

COMPANY UPDATE

MISC (MISC MK)

Potential New Contract Bids Fairly Priced In

Consistent with management's guidance on relooking at bid funnels for 2022, we think MISC has a higher chance to secure new FPSOs, as other peers like Yinson have their hands full with existing projects. Another promising segment is the niche shuttle tanker space. Higher contract win potential may offset persistently weak tanker sentiment, at least in 1H22. Nevertheless, these are all priced in and reflected in +1SD trading PE band. Maintain HOLD with target price of RM6.75.

WHAT'S NEW

- Returning to the project bidding market, especially FPSO (offshore).** According to Rystad Energy, the floating production, storage and offloading (FPSO) market was very strong with 10 new awards in 2021, vs three yoy. This is likely to continue apace in 2022 with 10 more new awards expected. MISC guided to bid for new FPSOs (capex: US\$1-2b) around the Atlantic basin, as FPSO Mero-3 should have passed peak construction stages. Assuming 50% stake, a new Brazil FPSO may be similar to Mero-3 at RM0.40/share. MISC was cited by Upstream to be bidding for the Cameia FPSO (Angola) along with peers like Yinson and Bumi Armada. The total may fast track the award by 1H22. With the scarcity of reliable FPSO contractors available, especially since Yinson is full with three Brazil jobs at hand and Bumi Armada remains relatively highly geared on balance sheet, we see MISC standing a good chance to secure another FPSO project.
- Shuttle tankers also set to grow along with Brazil production.** Rystad also forecasted that demand for shuttle tankers may rise by 35% from 2.5b in 2021 to 3.3b by 2030. The rise in demand is further compounded that shuttle tankers are specialised tankers crucial for moving liquids in locations of extreme offshore conditions or when subsea pipelines are unviable. Shuttle tankers utilisation in Brazil saw activity soaring by 55% from 605m barrels in 2013 to 1.07b in 2021. This is forecasted to hit 1.84b barrels in 2030. Norway and the UK are also significant markets for the niche segment, with 763m barrels and 312m barrels handled respectively in 2021. MISC has recently delivered one Dynamic Positioning Shuttle Tanker (DPST) for Brazil, bringing up its DPST fleet to 12 (over total shipping fleet of 100 excluding offshore segment), and will deliver five more this year.
- Potential for contract wins offsets tanker sentiment sailing into 2022 headwinds.** To recap, the tanker freight markets did not fulfil expectations of a historically strong quarter back in 4Q21. For Very Large Crude Carriers, spot daily rates were last heard at US\$18,000-25,000, while daily opex remained high at US\$22,000-25,000 in the industry (partly due to higher bunker costs). Given a historically weaker 1Q vs 4Q, the market may experience an oil surplus in the start of 2022. However, unrests in Kazakhstan and Libya, as well as delays in the Iranian sanction deal, may complicate the timing of tanker rates recovery.

KEY FINANCIALS

Year to 31 Dec (RMm)	2019	2020	2021F	2022F	2023F
Net turnover	8,963	9,401	8,922	8,876	9,360
EBITDA	4,145	4,108	3,740	4,179	4,559
Operating profit	1,929	2,017	1,468	1,705	1,883
Net profit (rep./act.)	1,426	(43)	1,765	1,523	1,630
Net profit (adj.)	1,724	1,802	1,395	1,523	1,630
EPS (sen)	38.6	40.4	31.3	34.1	36.5
PE (x)	18.1	17.3	22.4	20.5	19.2
P/B (x)	0.9	1.0	1.0	1.0	1.0
EV/EBITDA (x)	10.9	11.0	12.0	10.8	9.9
Dividend yield (%)	4.7	4.7	4.3	4.3	4.3
Net margin (%)	15.9	(0.5)	19.8	17.2	17.4
Net debt/(cash) to equity (%)	17.6	20.4	32.3	39.9	46.1
Interest cover (x)	8.6	11.2	10.1	10.1	9.8
ROE (%)	4.1	n.a.	5.5	4.7	5.0
Consensus net profit	-	-	1,671	1,986	2,059
UOBKH/Consensus (x)	-	-	0.84	0.77	0.79

Source: MISC Berhad, Bloomberg, UOB Kay Hian

* Note: We exclude lumpy finance lease construction gains in core profit forecasts

HOLD

(Maintained)

Share Price	RM7.00
Target Price	RM6.75
Upside	-3.5%
(Previous TP)	RM6.70)

COMPANY DESCRIPTION

Shipping Company.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	MISC MK
Shares issued (m):	4,463.7
Market cap (RMm):	31,246.2
Market cap (US\$m):	7,465.7
3-mth avg daily t'over (US\$m):	2.3

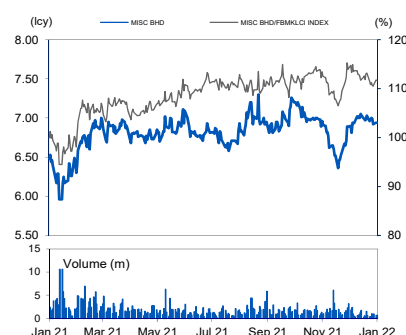
Price Performance (%)

52-week high/low	RM7.30/RM5.96			
1mth	3mth	6mth	1yr	YTD
6.7	1.4	2.5	5.4	(0.7)

Major Shareholders

	%
Petroleum Nasional Bhd	51.1
Employees Provident Fund	12.3
FY22 NAV/Share (RM)	7.28
FY22 Net Debt/Share (RM)	2.90

PRICE CHART



Source: Bloomberg

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EARNINGS REVISION/RISK

- **Retain forecasts except for a 4% cut in 2022 earnings.** Premised on latest consultants' view on slower tanker recovery for 1H22 horizon, we assume a wider 2022 petroleum EBIT loss from RM37m to RM99m. As of last week, spot tanker rates remain fairly lacklustre.

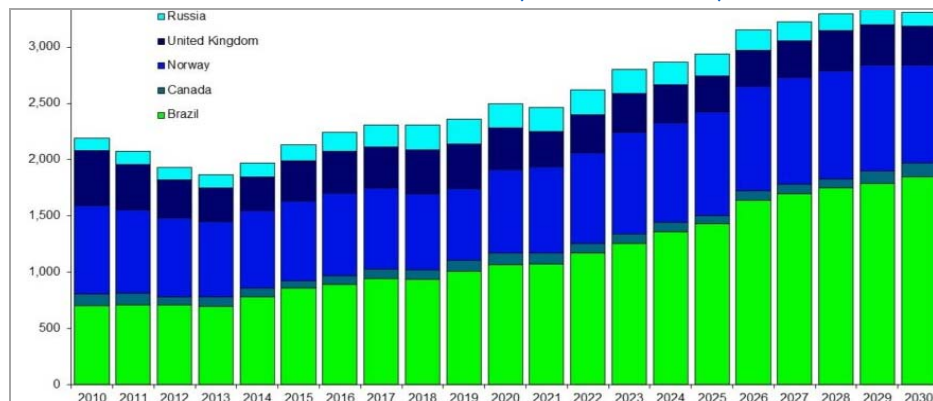
VALUATION/RECOMMENDATION

- **Maintain HOLD, with new target price of RM6.75 (from RM6.70),** implying 20x 2022F PE (at +1SD of five-year average PE band). Although we cut LNG DCF from RM3.70 on the back of rising discount rates, we raise new contract win potential from RM0.70. Overall and despite the rising interest rate environment, EBITDA and dividends remain fairly stable, with potential longer term growth if new projects are secured. Investors can consider an entry price of RM5.85 (17x PE), which excludes potential new contracts and implies a more palatable dividend yield of 5%. Having said that, >40% of MISC's fleet may approach 15 years old by the effective date of 2023-24 of tougher decarbonisation regulations, which may prompt a new reinvestment cycle ie more vessel sales to be replaced by eco-friendly vessels.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

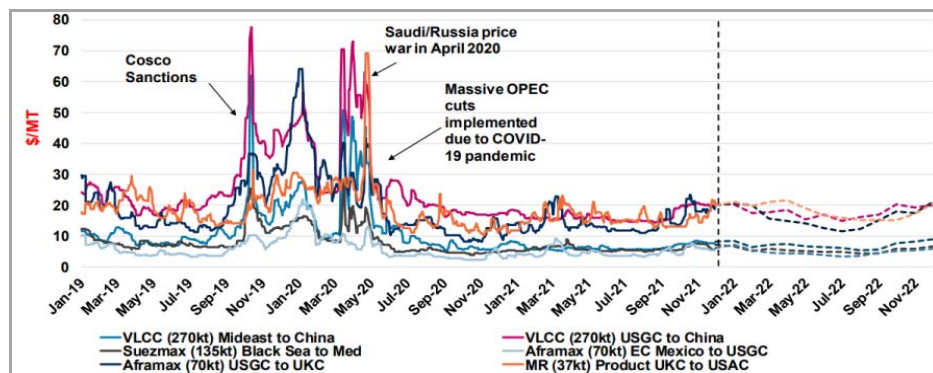
- **Environmental**
 - **Carbon (CO2) reduction.** Adding new vessels with LNG-dual/ ammonia fuel to meet IMO aspirations (50% greenhouse gas & 70% CO2 reduction by 2050)
 - **Promoting circular economy via green ship recycling.** Aims to avoid wastage while disposing of aged vessels that do not meet carbon reduction criteria
 - **Safety (HSE).** Lost Time Injury Frequency (LTIF) improved to 0.18 (AET: 0.07)
- **Social**
 - **Diversity.** >20 nationalities; >40% female proportion among onshore staff
 - **Digitalisation/R&D.** Invested RM202m in 2020 to improve employee safety, productivity, maritime supply chain and compliance
- **Governance**
 - **Achieved 5/5 rating (FTSE4Good)** for governance & supply chain management

SHUTTLE TANKER TRANSPORTED VOLUMES BY YEAR (IN MILLION BARRELS)



Source: Rystad Energy

TANKER RATES OUTLOOK



Source: Platts (as of 15 Dec 2021)

SEGMENT FORECASTS

(RMm)	2021F	2022F	2023F
Revenue	8,922.2	8,875.6	9,360.0
LNG	2,695.2	2,788.8	2,567.7
Petroleum	3,369.9	3,345.9	4,069.3
MMHE	1,850.0	1,721.0	1,690.0
Offshore	1,007.1	1,020.0	1,032.9
EBIT	1,467.7	1,705.2	1,883.1
LNG	1,320.6	1,366.5	1,181.2
Petroleum	(159.1)	(98.7)	255.0
MMHE	(177.2)	(52.1)	(48.8)

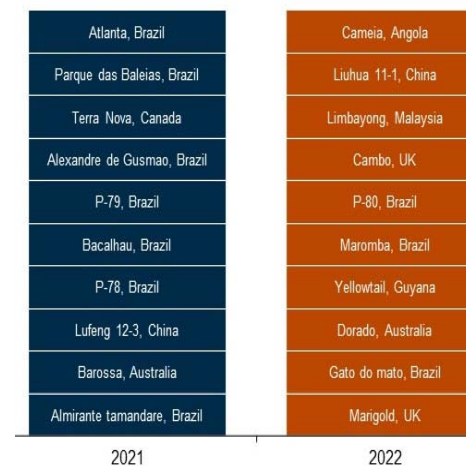
Source: Bloomberg, UOB Kay Hian.

SOTP BREAKDOWN (AT RM4.1/US\$)

Segments	Valuation	RM/share
LNG	DCF, 6.5% WACC (from 5.3%)	3.53
Petroleum	0.7x P/B	1.21
MMHE (66.5%)	Based on RM0.46 TP	0.10
Gumusut	1x P/B	1.34
Kikeh (51%)	1x P/B	0.12
Other offshore	0.9x P/B	0.09
(-) Net debt	LNG (RM3.1b); others (<RM2b)	(0.54)
(+) New contracts	Higher potential contracts from FPSO, LNG or DPST	0.90
SOTP	20x 2022F PE, 4% yield	6.75

Source: Bloomberg, UOB Kay Hian.

FPSO GLOBAL CONTRACT AWARDS



Source: Rystad Energy

PROFIT & LOSS

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Net turnover	9,401	8,922	8,876	9,360
EBITDA	4,108	3,740	4,179	4,559
Deprec. & amort.	2,091	2,272	2,474	2,675
EBIT	2,017	1,468	1,705	1,883
Total other non-operating income	(2,202)	370	n.a.	n.a.
Associate contributions	429	300	285	271
Net interest income/(expense)	(368)	(369)	(414)	(464)
Pre-tax profit	(124)	1,769	1,576	1,689
Tax	(46)	(63)	(71)	(76)
Minorities	127	59	17	16
Net profit	(43)	1,765	1,523	1,630
Net profit (adj.)	1,802	1,395	1,523	1,630

CASH FLOW

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Operating	5,588	3,677	4,108	4,483
Pre-tax profit	(124)	1,769	1,576	1,689
Tax	1,480	(63)	(71)	(76)
Other operating cashflows	4,232	1,971	2,603	2,869
Investing	(4,318)	(3,567)	(3,567)	(3,567)
Capex (growth)	(5,108)	(4,358)	(4,358)	(4,358)
Others	790	790	790	790
Financing	(1,389)	(630)	(1,530)	(1,530)
Others/interest paid	(1,389)	(630)	(1,530)	(1,530)
Net cash inflow (outflow)	(119)	(520)	(989)	(614)
Beginning cash & cash equivalent	7,031	6,855	6,336	5,348
Changes due to forex impact	(57)	1	1	1
Ending cash & cash equivalent	6,855	6,336	5,348	4,734

BALANCE SHEET

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Fixed assets	23,470	25,649	27,828	30,007
Other LT assets	15,993	17,726	18,040	18,112
Cash/ST investment	6,855	6,336	5,348	4,734
Other current assets	5,503	4,489	4,444	4,669
Total assets	51,821	54,200	55,659	57,522
ST debt	2,006	2,905	2,905	2,905
Other current liabilities	3,544	2,591	2,348	2,401
LT debt	11,435	13,870	15,406	16,943
Other LT liabilities	1,685	1,685	1,685	1,685
Shareholders' equity	32,273	32,329	32,513	32,803
Minority interest	878	819	801	785
Total liabilities & equity	51,821	54,200	55,659	57,522

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	43.7	41.9	47.1	48.7
Pre-tax margin	(1.3)	19.8	17.8	18.1
Net margin	(0.5)	19.8	17.2	17.4
ROA	n.a.	3.3	2.8	2.9
ROE	n.a.	5.5	4.7	5.0
Growth				
Turnover	4.9	(5.1)	(0.5)	5.5
EBITDA	(0.9)	(9.0)	11.7	9.1
Pre-tax profit	(108.2)	n.a.	(10.9)	7.2
Net profit	(103.0)	n.a.	(13.7)	7.0
Net profit (adj.)	4.5	(22.6)	9.2	7.0
EPS	4.5	(22.6)	9.2	7.0
Leverage				
Debt to total capital	28.8	33.6	35.5	37.1
Debt to equity	41.6	51.9	56.3	60.5
Net debt/(cash) to equity	20.4	32.3	39.9	46.1
Interest cover (x)	11.2	10.1	10.1	9.8

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