will not involve its 66.5%-owned fabrication yard, Malaysia Marine & Heavy Engineering Holdings, to be completely different from the disastrous Gumusut Kakap semi-submersible floating production system (FPS). For Mero-3, management will control the engineering process which is crucial to execution capability as the group is already familiar with FPSO conversions compared with a one-off FPS structure.
  - Recall that the Gumusut Kakap FPS was delivered back in 2013 and yet still being dragged into a multi-year US\$475mil (RM2bil) legal suit currently for defective works, overcharging of lease rates and contention over the effective handover date.
  - Management does not expect significant improvement in petroleum tanker rates with July average rates falling QoQ by 81%–83% for VLCC, Suezmax and Aframax given that Covid-19-dampened crude oil demand has forced oil producers to scale back output. As we have noted earlier, Worldwide tanker rates have dropped by 87% for the Arabian Gulf to US route since the all-time peak on 16 March 2020 (see Exhibit 1).

- However, prospects for the liquefied natural gas (LNG) carrier market seems to be moderately more positive given the trend towards greener gas-fired electricity generation while demand for more of such vessels remains in the pipeline in the Middle East and North America.
- Even if the group does not secure any fresh charters for the rest of this year, MISC's FY20F–FY21F earnings growth will still be supported by the delivery of 3 very large ethane carriers (VLEC) to Shenzhen-listed Zhejiang Satellite Petrochemical Co Ltd on 15-year time charters by 4Q2020. Additionally, MISC will deliver 3 more VLECs, 1 LNG carrier and 1 dynamic positioning shuttle tanker in FY21F.
- The stock currently trades at a fair FY21F EV/EBITDA of 9x, which translates to a premium of 1.6x – 1.51ppt below the average 2-year premium of 2.7ppt to AP Moller Maersk's 7.4x.

### EXHIBIT 1: WORLDSCALE TANKER INDEX



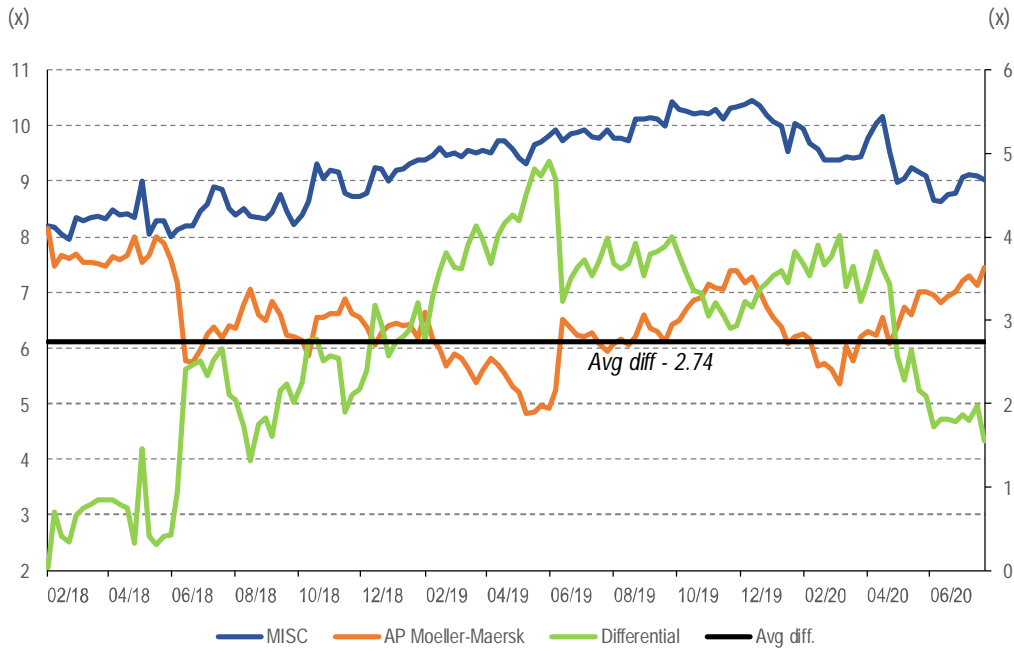
Source: Bloomberg

### EXHIBIT 2: SUM-OF-PARTS BREAKDOWN

Major operations	Value (RMm)	Value/share	Comments
LNG	23,813.1	5.33	DCF with WACC of 7%
Petroleum	10,174.8	2.28	Estimated market value of fleet
Chemical	411.6	0.09	Estimated market value of fleet
Offshore	6,634.5	1.49	DCF with WACC of 7%
MMHE	1,440.0	0.32	30% discount to book value
Gukusut-Kakap legal provision (US\$475mil)	(1,984.4)	(0.4)	
Less net debt as at 31 Dec 2019	(6,121.4)	(1.4)	
<b>Equity Value</b>	<b>34,368.1</b>	<b>7.70</b>	

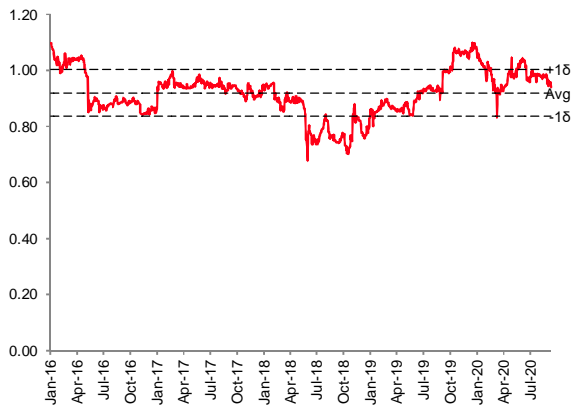
Source: AmInvestment Bank

**EXHIBIT 3: EV/EBITDA**

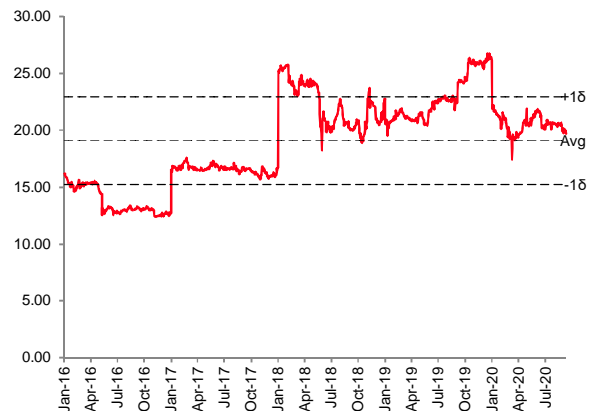


Source: Bloomberg

**EXHIBIT 4: PB BAND CHART**



**EXHIBIT 5: PE BAND CHART**



## EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	8,780.3	8,962.7	10,005.7	10,582.1	11,060.0
EBITDA	3,498.6	3,744.4	4,019.6	4,220.6	4,419.6
Depreciation/Amortisation	(2,185.6)	(1,982.8)	(2,081.9)	(2,186.0)	(2,295.3)
Operating income (EBIT)	1,313.0	1,761.6	1,937.6	2,034.6	2,124.3
Other income & associates	283.3	250.6	263.1	276.3	290.1
Net interest	(261.7)	(315.1)	(386.5)	(356.1)	(326.2)
<b>Exceptional items</b>	<b>9.5</b>	<b>(184.8)</b>	-	-	-
Pretax profit	1,344.1	1,512.3	1,814.3	1,954.8	2,088.2
Taxation	(59.8)	(76.1)	(18.1)	(19.5)	(20.9)
<b>Minorities/pref dividends</b>	<b>27.2</b>	<b>(9.9)</b>	<b>(89.8)</b>	<b>(96.8)</b>	<b>(103.4)</b>
Net profit	1,311.5	1,426.3	1,706.3	1,838.5	1,964.0
Core net profit	1,302.0	1,611.1	1,706.3	1,838.5	1,964.0
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Fixed assets	23,335.9	23,287.2	24,481.0	23,945.0	23,379.0
Intangible assets	856.9	840.7	882.6	868.8	855.0
<b>Other long-term assets</b>	<b>17,903.2</b>	<b>16,483.4</b>	<b>16,634.7</b>	<b>16,890.1</b>	<b>17,158.6</b>
Total non-current assets	42,096.0	40,611.3	41,998.2	41,703.8	41,392.6
Cash & equivalent	5,755.6	7,030.8	7,035.1	7,989.8	8,142.2
Stock	250.0	165.7	190.1	202.0	210.9
Trade debtors	2,555.9	2,441.2	2,725.3	2,882.3	3,012.4
<b>Other current assets</b>	<b>1,407.9</b>	<b>1,614.8</b>	<b>1,614.8</b>	<b>1,614.8</b>	<b>1,614.8</b>
Total current assets	9,969.4	11,252.5	11,565.3	12,688.9	12,980.3
Trade creditors	1,890.2	2,109.3	2,419.7	2,571.4	2,684.1
Short-term borrowings	5,778.5	5,599.5	5,711.5	5,825.7	5,942.2
<b>Other current liabilities</b>	<b>110.4</b>	<b>93.0</b>	<b>96.9</b>	<b>101.1</b>	<b>105.4</b>
Total current liabilities	7,779.1	7,801.8	8,228.1	8,498.2	8,731.8
Long-term borrowings	7,271.4	7,552.7	7,703.8	7,857.8	7,072.0
<b>Other long-term liabilities</b>	<b>650.6</b>	<b>755.5</b>	<b>768.2</b>	<b>806.8</b>	<b>847.3</b>
<b>Total long-term liabilities</b>	<b>7,922.0</b>	<b>8,308.2</b>	<b>8,472.0</b>	<b>8,664.6</b>	<b>7,919.3</b>
Shareholders' funds	35,351.3	34,727.2	35,711.7	36,077.1	36,568.0
Minority interests	1,013.0	1,026.6	1,151.8	1,152.8	1,153.8
BV/share (RM)	7.92	7.78	8.00	8.08	8.19
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Pretax profit	1,344.1	1,512.3	1,814.3	1,954.8	2,088.2
Depreciation/Amortisation	2,185.6	1,982.8	2,081.9	2,186.0	2,295.3
Net change in working capital	205.1	418.1	1.9	(17.2)	(26.3)
<b>Others</b>	<b>(81.4)</b>	<b>(11.6)</b>	<b>105.2</b>	<b>60.3</b>	<b>15.2</b>
Cash flow from operations	3,653.4	3,901.6	4,003.3	4,183.9	4,372.5
Capital expenditure	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)
Net investments & sale of fixed assets	-	-	-	-	-
<b>Others</b>	<b>60.8</b>	<b>66.9</b>	<b>73.6</b>	<b>81.0</b>	<b>89.1</b>
Cash flow from investing	(939.2)	(933.1)	(926.4)	(919.0)	(910.9)
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(1,339.1)	(1,339.1)	(1,473.1)	(1,473.1)	(1,473.1)
<b>Others</b>	<b>(394.6)</b>	<b>(484.3)</b>	<b>(460.1)</b>	<b>(437.1)</b>	<b>(415.2)</b>
<b>Cash flow from financing</b>	<b>(1,733.7)</b>	<b>(1,823.4)</b>	<b>(1,933.1)</b>	<b>(1,910.1)</b>	<b>(1,888.3)</b>
<b>Net cash flow</b>	<b>980.5</b>	<b>1,145.1</b>	<b>1,143.8</b>	<b>1,354.7</b>	<b>1,573.2</b>
<b>Net cash/(debt) b/f</b>	<b>8,336.9</b>	<b>9,389.4</b>	<b>10,636.8</b>	<b>11,780.6</b>	<b>13,135.3</b>
Net cash/(debt) c/f	9,317.4	10,534.5	11,780.6	13,135.3	14,708.6
<b>Key Ratios (YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Revenue growth (%)	(12.8)	2.1	11.6	5.8	4.5
EBITDA growth (%)	(25.9)	7.0	7.3	5.0	4.7
Pretax margin (%)	15.3	16.9	18.1	18.5	18.9
Net profit margin (%)	14.9	15.9	17.1	17.4	17.8
Interest cover (x)	5.0	5.6	5.0	5.7	6.5
Effective tax rate (%)	4.4	5.0	1.0	1.0	1.0
Dividend payout (%)	102.1	103.3	86.3	80.1	75.0
Debtors turnover (days)	106	99	99	99	99
Stock turnover (days)	17	12	12	12	12
Creditors turnover (days)	131	148	148	148	148

Source: Company, AmInvestment Bank Bhd estimates

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