



MISC

(MISC MK EQUITY, MISC.KL)

14 Oct 2020

Brazilian coming-of-age

Company report

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Rationale for report: Company update

HOLD

(Maintained)

Price **RM6.85**
 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)	-	2,155.1	2,169.1	2,255.7
DPS (sen)	33.0	33.0	33.0	33.0
PE (x)	19.4	18.3	17.0	15.9
EV/EBITDA (x)	10.0	9.3	8.7	8.2
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

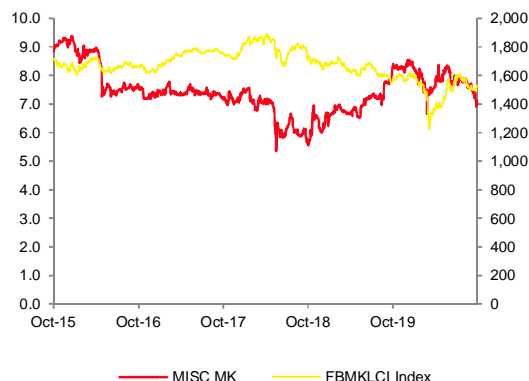
Stock and Financial Data

Shares Outstanding (million) 4,463.8
 Market Cap (RM mil) 31,202.0
 Book Value (RM/share) 7.78
 P/BV (x) 0.9
 ROE (%) 4.1
 Net Gearing (%) 17.6

Major Shareholders
 Petronas (62.7%)
 EPF (9.1%)

Free Float 16.9
 Avg Daily Value (RM mil) 16.4

Price performance	3mth	6mth	12mth
Absolute (%)	(11.0)	(7.9)	(15.2)
Relative (%)	(6.7)	(17.7)	(13.1)



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 on the Mero-3 floating, production, storage and offloading (FPSO) project with MISC's management team yesterday, we retain our FY20F–FY22F earnings, which are 13%–21% below consensus. These are the salient highlights:

- After 3 abortive bids for Petrobras' Sepia, Buzios 5 and Mero 2, MISC's successful tender for the charter of the huge Mero 3 (to be named Marechal Duque de Caxias) vessel heralds a breakthrough for the group in the FPSO market which involves the undertaking of a substantively more complex project on its own.

This was a culmination of the group's strategy in expanding its footprint in Brazil, which has the largest number of FPSO projects in the global pipeline, by developing internal procedures and an organisational structure required to undertake such complexities and risks beginning in 2017.

This was supported by MISC's presence in Brazil that started in 2006–2009 when MISC entered into joint ventures with SBM to secure 2 smaller-scale FPSO charters in Brazil. Subsequently, the group ventured into the dynamic positioning shuttle tanker market in 2012.

- MISC's VLCC, Bunga Kasturi Dua, which was built in 2005, is set to sail for China for the FPSO conversion when a yard has been selected, potentially by the end of the year.

Aker Engineering will be involved in the engineering and procurement process while Siemens supplies topside power generation and compression modules. The project is expected to achieve final acceptance by 2Q2024.

- The group does not expect to fully comply with Mero 3's local content requirement of 40% as MISC has to take into account much higher Brazilian costs, inefficiencies and possible delivery delays.

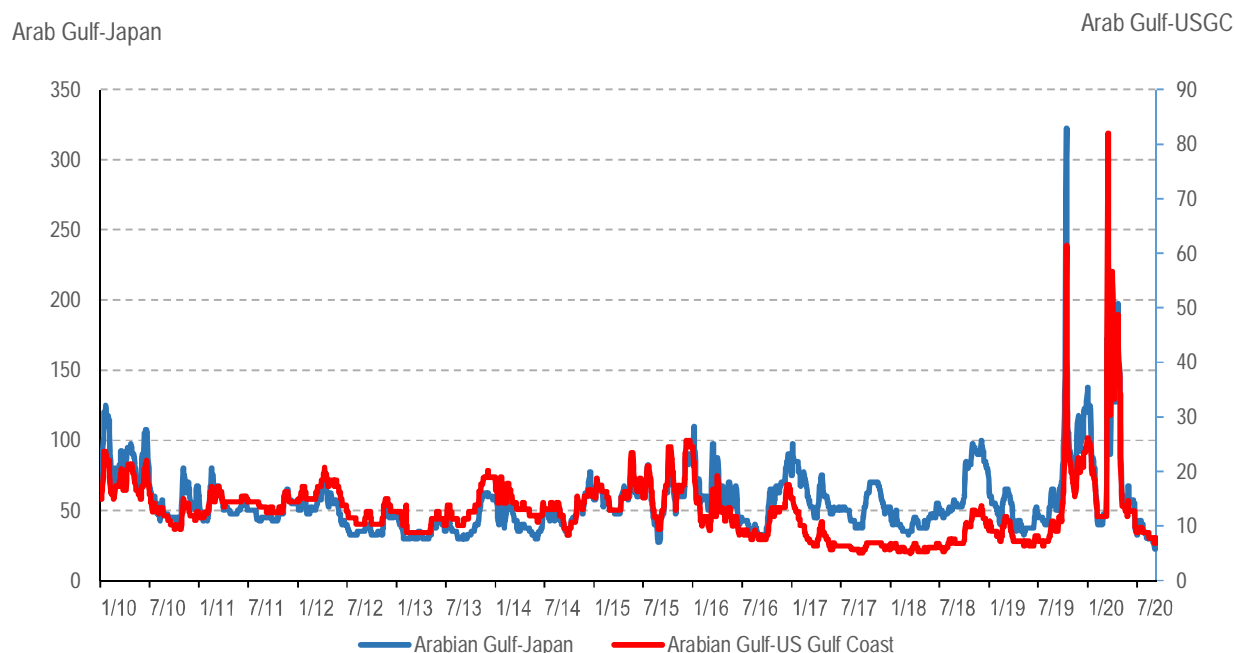
Hence, management has incorporated potential penalties of non-compliance within its project cost and cash flow assumptions.

- 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 a conservative project IRR of 9%, as MISC plans to reduce its stake to below 50% to deconsolidate the huge project debt with other JV partners. Hence, the accretion may only reach 4% of our current SOP.

The management team indicated that MISC is likely to decide on Mero 3's equity partners after the completion of the vessel conversion process, which is in 2H2024.

- 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.
- In the medium term, petroleum tanker rates are expected to be depressed with Aug average spot rates for VLCC and Suezmax lower by 17%–27% YoY given that Covid-19-dampened global crude oil demand has forced oil producers to scale back output. As we have noted earlier, Worldscale 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).
- As such, 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



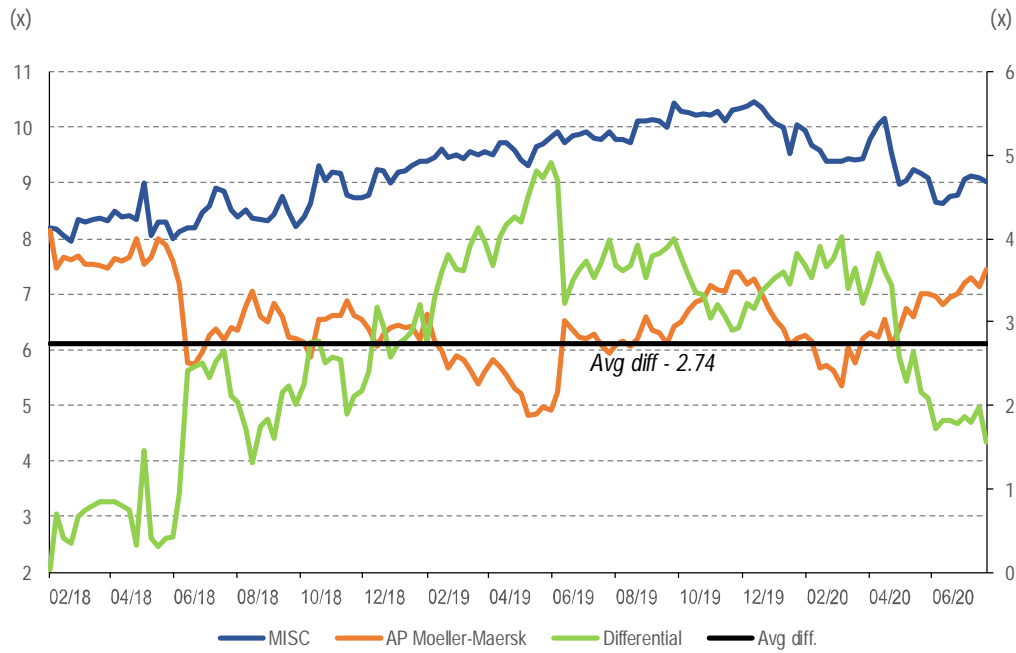
Source: Bloomberg

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)	
Equity Value	34,368.1	7.70	

Source: AmInvestment Bank

EXHIBIT 3: EV/EBITDA



Source: Bloomberg

EXHIBIT 4: PB BAND CHART

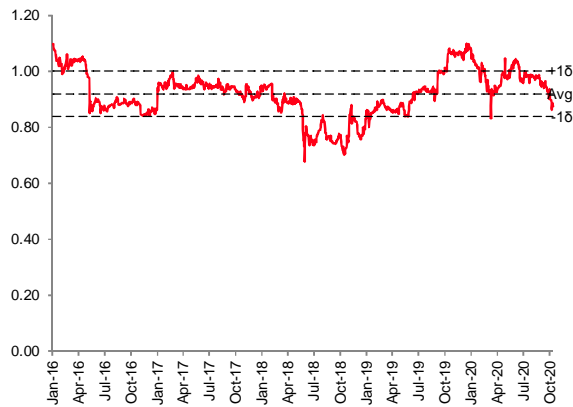


EXHIBIT 5: PE BAND CHART



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)
Exceptional items	9.5	(184.8)	-	-	-
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)
Minorities/pref dividends	27.2	(9.9)	(89.8)	(96.8)	(103.4)
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
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
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
Other long-term assets	17,903.2	16,483.4	16,634.7	16,890.1	17,158.6
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
Other current assets	1,407.9	1,614.8	1,614.8	1,614.8	1,614.8
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
Other current liabilities	110.4	93.0	96.9	101.1	105.4
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
Other long-term liabilities	650.6	755.5	768.2	806.8	847.3
Total long-term liabilities	7,922.0	8,308.2	8,472.0	8,664.6	7,919.3
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
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
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)
Others	(81.4)	(11.6)	105.2	60.3	15.2
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	-	-	-	-	-
Others	60.8	66.9	73.6	81.0	89.1
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)
Others	(394.6)	(484.3)	(460.1)	(437.1)	(415.2)
Cash flow from financing	(1,733.7)	(1,823.4)	(1,933.1)	(1,910.1)	(1,888.3)
Net cash flow	980.5	1,145.1	1,143.8	1,354.7	1,573.2
Net cash/(debt) b/f	8,336.9	9,389.4	10,636.8	11,780.6	13,135.3
Net cash/(debt) c/f	9,317.4	10,534.5	11,780.6	13,135.3	14,708.6
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
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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