



Company report

MISC

(MISC MK EQUITY, MISC.KL)

18 Nov 2020

*Higher exposure to tanker spot rate***HOLD**

(Maintained)

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Rationale for report: Company update

Price	RM7.41
Fair Value	RM8.50
52-week High/Low	RM9.37/RM6.38

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	8,962.7	10,005.7	10,674.2	11,158.2
Core net profit (RM mil)	1,611.1	2,072.5	2,109.7	2,216.9
FD Core EPS (sen)	36.1	46.4	47.3	49.7
FD Core EPS growth (%)	23.7	28.6	1.8	5.1
Consensus Net Profit (RM mil)	-	2,122.9	2,156.8	2,247.5
DPS (sen)	33.0	33.0	33.0	33.0
PE (x)	20.5	16.0	15.7	14.9
EV/EBITDA (x)	10.5	9.9	9.0	8.3
Div yield (%)	4.5	4.5	4.5	4.5
ROE (%)	4.1	(0.6)	6.2	6.4
Net Gearing (%)	17.6	24.5	21.3	17.7

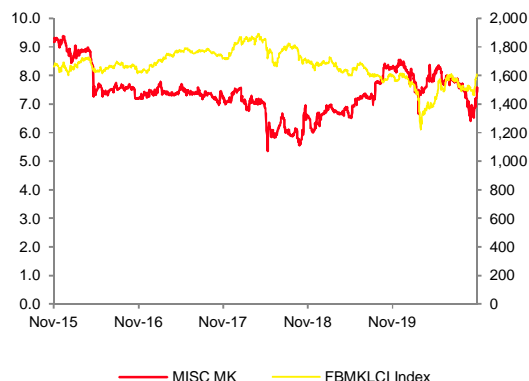
Stock and Financial Data

Shares Outstanding (million)	4,463.8
Market Cap (RM mil)	33,076.8
Book Value (RM/share)	7.78
P/BV (x)	1.0
ROE (%)	4.1
Net Gearing (%)	17.6

Major Shareholders	Petronas(62.7%) EPF(9.1%)
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Free Float	16.9
Avg Daily Value (RM mil)	17.2

Price performance	3mth	6mth	12mth
Absolute (%)	(5.4)	(7.4)	(9.7)
Relative (%)	(8.3)	(19.3)	(10.6)

**Investment Highlights**

- We maintain our HOLD rating on MISC with an unchanged sum-of-parts based fair value of RM8.50/share which implies an FY21F EV/EBITDA of 9x, at parity to its 2-year average
- Following an analyst briefing yesterday, our forecasts are maintained. These are the briefing's salient highlights:

➤ While drydocking activities this year were half of 2019 levels, the liquefied natural gas (LNG) segment's earnings fell 32% QoQ to RM239mil from reduced charter days due to the Covid-19 lockdown which curtailed utilisation rates.

➤ Even though management aims to reduce exposure to spot rates, the proportion of spot to term charter for the petroleum and chemical division instead rose to 35:65 in 3QFY20 from 24:76 in 2QFY20 due to reduced lightering activities in North America against the backdrop of constrained utilisation levels of refineries given the depressed economic outlook.

The proportion of MISC's Aframax on spot is currently 51%, Suezmax 19% and very large crude carriers (VLCC) 9%.

➤ Similar to our view, management does not expect the winter season in the northern hemisphere to substantively spur tankage demand as in the previous cycles given the current glut. Nevertheless, the possibility of a severe winter could brighten prospects by ramping up short-term demand.

➤ Interest charges have fallen by 23% QoQ to RM78mil notwithstanding flattish QoQ gross debt at RM13bil due to the sharp drop in LIBOR rates to 0.2% currently from 1.45% in March this year.

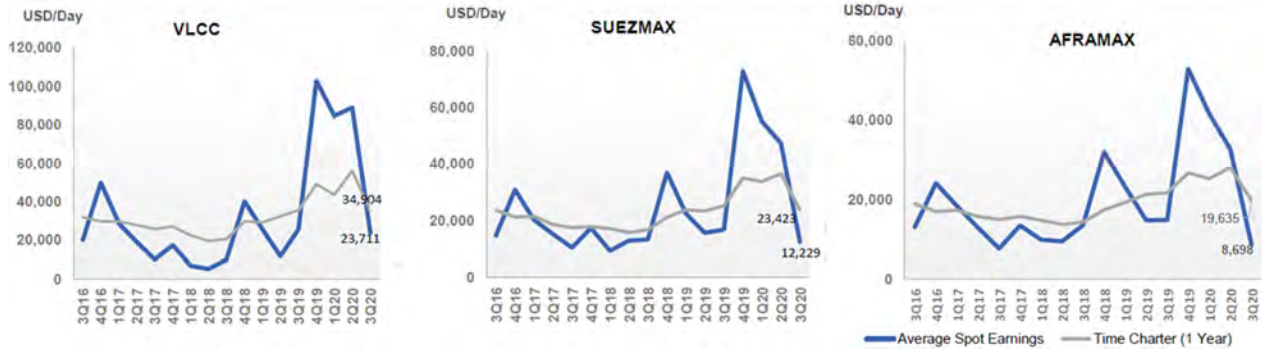
➤ As mentioned in our update on 14 October, the VLCC Bunga Kasturi Dua has been selected for conversion into Petrobras' US\$2bil Mero floating production, storage and offloading (FPSO) vessel. However, the sale by AET for this conversion is an internal transfer that did not generate any gains or losses to the group.

➤ As MISC made a slight provision of US\$2mil for the FPSO vessel Angi following its contract expiry in December last year, management does not expect any further large impairments in 4QFY20. Recall that the group has made 9MFY20 provisions of RM2.3bil, largely for the legal set-back of the Gumusut Kakap semi-floating production system, which is likely to be dragged out in the courts over the next 2-3 years.

➤ MISC reported a 9MFY20 loss of RM599mil (including non-cash impairments) but still declared a dividend of 21 sen to date. We expect the group to maintain FY19 dividend of 33 sen, which translates to a 4QFY21 DPS of 12 sen.

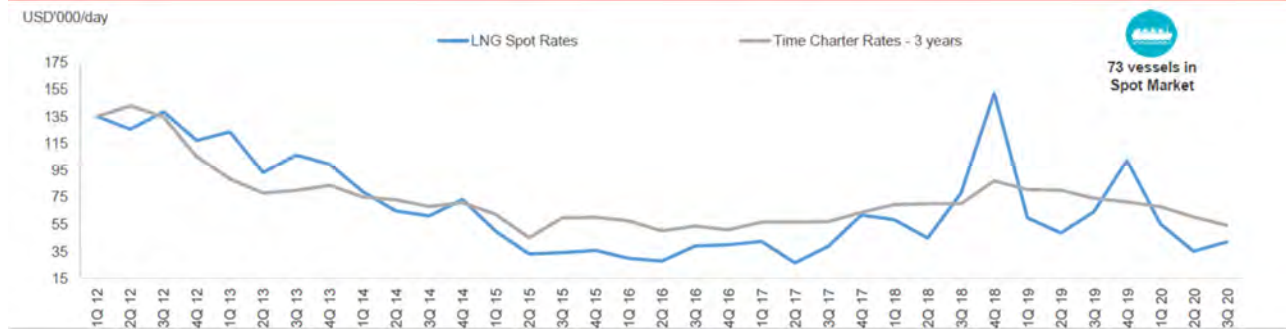
- The stock currently trades at a fair FY21F EV/EBITDA of 8x - 1 standard deviation below its 3-year average of 9x.

EXHIBIT 1: PETROLEUM TANKER RATES



Source: MISC slide

EXHIBIT 2: LNG SPOT CHARTER RATES



Source: MISC slide

EXHIBIT 3: PB BAND CHART

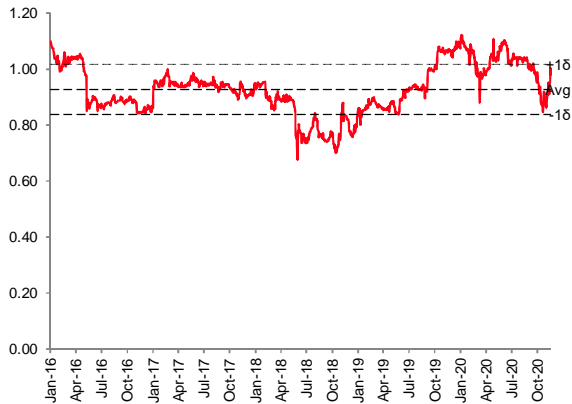


EXHIBIT 4: PE BAND CHART

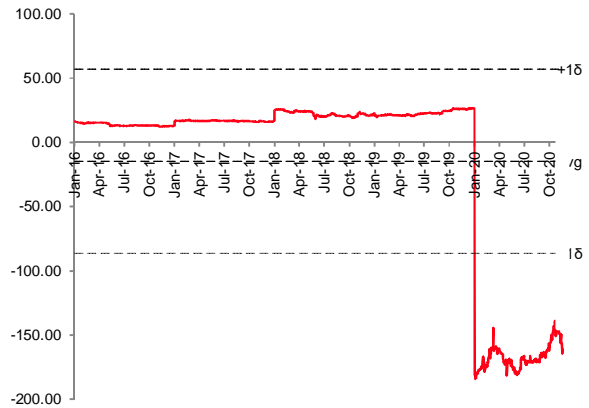
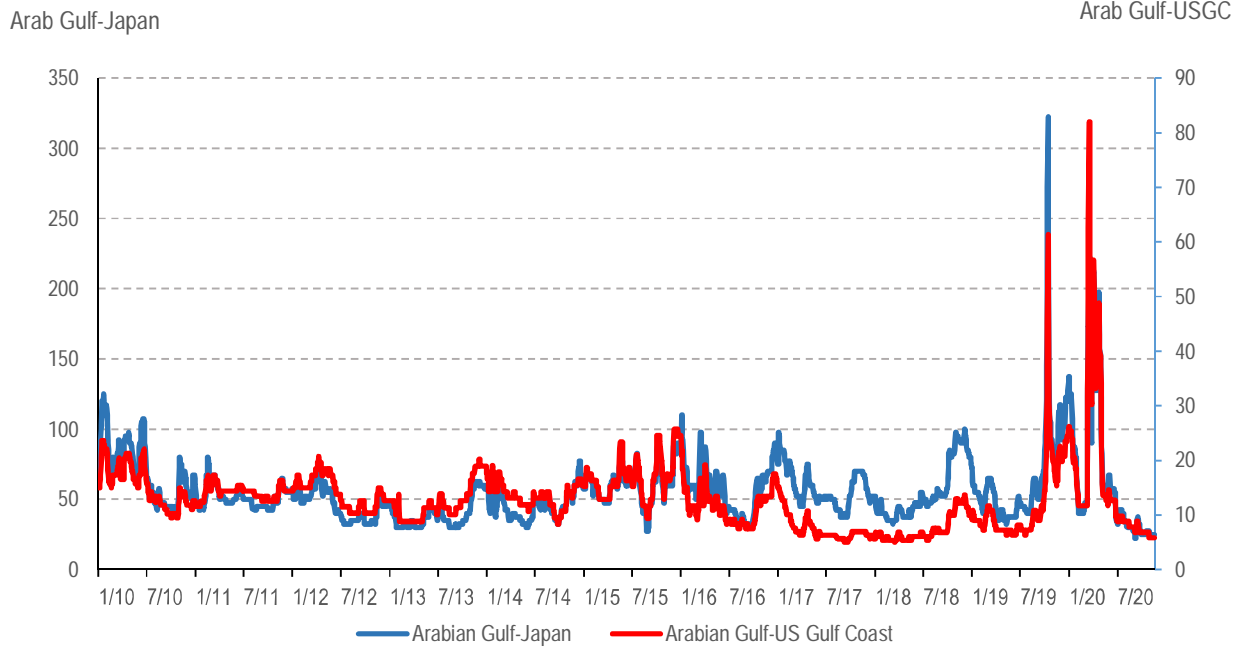


EXHIBIT 5: SUM-OF-PARTS BREAKDOWN

Major operations	Value (RMm)	Value/share	Comments
LNG	25,703.6	5.76	DCF with WACC of 7%
Petroleum	9,716.7	2.18	Estimated market value of fleet
Chemical	411.6	0.09	Estimated market value of fleet
Offshore	6,966.2	1.56	DCF with WACC of 7%
MMHE	720.0	0.16	30% discount to book value
Gukusut-Kakap legal provision (US\$475ml)	(1,990.3)	(0.4)	
Mero-3 FPSO (US\$2bil capex, WACC at 6%)	2,543.9	0.6	
Less net debt as at 31 Dec 2019	(6,121.4)	(1.4)	
Equity Value	37,950.3	8.50	

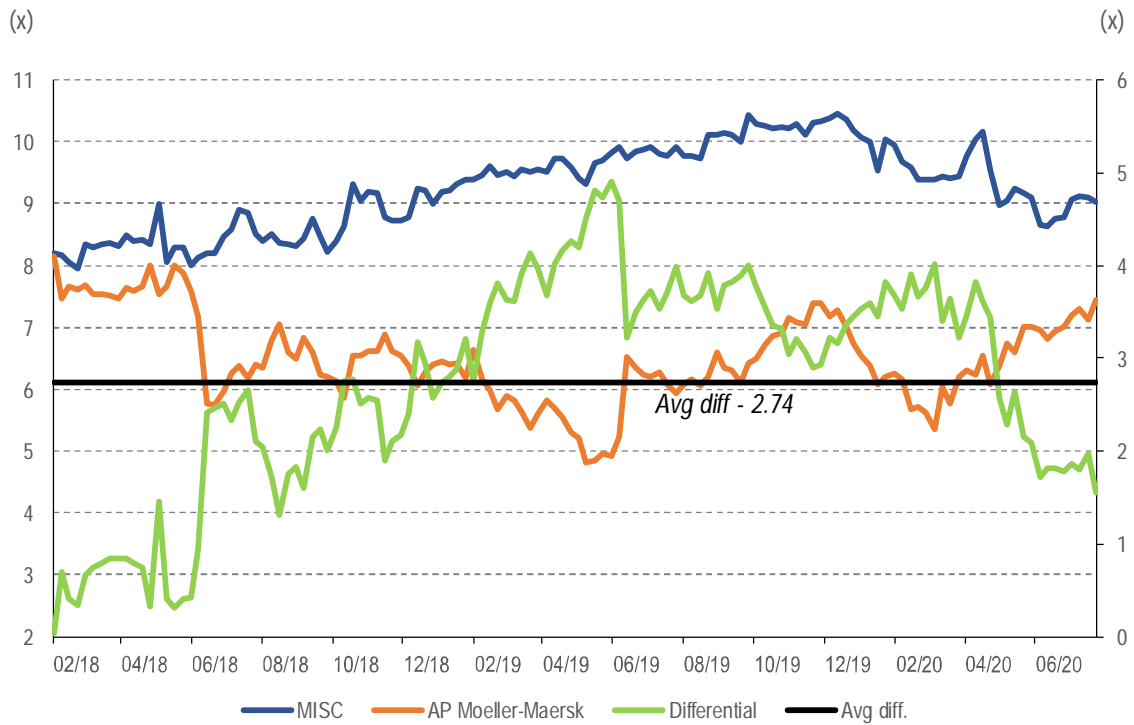
Source: AmInvestment Bank

EXHIBIT 6: WORLDSCALE TANKER INDEX



Source: Bloomberg

EXHIBIT 7: EV/EBITDA



Source: Bloomberg

EXHIBIT 8: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	8,780.3	8,962.7	10,005.7	10,674.2	11,158.2
EBITDA	3,498.6	3,744.4	4,160.1	4,498.1	4,709.4
Depreciation/Amortisation	(2,185.6)	(1,982.8)	(2,141.4)	(2,248.5)	(2,360.9)
Operating income (EBIT)	1,313.0	1,761.6	2,018.7	2,249.6	2,348.5
Other income & associates	283.3	250.6	214.9	236.4	248.2
Net interest	(261.7)	(315.1)	(289.6)	(300.4)	(299.9)
Exceptional items	9.5	(184.8)	(2,278.4)	-	-
Pretax profit	1,344.1	1,512.3	(334.4)	2,185.6	2,296.7
Taxation	(59.8)	(76.1)	3.3	(21.9)	(23.0)
Minorities/pref dividends	27.2	(9.9)	125.2	(54.1)	(56.8)
Net profit	1,311.5	1,426.3	(205.9)	2,109.7	2,216.9
Core net profit	1,302.0	1,611.1	2,072.5	2,109.7	2,216.9
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	16,562.1	16,813.9	17,044.5
Total non-current assets	42,096.0	40,611.3	41,925.6	41,627.7	41,278.4
Cash & equivalent	5,755.6	7,030.8	5,134.4	6,331.7	6,771.1
Stock	250.0	165.7	185.6	196.1	204.8
Trade debtors	2,555.9	2,441.2	2,725.3	2,907.4	3,039.2
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	9,660.1	11,050.0	11,629.8
Trade creditors	1,890.2	2,109.3	2,362.9	2,496.4	2,606.7
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	8,171.3	8,423.2	8,654.4
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	759.5	807.7	848.1
Total long-term liabilities	7,922.0	8,308.2	8,463.2	8,665.6	7,920.2
Shareholders' funds	35,351.3	34,727.2	33,799.4	34,436.0	35,179.9
Minority interests	1,013.0	1,026.6	1,151.8	1,152.8	1,153.8
BV/share (RM)	7.92	7.78	7.57	7.71	7.88
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	1,344.1	1,512.3	(334.4)	2,185.6	2,296.7
Depreciation/Amortisation	2,185.6	1,982.8	2,141.4	2,248.5	2,360.9
Net change in working capital	205.1	418.1	(50.4)	(59.0)	(30.2)
Others	(81.4)	(11.6)	78.1	42.2	28.8
Cash flow from operations	3,653.4	3,901.6	1,834.6	4,417.3	4,656.2
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)	(363.2)	(381.4)	(389.0)
Cash flow from financing	(1,733.7)	(1,823.4)	(1,836.3)	(1,854.4)	(1,862.1)
Net cash flow	980.5	1,145.1	(928.1)	1,643.8	1,883.2
Net cash/(debt) b/f	8,336.9	9,389.4	10,636.8	9,708.7	11,352.5
Net cash/(debt) c/f	9,317.4	10,534.5	9,708.7	11,352.5	13,235.7
Key Ratios (YE31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	(12.8)	2.1	11.6	6.7	4.5
EBITDA growth (%)	(25.9)	7.0	11.1	8.1	4.7
Pretax margin (%)	15.3	16.9	(3.3)	20.5	20.6
Net profit margin (%)	14.9	15.9	(2.1)	19.8	19.9
Interest cover (x)	5.0	5.6	7.0	7.5	7.8
Effective tax rate (%)	4.4	5.0	1.0	1.0	1.0
Dividend payout (%)	102.1	103.3	nm	69.8	66.4
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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