

28 May 2018 | Corporate Update

## MISC Berhad

*DP Shuttle awards from Petrobras*

### INVESTMENT HIGHLIGHTS

- **Contract award for four DP Shuttle Tankers**
- **Contract duration for 10 years beginning from 2020**
- **Positive on the award**
- **Revise earnings downwards amid short term volatility in tanker market**
- **Maintain NEUTRAL with reduced TP of RM6.13 per share**

**Contract award for 4 DP shuttle tankers.** MISC announced in a Bursa filing that it has been awarded a long term contract to own and operate four specialist DP2 Suezmax size Shuttle Tankers from Petrobras of Brazil for operations in international and Brazilian waters.

**Contract duration.** The firm charter contract period will be for 10 years. Subsequently, MISC has commissioned a Korean shipyard to build the vessels expected for delivery in 2020, to be contracted to Petrobras. Each vessels will be installed with high power thrusters and generators that are fully capable of operating in harsh weather conditions. While no capex figure was mentioned, we believe it should not pose any hindrance to MISC which has a net gearing of 0.19x as of 31 March 2018.

**Our view.** In the Brazilian Basin, MISC currently owns and operates two AET DP2 shuttle tankers for Petrobras. Hence, the new award should not pose any major hurdles to MISC. Overall we are positive on the news as the long term charter contracts increases MISC's petroleum tanker segment delivery pipeline in the long run. Note that that such contracts do not entail any bunker costs as it is borne by the charterer. Moreover, the award comes amid a challenging petroleum tanker market which faces an oversupply in the market.

**Earnings forecast.** The contract coupled with a possible pickup in scrapping activities will bode well for MISC's petroleum segment in the long run in terms of freight rates. However, we are exercising further caution in the petroleum tanker market for the near term amidst a confluence of factors such as; (i) fresh U.S sanctions on Iranian oil exports that could further deteriorate earnings of the petroleum segment and; (ii) falling Venezuelan output. Therefore we are revising our earnings forecast downwards for FY18 and FY19 by -7.0% and -5.0% to reflect this situation.

**Maintain NEUTRAL**

**Reduced Target Price (TP): RM6.13**


*(Previously: RM7.14)*

#### RETURN STATS

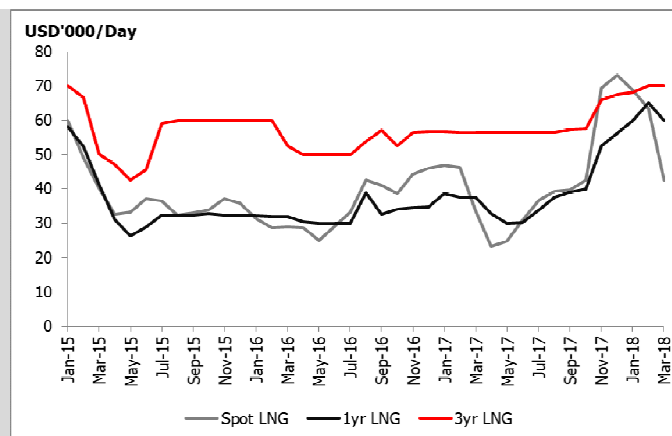
Price (25 May 2018)	RM5.96
Target Price	RM6.13
Expected Share Price Return	+2.9%
Expected Dividend Yield	+5.0%
<b>Expected Total Return</b>	<b>+7.9%</b>

#### STOCK INFO

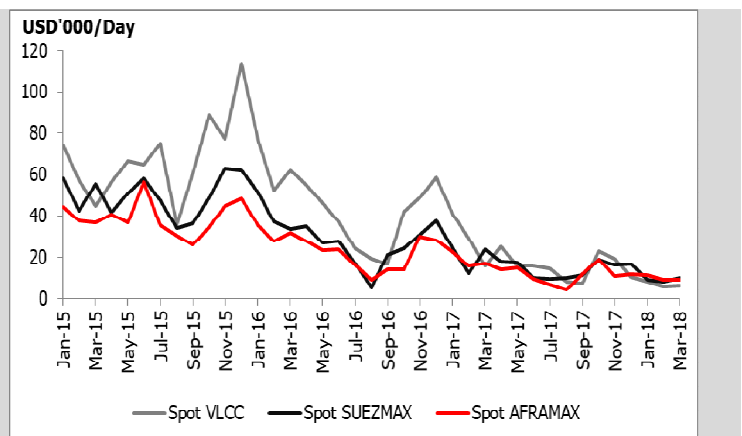
KLCI	1,797.40
Bursa / Bloomberg	3816 / MISC MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	4,463.8
Market cap. (RM'm)	26,604.21
Price over NA	0.80
52-wk price Range	RM5.84 - RM7.90
Beta (against KLCI)	0.91
3-mth Avg Daily Vol	1.68m
3-mth Avg Daily Value	RM11.6m
<b>Major Shareholders (%)</b>	
Petronas	62.67
PNB	7.38
EPF	6.19

**Maintain NEUTRAL with reduced TP of RM6.13 per share (previously RM7.14 per share)** pegged to 0.79x price-to-book value representing a discount of -2.0 (previously -1.0) standard deviation below its five-year average to reflect the further weakness in petroleum tanker market. Our neutral stance is predicated on: (i) timing differences in revenue recognition of tail end and new projects for the heavy engineering segment, (ii) contract renewal risk for its FSO projects and (iii) low demolition in the LNG shipping space. This could be offset by MISC Berhad's strategic term-to-spot ratio for its petroleum vessels coupled with its chemical tankers being injected into a pool to optimise the utilisation rate. 

**Figure 1: LNG tanker rates (US\$'000/day)**



**Figure 2: Spot Petroleum tanker rates (US\$'000/day)**



Source: Company, Ship Brokers' Reports, MIDFR

## INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM' m)	10,908.4	9,597.2	10,068.2	8,887.5	9,154.1
EBIT (RM' m)	2,746.9	3,011.6	2,172.1	1,963.3	2,110.6
Pretax Profit (RM' m)	2,566.9	2,814.0	2,003.6	1,743.8	1,932.6
Net Profit (RM' m)	2,513.9	2,793.3	1,990.7	1,733.4	1,921.0
Normalised Profit (RM'm)	3,085.1	1,883.0	2,788.9	1,733.4	1,921.0
EPS (sen)	69.4	42.2	62.5	38.8	43.0
EPS growth (%)	75.4	-39.2	48.1	-12.9	10.8
PER (x)	10.1	16.6	11.2	15.3	13.8
Net Dividend (sen)	30.0	30.0	30.0	30.0	30.0
Net Dividend Yield (%)	4.3	4.3	4.3	5.0	5.0

Source: MIDFR, Company

## DAILY PRICE CHART



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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.