

28 November 2018 | Corporate Update

MISC Berhad

Secures time charter contract for 2 LNG vessels

INVESTMENT HIGHLIGHTS

- **Awarded time charter contracts worth USD133m for 2 LNG vessels by Eni S.p.A. for a period of five years**
- **Contracts expected to provide additional earnings of RM44.6m per year**
- **MISC's exposure to LNG time charter contracts to provide support post winter season**
- **Maintain NEUTRAL with unchanged TP of RM6.33 per share**

Awarded time charter contracts for 2 LNG vessels. MISC Bhd (MISC) was awarded two time charter contracts for two LNG carriers by LNG Shipping S.p.A. (LSS), wholly owned by Eni S.p.A., an Italian oil and gas company. The LNG carriers that would be chartered are: (i) LNG Portovenere, and (ii) LNG Lerici. The contracts are pursuant to a Memorandum of Agreement between LSS and MIS, which resulted in MISC acquiring ownership of the vessels from LSS.

Details of the time charter contracts. The combined value of these two contracts are USD133m (~RM558m) with a period of five years. Charter for LNG Portovenere will commence by December 2018 while LNG Lerici will begin in January 2019.

Our view. While MISC's exposure to the LNG spot market is minimal, time charter rates for LNG carriers have remained resilient. This will provide some support post winter season especially in the wake of the global trade war which may affect supply and demand dynamics. Moreover, LNG vessels that are on time charters are not subject to any bunker cost as these are being borne by the charterer. This will shield MISC from the volatile environment of bunker prices in the future. Once these time charter contracts expired, they can be potentially converted into other LNG floating solutions such as Floating Storage Units (FSUs)

Impact on earnings. These contracts are expected to provide additional revenue of RM112m per annum. Assuming PBT margins of 40%, the contracts would translate into an additional PBT of ~RM44.6m per year, which is less than 5% PBT estimated in FY19. We are maintaining our FY18 earnings estimates for FY18 as the impact in FY18 is negligible at less than one percent. Nonetheless, as we expect full contribution of these contracts in FY19, we are revising our earnings estimates upwards for FY19 by +2.2% to RM1.66b.

Maintain NEUTRAL


Unchanged Target Price (TP): RM6.33

RETURN STATS

Price (27 th November 2018)	RM6.50
Target Price	RM6.33
Expected Share Price Return	-2.6%
Expected Dividend Yield	+4.6%
Expected Total Return	+2.0%

STOCK INFO

KLCI	1,684.97
Bursa / Bloomberg	3816 / MISC MK
Board / Sector	Main / Transportation & Logistics
Syariah Compliant	Yes
Issued shares (mil)	4,463.8
Market cap. (RM'm)	29,014.35
Price over NA	0.85
52-wk price Range	RM5.03 - RM7.90
Beta (against KLCI)	0.89
3-mth Avg Daily Vol	1.55m
3-mth Avg Daily Value	RM9.68m
Major Shareholders (%)	
Petronas	62.67
PNB	10.82
EPF	6.12

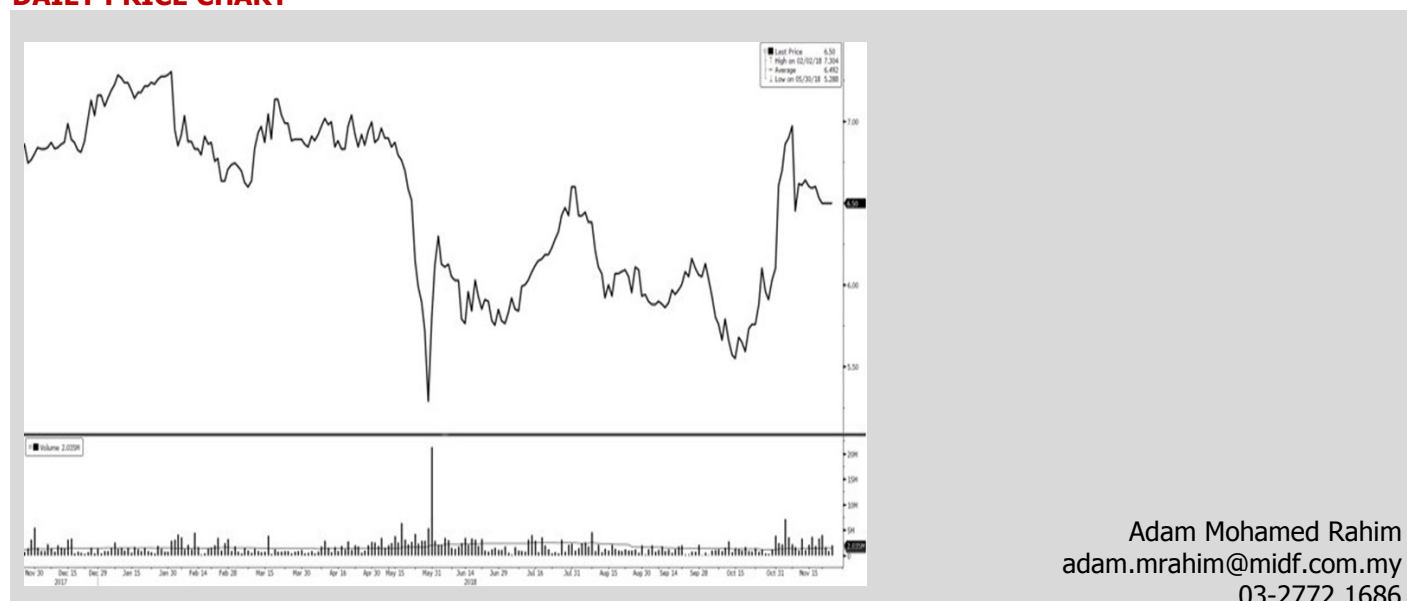
Maintain NEUTRAL with an unchanged TP of RM6.33 per share pegged to 0.80x price-to-book value representing a discount of -1.5 (previously -2.5) standard deviation below its five-year average to reflect the buoyant market condition moving forward. Our neutral stance is predicated on: (i) timing differences in revenue recognition of tail end and new projects for the heavy engineering segment; (ii) contract renewal risk for its FSO projects and; (iii) sizeable deliveries that may outweigh scrapping activities. 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 utilisation. 

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM' m)	10,908.4	9,597.2	10,068.2	8,800.0	9,475.1
EBIT (RM' m)	2,746.9	3,011.6	2,172.1	1,696.0	1,915.9
Pretax Profit (RM' m)	2,566.9	2,814.0	2,003.6	1,396.5	1,667.9
Net Profit (RM' m)	2,513.9	2,793.3	1,990.7	1,388.1	1,657.9
Normalised Profit (RM'm)	3,085.1	1,883.0	2,788.9	1,388.1	1,657.9
EPS (sen)	69.4	42.2	62.5	31.1	37.1
EPS growth (%)	75.4	-39.2	48.1	-30.3	19.4
PER (x)	9.4	15.4	10.4	20.9	17.5
Net Dividend (sen)	30.0	30.0	30.0	30.0	30.0
Net Dividend Yield (%)	4.6	4.6	4.6	4.6	4.6

Source: MIDFR, Company

DAILY PRICE CHART



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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.