

## Malaysia

July 1, 2022 - 7:59 AM

**ADD** (no change)

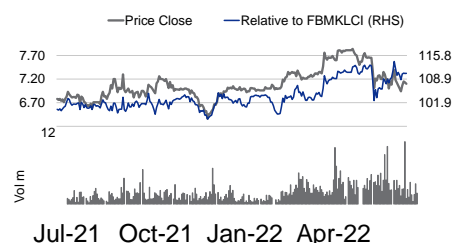
Consensus ratings\*: Buy 7 Hold 7 Sell 1

Current price:	RM7.10
Target price:	RM8.00
Previous target:	RM8.00
Up/downside:	12.7%
CGS-CIMB / Consensus:	1.0%
Reuters:	MISC.KL
Bloomberg:	MISC MK
Market cap:	US\$7,189m RM31,693m
Average daily turnover:	US\$5.40m RM23.45m
Current shares o/s	4,464m
Free float:	8.8%

\*Source: Bloomberg

### Key financial forecasts

	Dec-22F	Dec-23F	Dec-24F
Net Profit (US\$m)	488.0	508.3	507.7
Core EPS (US\$)	0.11	0.11	0.11
Core EPS Growth	4.38%	4.17%	(0.11%)
FD Core P/E (x)	14.73	14.14	14.16
Recurring ROE	5.90%	6.03%	5.91%
P/BV (x)	0.86	0.84	0.83
DPS (US\$)	0.077	0.077	0.077
Dividend Yield	4.76%	4.76%	4.76%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-1.5	-2.7	4.7
Relative (%)	4.9	6.1	10.5

Major shareholders	% held
Petronas	57.6
EPF	11.1
PNB	8.8

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# MISC Bhd

## Mero-3 FPSO project delays may hit hard

- President/Group CEO Datuk Yee Yang Chien met with investors and analysts over two days on Wed and Thu this week.
- The somber message was to expect poor earnings in 2Q22F, due to work delays and cost overruns at Mero-3 FPSO, as well as asset impairments.
- While our Add call is premised on crude tanker freight rate recovery, we think that concerns over the Mero-3 issue may keep investors on the sidelines.
- Our SOP-based target price remains at RM8; we already cut the DCF value of our Mero-3 FPSO time charter contract by 25% in our [27 May](#) note.

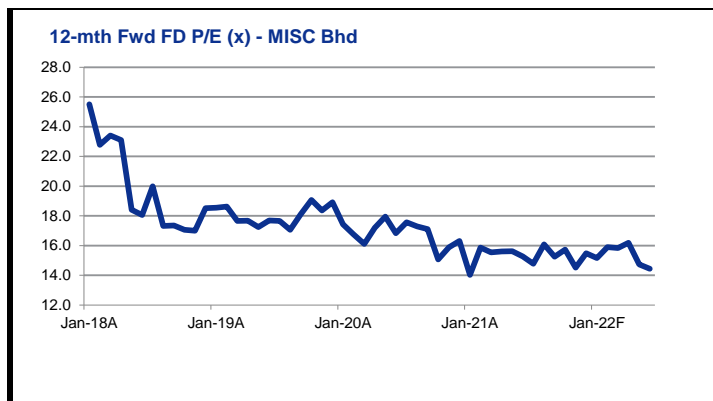
### Main points

- In the analyst session with President/Group CEO Datuk Yee Yang Chien yesterday, MISC was very candid about the challenges that it was facing with respect to the Mero-3 FPSO project. To recap, the FPSO project was awarded by Petrobras to MISC in Aug 2020, and upon completion of construction, the FPSO will be leased to Petrobras for 22.5 years. MISC awarded the engineering portion to Aker, and the construction, topside fabrication and integration works to CIMC Raffles in Jan 2021. The vessel is supposed to be handed over to Petrobras in late-2023F or early-2024F.
- Engineering delays at the start of the project caused the completion timeline to be delayed by three months, a fact belatedly disclosed to analysts during the 1Q22 results briefing on 26 May 2022. MISC further disclosed yesterday that additional delays were caused by the China lockdowns in Apr and May 2022, which will likely push back Mero-3 FPSO's completion by an unspecified number of additional months. Even if the China lockdowns are fully removed, other issues may arise that could cause a cascade of new delays throughout 2023F and into 2024F, in our view. Nevertheless, for now MISC estimates that the total duration of the delays will be less than 12 months even in the worst-case scenario.
- MISC has served two force majeure notices to Petrobras – one in relation to the delays caused by the Russia-Ukraine war (which affected the delivery of certain parts to equipment manufacturers) and another in relation to the China lockdowns. If Petrobras accepts these force majeure notices, the Mero-3 project completion timeline will be extended and MISC may be able to avoid the penalty of liquidated damages. However, MISC will still have to bear the higher costs of completion, and because Petrobras will not increase the previously-contracted daily charter rates, MISC's returns from this project will most probably be compressed. At our original capex estimate of US\$1.8bn, we calculate that MISC would have enjoyed a project IRR of 9.3% but, assuming a higher capex estimate of US\$2.2bn (we penciled in this estimate as MISC is not ready to provide new guidance), the project IRR may decline to 7.2%. We incorporated our higher capex estimate in our 27 May note, causing the contribution of the Mero-3 FPSO time charter contract to our SOP of MISC to decline 25% from 84 sen to 63 sen/share. The longer the delay, the higher the ultimate capex cost, as bank interest costs will continue to be capitalised, and running costs of the project team will also continue to accumulate.
- Given that the Mero-3 FPSO project is being accounted for as a finance lease, MISC has been booking in construction profits since 4Q20, based on a percentage-of-completion method. Going forward, MISC's estimate of the total construction profits may have to be revised lower (due to cost overruns) and the estimated completion rate may also have to be revised lower (due to execution delays); the result of both adjustments is a reduction in to-date construction profits. To the extent that cumulative construction profits recognised so far are higher, MISC will likely have to write-back earlier recognition of construction profits; this is expected to take place in 2Q22F.
- Separately, MISC expects to make impairment provisions in 2Q22F against six Puteri Satu class LNG vessels that are due to end their 20-year charters to Petronas within the next three years. These are inefficient steam-turbine LNG vessels that, once new global carbon emission rules (see our [6 Jul 2021](#) report) take effect on 1 Jan 2023F, will be unattractive to charterers.

## BY THE NUMBERS

Profit & Loss				
(US\$m)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>Total Net Revenues</b>	<b>2,575</b>	<b>3,117</b>	<b>2,964</b>	<b>2,461</b>
<b>Gross Profit</b>	<b>848</b>	<b>1,039</b>	<b>1,056</b>	<b>1,044</b>
<b>Operating EBITDA</b>	<b>848</b>	<b>1,039</b>	<b>1,056</b>	<b>1,044</b>
Depreciation And Amortisation	-471	-462	-452	-439
<b>Operating EBIT</b>	<b>377</b>	<b>577</b>	<b>605</b>	<b>605</b>
Financial Income/(Expense)	-76	-127	-117	-107
Pretax Income/(Loss) from Assoc.	73	45	29	18
Non-Operating Income/(Expense)	80	-0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>454</b>	<b>495</b>	<b>517</b>	<b>516</b>
Exceptional Items	-33	0	0	0
<b>Pre-tax Profit</b>	<b>421</b>	<b>495</b>	<b>517</b>	<b>516</b>
Taxation	-10	-15	-16	-15
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>411</b>	<b>481</b>	<b>502</b>	<b>501</b>
Minority Interests	24	7	7	7
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>434</b>	<b>488</b>	<b>508</b>	<b>508</b>
Recurring Net Profit	467	488	508	508
<b>Fully Diluted Recurring Net Profit</b>	<b>467</b>	<b>488</b>	<b>508</b>	<b>508</b>

Cash Flow				
(US\$m)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	848	1,039	1,056	1,044
Cash Flow from Inv. & Assoc.				
Change In Working Capital	-235	-310	188	541
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	103	342	346	336
Net Interest (Paid)/Received	-2	-127	-117	-107
Tax Paid	-11	-15	-16	-15
<b>Cashflow From Operations</b>	<b>703</b>	<b>930</b>	<b>1,458</b>	<b>1,799</b>
Capex	-1,472	-393	-300	-300
Disposals Of FAs/subsidiaries	132	0	0	0
Acq. Of Subsidiaries/investments	0	0	0	0
Other Investing Cashflow	22	0	0	0
<b>Cash Flow From Investing</b>	<b>-1,317</b>	<b>-393</b>	<b>-300</b>	<b>-300</b>
Debt Raised/(repaid)	726	790	233	-283
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased	0	0	0	0
Dividends Paid	-362	-343	-343	-343
Preferred Dividends				
Other Financing Cashflow	-2	-127	-117	-107
<b>Cash Flow From Financing</b>	<b>362</b>	<b>321</b>	<b>-226</b>	<b>-733</b>
Total Cash Generated	-252	857	932	766
<b>Free Cashflow To Equity</b>	<b>112</b>	<b>1,327</b>	<b>1,391</b>	<b>1,216</b>
<b>Free Cashflow To Firm</b>	<b>-612</b>	<b>663</b>	<b>1,274</b>	<b>1,606</b>



Balance Sheet				
(US\$m)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	1,909	2,766	3,698	4,464
Total Debtors	1,129	1,298	1,251	1,093
Inventories	29	35	32	24
Total Other Current Assets	16	16	16	16
<b>Total Current Assets</b>	<b>3,082</b>	<b>4,115</b>	<b>4,996</b>	<b>5,596</b>
Fixed Assets	6,169	6,430	6,047	5,260
Total Investments	594	639	669	687
Intangible Assets	255	255	255	255
Total Other Non-Current Assets	3,706	3,490	3,261	3,032
<b>Total Non-current Assets</b>	<b>10,724</b>	<b>10,814</b>	<b>10,231</b>	<b>9,233</b>
Short-term Debt	1,994	1,280	1,280	1,280
Current Portion of Long-Term Debt				
Total Creditors	960	1,155	1,060	788
Other Current Liabilities	29	29	29	29
<b>Total Current Liabilities</b>	<b>2,983</b>	<b>2,464</b>	<b>2,369</b>	<b>2,096</b>
Total Long-term Debt	2,093	3,597	3,831	3,547
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	348	348	348	348
<b>Total Non-current Liabilities</b>	<b>2,441</b>	<b>3,945</b>	<b>4,178</b>	<b>3,895</b>
Total Provisions	0	0	0	0
<b>Total Liabilities</b>	<b>5,423</b>	<b>6,409</b>	<b>6,547</b>	<b>5,992</b>
Shareholders' Equity	8,199	8,345	8,511	8,676
Minority Interests	183	175	169	162
<b>Total Equity</b>	<b>8,382</b>	<b>8,520</b>	<b>8,679</b>	<b>8,838</b>

Key Ratios				
	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	15.1%	21.0%	(4.9%)	(17.0%)
Operating EBITDA Growth	(7.2%)	22.5%	1.7%	(1.2%)
Operating EBITDA Margin	32.9%	33.3%	35.6%	42.4%
Net Cash Per Share (US\$)	-0.49	-0.47	-0.32	-0.08
BVPS (US\$)	1.84	1.87	1.91	1.94
Gross Interest Cover	3.74	3.84	4.06	4.09
Effective Tax Rate	2.36%	3.00%	3.00%	3.00%
Net Dividend Payout Ratio	74.6%	68.1%	65.4%	65.5%
Accounts Receivables Days	126.8	104.2	117.1	126.2
Inventory Days	5.45	5.58	6.36	7.17
Accounts Payables Days	191.5	185.7	211.9	238.6
ROIC (%)	2.85%	4.20%	4.38%	4.65%
ROCE (%)	3.34%	4.64%	4.68%	4.71%
Return On Average Assets	3.83%	4.11%	4.01%	3.97%

Key Drivers				
	Dec-21A	Dec-22F	Dec-23F	Dec-24F
LNG vessels (no)	39.0	39.0	41.0	41.0
Petroleum and chemical vessels (no)	59.0	63.0	66.0	66.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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<b>Score Range:</b>	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
<b>Description:</b>	Excellent	Very Good	Good	N/A	N/A

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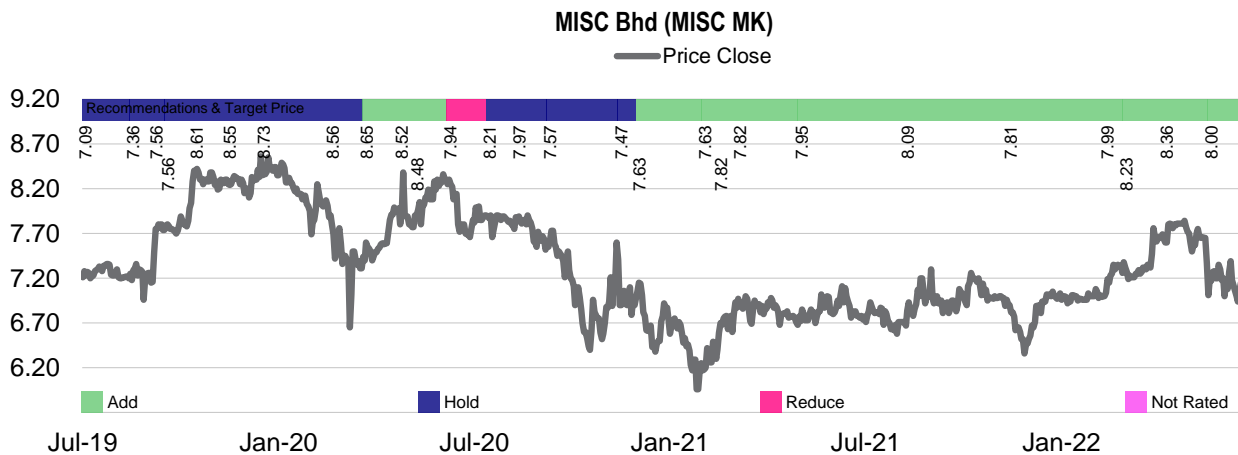
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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2022		
632 companies under coverage for quarter ended on 31 March 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	70.3%	0.8%
Hold	22.0%	0.0%
Reduce	7.8%	0.2%

Spitzer Chart for stock being researched ( 2 year data )



**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021**

**ADVANC** – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a **BH** - Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** - Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, n/a, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** - Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** - Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

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Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

**Country Ratings**

Definition:

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- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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