

## MISC Bhd (MISC MK)

# Offshore disappointed but improving outlook for FY22

### Expecting better performance ahead

Results were below expectations due to disappointing offshore segment from higher cost provisions and wider losses from MMHE. Having said that, we remain cautiously optimistic on FY22E, as reflected in our +21% earnings growth assumption, supported by better performance from Offshore (assuming costs normalised with the absence of provisions for FPSO construction) and MMHE (assuming higher new orders secured). We have tweaked our FY22/23E EPS by -2%/1% and lowered our SOP-derived TP to RM7.56 (-2%) on housekeeping adjustments; maintain BUY, with 13% upside (inc. 4.7% FY22E DY) from current prices.

### Results below our expectations; within consensus

Excluding exceptional items of MYR16m, 4Q21 core net profit of MYR445m (+9% QoQ, -7%YoY) brought FY21 core net profit to MYR1.89b (-13% YoY), making up 90%/103% of our/street's full-year forecasts. The company declared a 4th interim DPS of 12sen/shr, bringing FY21 DPS to 33sen/shr (flattish YoY).

### 4Q21 results snapshot

Key takeaways for 4Q21's results: (i) GAS posted better PBT (+44% YoY, +12% QoQ), mainly from improved charter rates and increased operations following the deliveries of 5 VLECs since 4Q20; (ii) Petroleum PBT returned to the black at USD4m (4Q20: -USD10m; 3Q21: -USD24m), owing to a favourable term to spot ratio of 71:29 (from 65:35 YoY) and increased contributions from its new DPST; (iii) Offshore PBT (-39% YoY, flattish QoQ) was dragged by higher cost provisions for construction of an FPSO; (iv) MMHE's losses ballooned to -MYR26m (4Q20: -MYR3m; 3Q21: -MYR5m) from disruptions for its HE projects and lower dry-docking activities.

### The worst is (possibly) over?

Despite the near-term headwinds posed by the threat of Omicron's surge globally, we are cautiously optimistic of a better FY22 for MISC as OPEC+ ramps up production in-line with firm crude prices. With the Mero 3 FPSO continuing to accrete positively and the petroleum segment expected to come off multi-year low charter rates by 2H22 and see improved contributions/margins from 5 new DPST deliveries throughout FY22, we remain sanguine on MISC's prospects at this juncture. Maintain BUY.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	9,401	10,672	11,618	11,729	11,320
EBITDA	4,009	4,001	4,439	4,734	4,881
Core net profit	2,159	1,889	2,282	2,360	2,330
Core EPS (sen)	48.4	42.3	51.1	52.9	52.2
Core EPS growth (%)	34.1	(12.5)	20.8	3.4	(1.3)
Net DPS (sen)	33.0	33.0	33.0	33.0	33.0
Core P/E (x)	14.2	16.7	13.7	13.2	13.4
P/BV (x)	1.0	0.9	0.9	0.9	0.9
Net dividend yield (%)	4.8	4.7	4.7	4.7	4.7
ROAE (%)	(0.1)	5.5	6.6	6.7	6.5
ROAA (%)	4.2	3.5	3.9	3.9	3.8
EV/EBITDA (x)	9.5	10.3	9.6	9.2	9.2
Net gearing (%) (incl perps)	19.9	26.0	29.5	31.9	34.1
Consensus net profit	-	-	2,065	2,110	na
MKE vs. Consensus (%)	-	-	10.5	11.8	na

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# BUY

Share Price	MYR 7.00
12m Price Target	MYR 7.56 (+13%)
Previous Price Target	MYR 7.75

### Company Description

MISC is a leading provider of international energy-related maritime solutions and services.

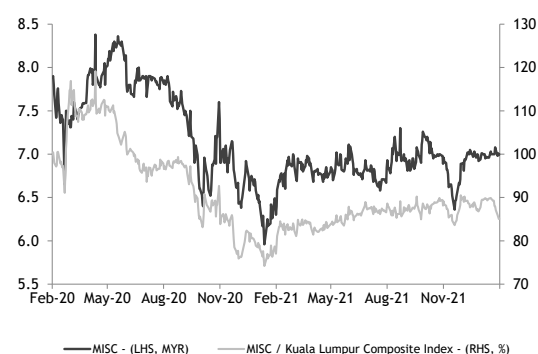
### Statistics

52w high/low (MYR)	7.30/6.36
3m avg turnover (USDm)	2.0
Free float (%)	32.6
Issued shares (m)	4,464
Market capitalisation	MYR31.2B
	USD7.5B

### Major shareholders:

Government of Malaysia	51.0%
Employees Provident Fund	12.4%
Permodalan Nasional Bhd.	5.5%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	1	2	11
Relative to index (%)	(3)	(3)	11

Source: FactSet

### Acronyms

**FP**SO - floating production storage & offloading  
**GAS** - Gas Assets & Solutions  
**VLEC** - very large ethane carrier  
**DPST** - Dynamic Positioning Shuttle Tankers  
**HE** - heavy engineering  
**OPEC+** - Organisation of Petroleum Exporting Countries (includes Russia and allies)

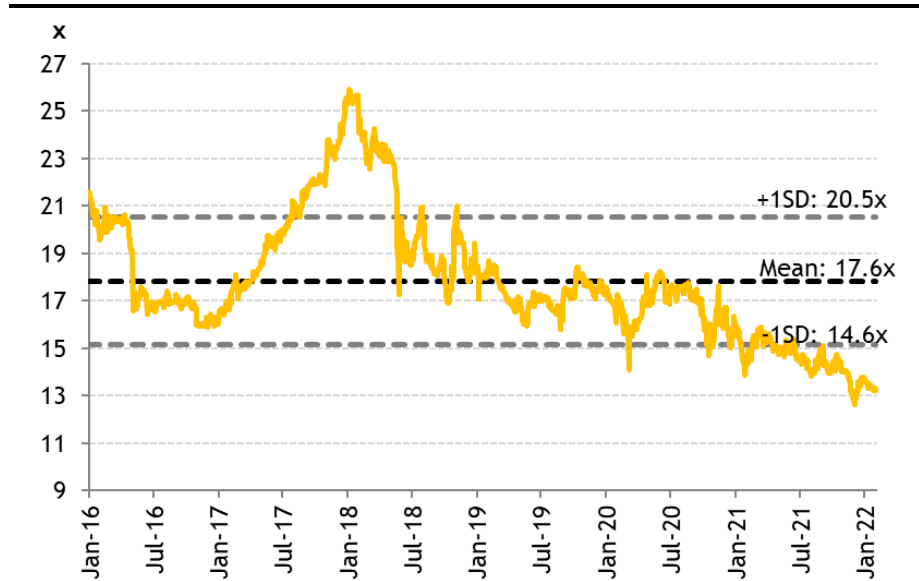
**SOP** - sum-of-parts  
**TP** - target price  
**DY** - dividend yield

Figure 1: MISC results summary table

FY Dec (MYR m)	Quarterly results					Cumulative results		
	4Q21	4Q20	% YoY	3Q21	% QoQ	FY20	FY21	% YoY
Turnover	3,085.2	2,641.6	16.8	2,691.8	14.6	9,401.2	10,671.7	13.5
<b>EBITDA</b>	<b>858.2</b>	<b>802.5</b>	<b>6.9</b>	<b>968.7</b>	<b>(11.4)</b>	<b>4,009.2</b>	<b>4,001.4</b>	<b>(0.2)</b>
Depreciation & amortisation	(501.7)	(519.4)	(3.4)	(491.3)	2.1	(2,104.3)	(1,962.4)	(6.7)
<b>EBIT</b>	<b>356.5</b>	<b>283.1</b>	<b>25.9</b>	<b>477.4</b>	<b>(25.3)</b>	<b>(296.9)</b>	<b>1,981.5</b>	<b>nm</b>
Net interest expense	(104.8)	(57.8)	81.3	(96.9)	8.2	(255.5)	(369.1)	44.5
JVs and associates	164.1	252.7	(35.1)	30.6	>100	428.8	297.4	(30.6)
Exceptional items*	16.4	76.6	(78.6)	(9.0)	nm	(2,201.8)	(57.5)	(97.4)
<b>Pre-tax profit</b>	<b>432.2</b>	<b>554.6</b>	<b>(22.1)</b>	<b>402.1</b>	<b>7.5</b>	<b>(123.6)</b>	<b>1,909.8</b>	<b>nm</b>
Tax	(9.6)	1.9	nm	(10.8)	(11.1)	(46.2)	(41.1)	(11.0)
Minority interest	39.1	(0.5)	nm	9.7	>100	126.8	97.7	(22.9)
<b>Net profit</b>	<b>461.7</b>	<b>556.0</b>	<b>(17.0)</b>	<b>401.0</b>	<b>15.1</b>	<b>(43.0)</b>	<b>1,831.3</b>	<b>nm</b>
<b>Net profit Ex EI</b>	<b>445.3</b>	<b>479.4</b>	<b>(7.1)</b>	<b>410.0</b>	<b>8.6</b>	<b>2,158.8</b>	<b>1,888.8</b>	<b>(12.5)</b>
<i>EBIT margin (%)</i>	<i>11.6</i>	<i>10.7</i>	<i>0.8</i>	<i>17.7</i>	<i>(6.2)</i>	<i>(3.2)</i>	<i>18.6</i>	<i>21.7</i>
<i>Tax rate (%)</i>	<i>2.2</i>	<i>(0.3)</i>	<i>2.6</i>	<i>2.7</i>	<i>(0.5)</i>	<i>(37.4)</i>	<i>2.2</i>	<i>39.5</i>
<b>Segmental (USD m)</b>	<b>4Q21</b>	<b>4Q20</b>	<b>% YoY</b>	<b>3Q21</b>	<b>% QoQ</b>	<b>FY20</b>	<b>FY21</b>	<b>% YoY</b>
<b>Revenue</b>	<b>737.9</b>	<b>641.2</b>	<b>15.1</b>	<b>641.8</b>	<b>15.0</b>	<b>2,237.4</b>	<b>2,574.0</b>	<b>15.0</b>
- Gas Assets & Solutions	182.9	158.7	15.2	176.7	3.5	631.3	695.4	10.2
- Petroleum	201.2	171.1	17.6	184.7	8.9	919.5	771.9	(16.1)
- Offshore (excludes JVs)	245.8	145.2	69.3	178.9	37.4	306.6	732.9	>100
- Heavy engineering	103.3	167.3	(38.3)	92.9	11.2	373.0	353.9	(5.1)
- Others	4.7	(1.1)	nm	8.6	(45.3)	7.0	19.9	>100
<b>Core pretax profit</b>	<b>100.8</b>	<b>119.7</b>	<b>(15.8)</b>	<b>97.7</b>	<b>3.2</b>	<b>497.3</b>	<b>443.8</b>	<b>(10.8)</b>
- Gas Assets & Solutions	72.8	50.6	43.9	64.9	12.2	249.5	266.0	6.6
- Petroleum	3.6	(23.8)	nm	(9.5)	nm	81.7	38.7	(52.6)
- Offshore (includes JVs)	55.4	90.7	(38.9)	55.2	0.4	188.8	220.2	16.6
- Heavy engineering	(25.8)	(2.8)	>100	(5.4)	>100	(24.8)	(63.9)	>100
- Others	(5.2)	5.0	nm	(7.5)	(30.7)	2.1	(17.2)	nm
	<b>4Q21</b>	<b>4Q20</b>	<b>+/-ppt</b>	<b>3Q21</b>	<b>+/-ppt</b>	<b>FY20</b>	<b>FY21</b>	<b>+/-ppt</b>
<b>Core PBT margin (%)</b>	<b>13.7</b>	<b>18.7</b>	<b>(5.0)</b>	<b>15.2</b>	<b>(1.6)</b>	<b>22.2</b>	<b>17.2</b>	<b>(5.0)</b>
- Gas Assets & Solutions	39.8	31.9	7.9	36.7	3.1	39.5	38.3	(1.3)
- Petroleum	1.8	(13.9)	nm	(5.1)	nm	8.9	5.0	(3.9)
- Offshore (excludes JVs)	6.6	20.2	(13.7)	16.3	(9.7)	28.0	17.6	(10.4)
- Heavy engineering	(25.0)	(1.7)	(23.3)	(5.8)	(19.2)	27.6	20.4	(7.2)

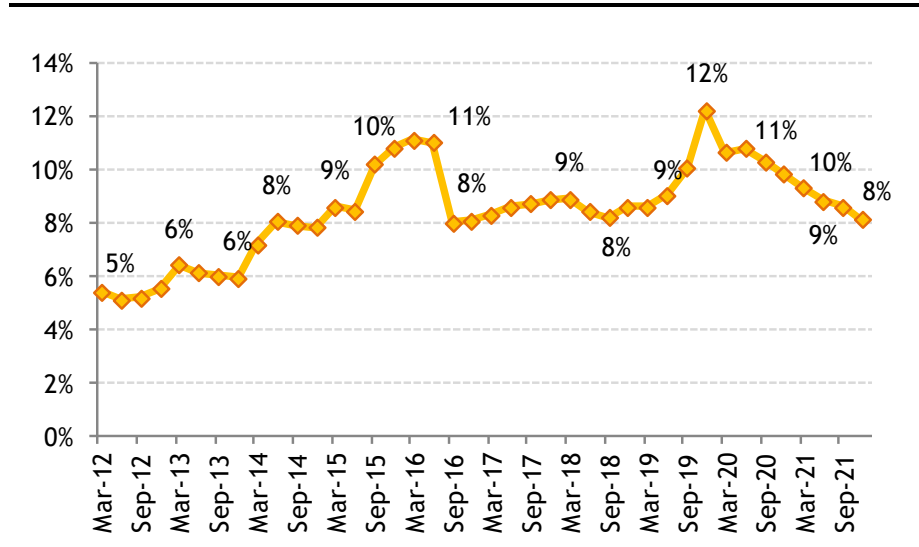
Source: Company, Maybank IBG Research

**Figure 2: MISC’s one-year rolling forward PER (currently trading at 13x)**



Source: Bloomberg, Maybank IBG Research (compilation)

**Figure 3: MISC’s foreign shareholding (end-Dec 2021: 8%)**



Source: Company data

Figure 4: MISC SOP valuation

	Value (MYR m)	Per share (MYR)	Basis
Gas Assets & Solutions	14,573.2	3.26	DCF on GAS assets on 6% WACC
Offshore	10,075.7	2.26	DCF on offshore assets on 6% WACC
Petroleum	15,304.8	3.43	Est market value of petroleum tankers and newbuilds
Heavy Engineering	904.4	0.20	Maybank IBG Research's TP of MYR0.85 for MMHE and MISC's stake of 66.5%
Kikeh floating terminal (MDFT)	470.7	0.11	1x FY19 book value and MISC's stake of 51%
Vietnam offshore terminal (MVOT)	294.9	0.07	1x FY19 book value and MISC's stake of 51%
Bintulu Port stake	54.2	0.01	Current market cap of MYR2.35b and MISC's stake of 2%
FPSO Mero 3 (50% stake)	2,294.2	0.51	NPV (capex: USD2b, project IRR: 9%, WACC: 8%)
Potential contracts (50% stake)	227.5	0.05	NPV (capex: USD1b, project IRR: 12%, WACC: 7%, win rate: 50%)
Less: FY22E Net debt	(10,473.0)	-2.35	
<b>Target price</b>	<b>33,726.5</b>	<b>7.56</b>	

Source: Company, Maybank IBG Research

## Risk statement

There are several risk factors affecting our earnings estimates, target price and rating for MISC. Abrupt changes in the momentum of petroleum tanker rates and bunker prices may lead to lower earnings for MISC. The reimposition of global economic lockdowns as a result of new Covid-19 virus strains and abrupt changes in OPEC+ policy could also result in near-term earnings volatility for MISC. Additionally, sharp appreciation of MYR vis-a-vis USD will also affect its earnings, as the group's revenue is almost entirely derived in USD. Lastly, disruptive force majeure events in relation to the construction of the Mero 3 FPSO could also pose a drag on MISC's earnings.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	nm	16.6	13.7	13.2	13.4
Core P/E (x)	14.2	16.7	13.7	13.2	13.4
P/BV (x)	1.0	0.9	0.9	0.9	0.9
P/NTA (x)	1.6	1.4	1.1	1.0	1.0
Net dividend yield (%)	4.8	4.7	4.7	4.7	4.7
FCF yield (%)	1.6	nm	1.5	2.4	2.8
EV/EBITDA (x)	9.5	10.3	9.6	9.2	9.2
EV/EBIT (x)	20.0	20.3	17.2	16.7	17.0
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	9,401.2	10,671.7	11,618.5	11,729.2	11,320.3
EBITDA	4,009.2	4,001.4	4,438.5	4,734.3	4,880.8
Depreciation	(2,091.0)	(1,949.1)	(1,953.4)	(2,105.4)	(2,244.7)
Amortisation	(13.3)	(13.3)	(13.3)	(13.3)	(13.3)
EBIT	1,904.9	2,039.0	2,471.8	2,615.6	2,622.8
Net interest income /(exp)	(255.5)	(369.1)	(382.2)	(418.1)	(429.4)
Associates & JV	428.8	297.4	267.7	240.9	216.8
Exceptionals	(2,201.8)	(57.5)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	(123.6)	1,909.8	2,357.3	2,438.4	2,410.2
Income tax	(46.2)	(41.1)	(50.7)	(52.5)	(51.9)
Minorities	126.8	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(43.0)	1,831.3	2,282.3	2,360.0	2,330.4
Core net profit	2,158.8	1,888.8	2,282.3	2,360.0	2,330.4
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	6,855.0	7,952.3	7,731.1	6,601.9	5,583.3
Accounts receivable	3,956.6	3,355.9	3,653.6	3,688.5	3,559.9
Inventory	91.3	120.1	130.8	132.0	127.4
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	23,309.2	23,411.8	25,233.6	26,903.4	28,433.9
Intangible assets	819.2	1,060.9	1,047.6	1,034.3	1,021.0
Investment in Associates & JVs	873.8	1,068.5	1,336.2	1,577.1	1,793.9
Other assets	15,915.9	20,551.8	20,551.8	20,551.8	20,551.8
<b>Total assets</b>	<b>51,821.0</b>	<b>57,521.3</b>	<b>59,684.6</b>	<b>60,489.0</b>	<b>61,071.1</b>
ST interest bearing debt	2,005.5	8,309.3	8,309.3	8,309.3	8,309.3
Accounts payable	3,427.3	3,998.0	4,352.7	4,394.2	4,241.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	11,434.9	8,719.7	9,894.8	9,894.8	9,894.8
Other liabilities	1,802.0	1,569.0	1,569.0	1,569.0	1,569.0
<b>Total Liabilities</b>	<b>18,669.7</b>	<b>22,596.3</b>	<b>24,126.1</b>	<b>24,167.6</b>	<b>24,014.4</b>
Shareholders Equity	32,273.0	34,162.8	34,772.1	35,509.1	36,216.4
Minority Interest	878.3	762.2	786.5	812.3	840.3
<b>Total shareholder equity</b>	<b>33,151.3</b>	<b>34,925.0</b>	<b>35,558.5</b>	<b>36,321.4</b>	<b>37,056.7</b>
<b>Total liabilities and equity</b>	<b>51,821.0</b>	<b>57,521.3</b>	<b>59,684.6</b>	<b>60,489.0</b>	<b>61,071.1</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	(123.6)	1,909.8	2,357.3	2,438.4	2,410.2
Adj net interest (income)/exp	255.5	369.1	382.2	418.1	429.4
Change in working capital	1,559.8	(973.8)	46.3	5.4	(20.0)
Cash taxes paid	(62.0)	(44.0)	(50.7)	(52.5)	(51.9)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	5,587.9	2,908.8	4,234.1	4,537.2	4,659.0
Capex	(5,108.3)	(3,775.2)	(3,775.2)	(3,775.2)	(3,775.2)
Free cash flow	479.6	(866.4)	458.9	762.0	883.8
Dividends paid	(1,476.0)	(1,497.5)	(1,473.1)	(1,473.1)	(1,473.1)
Change in Debt	502.1	3,411.1	1,000.0	0.0	0.0
Other invest/financing cash flow	375.5	225.2	(382.2)	(418.1)	(429.4)
<b>Net cash flow</b>	<b>(118.8)</b>	<b>1,272.4</b>	<b>(396.3)</b>	<b>(1,129.1)</b>	<b>(1,018.7)</b>

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	4.9	13.5	8.9	1.0	(3.5)
EBITDA growth	0.5	(0.2)	10.9	6.7	3.1
EBIT growth	8.2	7.0	21.2	5.8	0.3
Pretax growth	nm	nm	23.4	3.4	(1.2)
Reported net profit growth	nm	nm	24.6	3.4	(1.3)
Core net profit growth	34.1	(12.5)	20.8	3.4	(1.3)
<b>Profitability ratios (%)</b>					
EBITDA margin	42.6	37.5	38.2	40.4	43.1
EBIT margin	20.3	19.1	21.3	22.3	23.2
Pretax profit margin	nm	17.9	20.3	20.8	21.3
Payout ratio	nm	80.4	64.5	62.4	63.2
<b>DuPont analysis</b>					
Net profit margin (%)	nm	17.2	19.6	20.1	20.6
Revenue/Assets (x)	0.2	0.2	0.2	0.2	0.2
Assets/Equity (x)	1.6	1.7	1.7	1.7	1.7
ROAE (%)	(0.1)	5.5	6.6	6.7	6.5
ROAA (%)	4.2	3.5	3.9	3.9	3.8
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(92.7)	(89.8)	(115.3)	(128.7)	(146.0)
Days receivable outstanding	122.5	123.3	108.6	112.7	115.3
Days inventory outstanding	10.5	6.2	6.9	7.5	8.1
Days payables outstanding	225.6	219.4	230.9	248.9	269.4
Dividend cover (x)	(0.0)	1.2	1.5	1.6	1.6
Current ratio (x)	2.2	1.0	1.0	0.9	0.8
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.8	2.5	2.5	2.5	2.5
Net gearing (%) (incl perps)	19.9	26.0	29.5	31.9	34.1
Net gearing (%) (excl. perps)	19.9	26.0	29.5	31.9	34.1
Net interest cover (x)	7.5	5.5	6.5	6.3	6.1
Debt/EBITDA (x)	3.4	4.3	4.1	3.8	3.7
Capex/revenue (%)	54.3	35.4	32.5	32.2	33.3
Net debt/ (net cash)	6,585.4	9,076.7	10,473.0	11,602.2	12,620.8

Source: Company; Maybank

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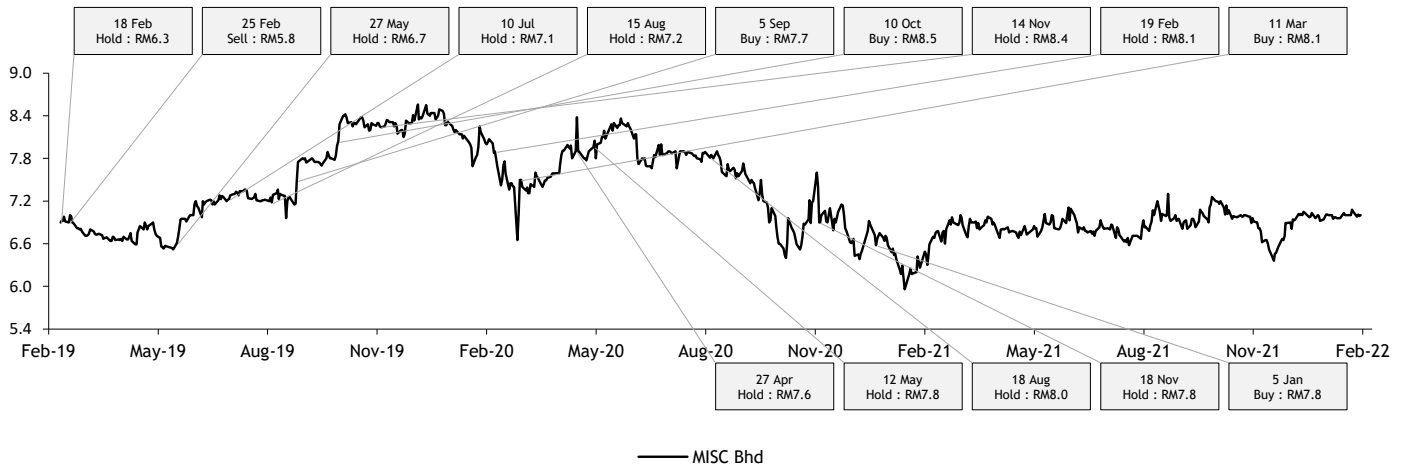
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