

09 July 2018 | Corporate Update

MISC Berhad

FSO contract win for offshore segment

INVESTMENT HIGHLIGHTS

- Continue seizing opportunities within offshore business
- Conversion of FSO previously transferred from EA Technique to MMHE
- Earnings forecast unchanged
- Maintain NEUTRAL with lowered TP of RM6.11 per share

Seizing opportunities within the offshore sphere. MISC announced a contract win involving a long-term charter contract with Hess Exploration and Production Malaysia B.V.(HESS) for the lease FSO Mekar Bergading on a bareboat basis. The bareboat charter contract entails the lessor to only provide the vessel while the charterer undertakes the operation of the vessel. The contract is pursuant to a sale and charter agreement in respect of the FSO between HESS and MISC, which resulted in MISC acquiring the ownership of the FSO from HESS.

Details of the long-term charter. We understand that HESS will lease the FSO Mekar Bergading from MISC for 16 years with an estimated contract value of USD441m and is expected to commence latest by 1 September 2018. The FSO will operate in the Bergading field located in the North Malay Basin.

Background of FSO Mekar Bergading. Previously, EA technique was obliged to complete the construction and deliver FSO Mekar Bergading at a contract valued at USD191.9m or RM767.4m to HESS within 22 months from December 2014. However, EA technique was unable to deliver within the stipulated time period which later resulted in a handover of FSO Mekar Bergading to Malaysia Marine Heavy Engineering ("MMHE"), a subsidiary of MISC.

Our view. The contract win provides some buffer to the offshore segment as some existing assets such as FSO Puteri Dulang and FSO Angsi will expire in 1QFY21 and August 2018 respectively with no commercial plans to extend. Furthermore, the new FSO asset serves well to offset the absence of construction profit from FSO Benchamas 2 which was delivered in late April 2018.

Maintain NEUTRAL

Adjusted Target Price (TP): RM6.11
(Previously: RM6.52)

RETURN STATS	
Price (6 July 2018)	RM5.92
Target Price	RM6.11
Expected Share Price Return	+3.2%
Expected Dividend Yield	+5.1%
Expected Total Return	+8.3%

STOCK INFO	
KLCI	1,633.86
Bursa / Bloomberg	3816 / MISC MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	4,463.8
Market cap. (RM'm)	26,425.66
Price over NA	0.90
52-wk price Range	RM5.03 - RM7.90
Beta (against KLCI)	0.90
3-mth Avg Daily Vol	2.48m
3-mth Avg Daily Value	RM15.8m
Major Shareholders (%)	
Petronas	62.67
PNB	8.44
EPF	6.32

Earnings forecast. We are not making any changes to our earnings forecast, as the estimated earnings from the FSO Mekar Bergading is within the amount we previously adjusted for in the offshore segment.

Maintain NEUTRAL with a lower TP of RM6.11 per share (previously RM6.52 per share) pegged to FY19E 0.76x price-to-book value representing a discount of -1.5 standard deviation (previously -1.0) below its five-year average to reflect the broad market weakness. Our neutral stance is predicated on: (i) timing differences in revenue recognition of tail end and new projects for the heavy engineering segment and; (iii) the demolition in the petroleum shipping space which could not match the supply of tonnage. 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.



INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM' m)	10,908.4	9,597.2	10,068.2	9,080.0	9,383.1
EBIT (RM' m)	2,746.9	3,011.6	2,172.1	2,026.4	2,185.8
Pretax Profit (RM' m)	2,566.9	2,814.0	2,003.6	1,806.9	2,007.8
Net Profit (RM' m)	2,513.9	2,793.3	1,990.7	1,796.1	1,995.7
Normalised Profit (RM'm)	3,085.1	1,883.0	2,788.9	1,796.1	1,995.7
EPS (sen)	69.4	42.2	62.5	40.2	44.7
EPS growth (%)	75.4	-39.2	48.1	-9.8	11.1
PER (x)	8.5	14.0	9.5	14.7	13.2
Net Dividend (sen)	30.0	30.0	30.0	30.0	30.0
Net Dividend Yield (%)	5.1	5.1	5.1	5.1	5.1

Source: MIDFR, Company

DAILY PRICE CHART



Source: Bloomberg

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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.