2QFY23 Results Review (Within) | Friday, 25 August 2023

MISC Berhad

***Maintain* BUY**

(3816 | MISC MK) Main | Transportation & Logistics

Increased Demand in Upstream Boosted 2QFY23 Earnings

***Unchanged* Target Price: RM8.16**

KEY INVESTMENT HIGHLIGHTS

- **Maintain BUY with unchanged target price of RM8.16**
- **MISC's 2QFY23 core earnings surged 13-fold to RM418m; came in within our expectations**
- **Higher tanker rates in MISC's Petroleum Shipping & Products, and Offshore segments contributed to the higher earnings**
- **Increased capex in upstream from elevated oil prices, demand recovery to support MISC's financial performance**

Maintain BUY, TP: RM8.16. MISC Berhad (MISC)'s 2QFY23 core earnings came in within our yearly earnings estimates at 44.4%. This is after adjusting for impairment and gains on disposal of ships. As such, we maintain a **BUY** call for MISC with an **unchanged target price of RM8.16.**

Earnings up surged 13-fold. MISC's 2QFY23 core earnings adjusted gained to RM418m from a loss of RM34.1m in 2QFY22. The higher earnings were mainly contributed by the group's Petroleum & Product Shipping and Offshore segments. Meanwhile, 2QFY23 revenue was up by +10.5%yoy to RM3.55b.

Gas Assets & Solutions. 2QFY23 earnings gained +26.8%yoy to RM418.6m while revenue added +1.2%yoy to RM771.8m. The higher earnings were due to lower vessel operating costs and higher margin, while favourable forex contributed to the higher revenue.

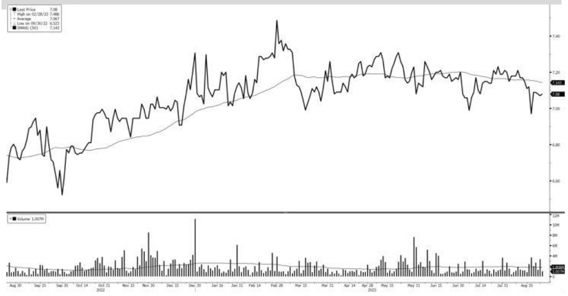
The LNG market had seen a modest recovery in 2HCY23 in spot rates, and we believed the improvement was due to increased chartering activities. Nonetheless, we believe demand for LNG shipping will continue to grow in line with: (i) the lower yet stabilised natural gas prices, (ii) the replenishment of inventories in the current heatwaves and ahead of the upcoming winter, and (iii) an expected increase in economic activities in China by the year-end.

Petroleum & Product Shipping. 2QFY23 earnings surged nearly 2-fold to RM325.2m from RM115.1m in 2QFY22. Meanwhile, revenue gained +76.4%yoy to RM1.2b. The higher revenue was due to higher freight rates; offset by the lower earning days following higher dry-docking activities and vessel disposals and re-deliveries.

We are optimistic for this segment, as we are expecting to see a demand growth especially from Asia on the basis of stabilising tanker rates in 2HCY23. Moving forward, we believe the tanker market will continue to be supported by the demands of energy security, and trade flow disruptions which are expected to affect the demand for more tankers in the trade route; offset by the extended OPEC+ supply cuts.

RETURN STATISTICS	
Price @ 24th August 2023 (RM)	7.08
Expected share price return (%)	+15.3
Expected dividend yield (%)	+5.1
Expected total return (%)	**+20.4**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.8	-3
3 months	-1.1	-5.2
12 months	2.6	5.3

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	14,701	15,723	16,936
Operating Profit	3,381	3,459	3,726
Profit Before Tax	2,281	2,659	3,326
Core PATAMI	2,168	2,527	3,161
Core EPS	0.51	0.59	0.74
DPS	0.35	0.41	0.52
Dividend Yield	4.3%	5.1%	6.3%

KEY STATISTICS	
FBM KLCI	1,444.7
Issue shares (m)	4,463.8
Estimated free float (%)	20.1
Market Capitalisation (RM'm)	31,603.3
52-wk price range	RM6.68–RM7.61
3-mth average daily volume (m)	1.9
3-mth average daily value (RM'm)	13.6
Top Shareholders (%)	
Petroliam Nasional Bhd	51.0
Employees Provident Fund	12.9
Amanah Saham Nasional Bhd	6.8

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Offshore Business. 2QFY23 earnings gained nearly 5-fold to RM239.7m from RM43.6m in 2QFY22, while revenue dropped -47.6%yoy to RM466.7m. Lower revenue is due to lower recognition of revenue from the conversion of an FPSO unit following lower project progress. Earnings was affected by the increase in construction costs of an FPSO due to global supply chain disruptions.

Upstream players globally had increased their capex spending in 2QCY23, and is expected to remain robust until the end-year given the elevated oil prices. Demand for FPSOs is also expected to remain strong, with 55 of oil and gas discoveries had been made globally for 1HCY23, in tandem with the increased exploration and production operations in South America and West Africa. In our local front, 6 new gas fields had also been discovered, and as such, we anticipate that this segment will remain robust in 2HCY23.

Marine & Heavy Engineering. Earnings lost nearly 16-fold to a deficit of RM385.3m from RM25.8m in 2QFY22. However, revenue surged nearly 2-fold to RM1.06b from RM400.6m in 2QFY22. Lower earnings were due to additional costs provisions from a revised schedule for ongoing projects, consequently causing the extension of delivery dates to cater for the delayed onshore works. Meanwhile higher revenue was attributed to ongoing Heavy Engineering projects. Notwithstanding the delays, the Kasawari project sailed-away offshore after this reporting period, meeting all requirements of the client.

While we are positive on this segment on the basis of its vast opportunities in renewable energy, we are still cautious on global supply chain disruptions and increased competition for dry-docking against China's shipyards. We believe the segment will see moderation in growth ahead of the winter season, when dry-docking activities would mellow down, while Heavy Engineering projects commenced as per usual, barring any unforeseen circumstances.

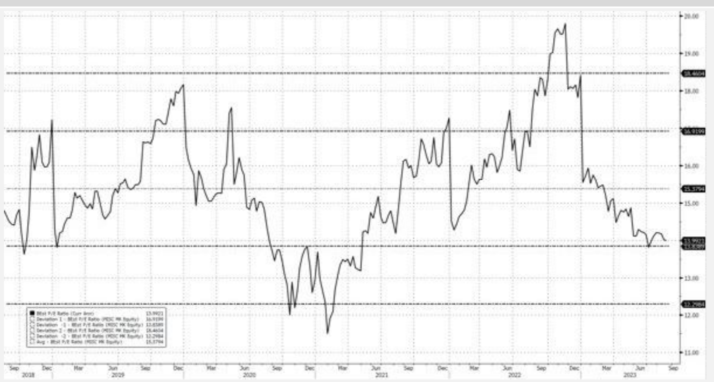
Elevated oil prices, improved tanker rates to strengthen performance. Given the 1HFY23 global performance for the upstream, we are expecting strong demand for FPSOs until the end-year. MISC is also scheduled to deliver 3 Petroleum VLCCs by 2HY23. In the coming quarters, we believe an elevated and stabilised crude oil prices, higher demand for crude oil, LNG and petroleum products, as well as long-term contractual charters for FPSOs and tankers would continue to strengthen MISC's financial performance. Additionally, MISC is planning to modernise its fleet with dual-fuelled tankers, and had been actively seeking opportunities to venture in renewable energy. Given MISC's expertise and recognition in the marine and shipping industry, we believe these are manageable and in line with its ESG aspirations.

Earnings estimates. In consideration that the 2QFY23 earnings came in within our expectations, we make no changes to our earnings estimates at this juncture.

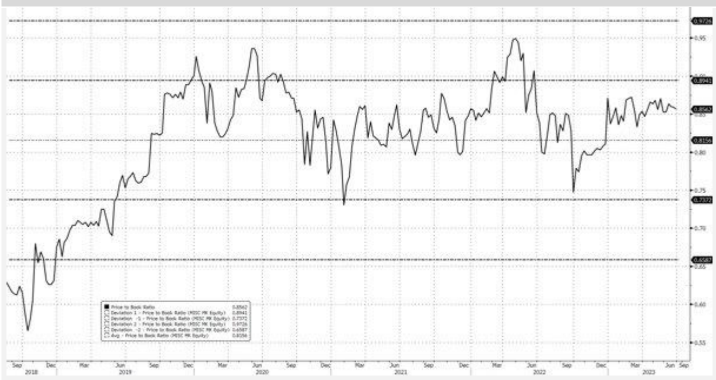
Target price. We make no changes to our target price, by pegging a PER of 13.8x to EPS24 of 59sen. The PER is a slight premium to PER of 13x of the marine and shipping industry, as we believe MISC's performance will improve on the strength of its ongoing projects and its potential deliverance, including the new Mero 3 FPSO construction which had seen a completion of over 89% to date. Mero 3 FPSO will be equipped with a liquid treatment plant of a 180,000bpd capacity. It is expected to start up by CY24.

FORWARD BAND

BEst PE Ratio



BEst P/Bk Ratio



Source: Bloomberg, MIDFR

MISC: 2Q23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**2Q23**	**1Q23**	**2Q22**	**QoQ**	**YoY**	**6M23**	**6M22**	**YoY**
Revenue	3,549.6	3,078.7	3,212.3	15.3%	10.5%	6,628.3	6,424.6	3.2%
Cost of Sales	(2,826.6)	(2,186.4)	(2,534.2)	-29.3%	-11.5%	(5,013.0)	(5,068.4)	1.1%
Gross Profit	723.0	892.3	678.1	-19.0%	6.6%	1,615.3	1,356.2	19.1%
Net Operating Expenses	(191.7)	562.6	(217.2)	-134.1%	11.7%	370.9	(434.4)	185.4%
Operating Profit	531.3	1,454.9	460.9	-63.5%	15.3%	1,986.2	921.8	115.5%
Net one off gains/(losses)	(15.5)	(21.6)	(313.8)	28.2%	95.1%	(37.1)	(627.6)	94.1%
Finance costs	(176.6)	(176.3)	(147.5)	-0.2%	-19.7%	(352.9)	(295.0)	-19.6%
Profit/(Loss) before tax	339.2	1,257.0	(0.4)	-73.0%	84900.0%	1,596.2	(0.8)	199625.0%
Taxation	(17.3)	(16.6)	(13.1)	-4.2%	-32.1%	(33.9)	(26.2)	-29.4%
PAT	321.9	1,240.4	(13.5)	-74.0%	2484.4%	1,562.3	(27.0)	5886.3%
Minority Interest	131.0	1.9	(5.6)	6794.7%	2439.3%	132.9	(11.2)	1286.6%
PATAMI	452.9	612.9	(19.1)	**-26.1%**	**2471.2%**	1,065.8	(38.2)	**2890.1%**
Core Earnings	418.0	544.0	(34.1)	-23.2%	1325.8%	962.0	(68.2)	1510.6%

SEGMENTAL BREAKDOWN

Revenue	**2Q23**	**1Q23**	**2Q22**	**QoQ**	**YoY**	**FY22**	**FY21**	**YoY**
Gas Assets & Solutions	771.8	755.9	762.5	2.1%	1.2%	1,527.7	1,520.2	0.5%
Petroleum & Product Shipping	1,218.1	1,212.2	690.5	0.5%	76.4%	2,430.3	2,019.2	20.4%
Offshore Business	466.7	584.6	890.4	-20.2%	-47.6%	1,051.3	1,660.5	-36.7%
Marine & Heavy Engineering	1,056.3	496.2	400.6	112.9%	163.7%	1,552.5	818.4	89.7%
Operating Profit/Loss								
Gas Assets & Solutions	418.6	384.8	330.0	8.8%	26.8%	803.4	721.2	11.4%
Petroleum & Product Shipping	325.2	312.5	115.1	4.1%	182.5%	637.7	147.3	332.9%
Offshore Business	239.7	166.7	43.6	43.8%	449.8%	406.4	164.4	147.2%
Marine & Heavy Engineering	(385.3)	7.0	25.8	-5604.3%	-1593.4%	(378.3)	32.1	-1278.5%

Source: Company, MIDFR

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FINANCIAL SUMMARY

Income Statement (RM'm)	**2021A**	**2022A**	**2023E**	**2024F**	**2025F**
Revenue	10,671.7	13,867.0	14,701.1	15,722.5	16,936.4
EBITDA	2,617.50	3,707.20	4,116.32	4,245.06	4,572.83
D&A	528.9	3,108.2	2,462.92	2,551.6	2,560.7
EBIT	1,948.40	3,102.00	3,381.26	3,458.94	3,726.01
Net interest	97.7	-12.1	22.6	26.3	32.9
Profit before tax	1,774.7	1,874.3	2,281.3	2,658.9	3,326.0
Tax	-41.1	-39.3	-22.8	-26.6	-33.3
PATAMI	1,831.3	1,822.9	2,235.9	2,606.0	3,259.8
Core PATAMI	1,888.4	1,717.5	2,168.1	2,527.1	3,161.1

Balance Sheet (RM'm)	**2021A**	**2022A**	**2023E**	**2024F**	**2025F**
Fixed assets	23,386.3	24,285.9	26,631.54	28,143.96	29,049.12
Intangible assets	1,060.9	1,001.6	1,001.6	1,001.6	1,001.6
Non-current assets	**44,680.3**	**49,919.4**	**52,265.0**	**53,777.5**	**54,682.6**
Cash	6,385.8	7,134.0	6,741.28	8,328.57	9,930.77
Trade debtors	4,221.8	3,858.6	4,875.5	5,341.7	5,982.3
Current assets	**12,218.8**	**12,744.8**	**13,363.6**	**15,439.4**	**17,722.4**
Trade creditors	3,798.6	5,147.6	5,286.1	5,943.4	6,785.6
Short-term debt	3,235.5	3,605.5	3,755.5	3,795.5	3,675.5
Current liabilities	**7,144.9**	**8,767.1**	**9,055.6**	**9,752.9**	**10,475.1**
Long-term debt	11,423.5	14,256.0	12,087.6	12,578.7	12,963.8
Non-current liabilities	**12,897.9**	**15,592.9**	**16,937.2**	**17,848.5**	**18,256.6**
Share capital	8,923.3	8,923.3	8,923.3	8,923.3	8,923.3
Retained earnings	18,122.0	18,979.9	19,161.5	19,951.2	20,939.1
Equity	**34,297.9**	**38,304.2**	**39,635.8**	**41,615.5**	**43,673.4**

Cash Flow (RM'm)	**2021A**	**2022A**	**2023E**	**2024F**	**2025F**
PBT	1,774.7	1,874.3	2,281.3	2,658.9	3,326.0
Depreciation & amortisation	528.9	3,108.2	2,462.92	2,551.6	2,560.7
Changes in working capital	-60.3	-1,989.0	-634.9	128.8	281.4
Operating cash flow	**874.3**	**2,993.5**	**4,109.3**	**5,339.4**	**6,168.1**
Capital expenditure	-1,773.8	-2,293.5	-2,725.8	-2,812.5	-2,942.8
Investing cash flow	**-1,667.1**	**-1,943.0**	**-2,619.6**	**-2,416.1**	**-2,592.8**
Debt raised/(repaid)	809.3	-241.8	503.3	491.1	385.1
Dividends paid	-560.1	-1,473.0	-1,580.9	-1,842.6	-2,304.9
Financing cash flow	**477.1**	**-1,991.6**	**-1,244.7**	**-1,423.5**	**-2,091.8**
Net cash flow	-315.7	-941.1	245.0	1,499.7	1,483.5
Beginning cash flow	5,545.1	6,994.3	6,406.1	6,741.3	8,328.6
Ending cash flow	5,368.6	6,406.1	6,741.3	8,328.6	9,930.8

Profitability Margins	**2021A**	**2022A**	**2023E**	**2024F**	**2025F**
EBITDA margin	24.5%	26.7%	28.0%	27.0%	27.0%
PBT margin	16.6%	13.5%	15.5%	16.9%	19.6%
PAT margin	17.2%	13.1%	15.2%	16.6%	19.2%
Core PAT margin	17.7%	12.4%	14.7%	16.1%	18.7%

Source: Bloomberg, MIDFR

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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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology