



## MISC Berhad

(3816 | MISC MK) Main | Transportation & Logistics

### Maintain BUY

### Taking on the Challenge of LCO2 Carriers

### Unchanged Target Price: RM8.16


#### KEY INVESTMENT HIGHLIGHTS

- **Maintain BUY with unchanged target price of RM8.16**
- **MISC and Mitsui OSK Lines entered a term sheet with Petronas CCS Ventures for a potential JV entity for LCO2 carriers**
- **LCO2 carriers crucial for carbon capture and storage (CCS) projects**
- **MISC has capability to develop and facilitate LCO2 carriers**

**Potential JV in the decks for LCO2C.** MISC Bhd (MISC) and Mitsui OSK Lines Ltd (MOL) signed a term sheet with Petronas Nasional Bhd (PETRONAS)'s wholly-owned subsidiary Petronas CCS Ventures Sdn Bhd (PCCSV) for the potential merger of a joint-venture entity to invest in the development and monetization of liquefied carbon dioxide carriers (LCO2C) for carbon capture and storage (CCS) projects in Malaysia. This builds from the Memorandum of Understanding signed in Feb-22 with MOL and four approvals for conceptual design of the LCO2C in Jun-23.

**A crucial part of CCS projects.** LCO2C are essential to the CCS value chain, in terms of transporting CO2 from customers to CCS locations via sea. We opine that, with MISC and MOL's expertise in marine shipping and transportation, the facilitation of LCO2C can be carried out in a safe, just and orderly manner. LCO2C is a future solution for the maritime and other hard-to-abate industries in adding into CCS's value chain in Malaysia, as well as enforcing the commitment for a reduced carbon emission by 2050 aspirations.

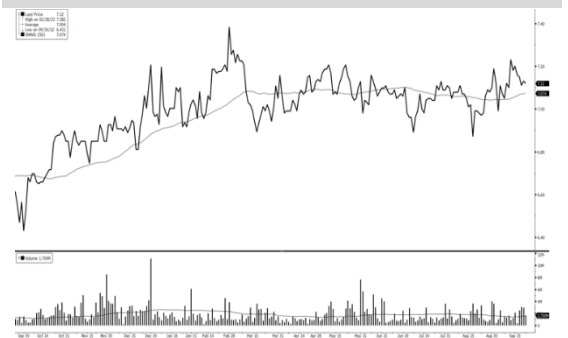
**Building LCO2C – challenging but doable.** Unlike liquified natural gas (LNG), CO2 gas in liquified form requires a low pressure, with a temperature as low as -55 degrees Celsius, to be stored in a large tanker vessel. These constraints have significant implications in vessel design and capacity. Nevertheless, CO2 had been shipped since 1980s on small and short-haul dry cargo vessels, supplying for the food and beverage industry. Incorporating historical transportation methods as well as new technology to withstand the handling of CO2 cargo in tankers as big as LNG carriers are important to ship CO2 of a significant scale. Hence, we believe that MISC has the capability in terms of expertise, tools and technology to create LCO2C. This is also in tandem with the development of CCS hubs in Malaysia, most notably Kasawari, Lang Lebah and BIGST.

**No changes to earnings estimates.** In consideration that the term sheet is still at its preliminary stages and CCS projects will only take flight in CY25, we make no changes to our earnings forecast and target price for MISC at this juncture. While building a LCO2C could take up to 2.5 years, we believe MISC will be able to deliver in part of the CCS projects under the National Energy Transition Roadmap (NETR), and in line with carbon-offsetting efforts within the oil and gas sector in Malaysia. We maintain our **BUY** call and **TP of RM8.16**, derived by pegging PER of 13.8x to EPS24 of 59sen. 

#### RETURN STATISTICS

Price @ 22 <sup>nd</sup> August 2023 (RM)	7.12
Expected share price return (%)	+14.6
Expected dividend yield (%)	+5.1
<b>Expected total return (%)</b>	<b>+19.7</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.6	-1.0
3 months	-0.6	-5.0
12 months	2.3	0.5

#### INVESTMENT STATISTICS

FYE Dec	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	1,450.2
Issue shares (m)	4,463.8
Estimated free float (%)	20.1
Market Capitalisation (RM'm)	31,781.9
52-wk price range	RM6.68–RM7.61
3-mth average daily volume (m)	1.5
3-mth average daily value (RM'm)	11.0
Top Shareholders (%)	
Petroleum Nasional Bhd	51.0
Employees Provident Fund	12.9
Amanah Saham Nasional Bhd	6.8

## 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
<b>Non-current assets</b>	<b>44,680.3</b>	<b>49,919.4</b>	<b>52,265.0</b>	<b>53,777.5</b>	<b>54,682.6</b>
Cash	6,385.8	7,134.0	6,741.3	8,328.6	9,930.8
Trade debtors	4,221.8	3,858.6	4,875.5	5,341.7	5,982.3
<b>Current assets</b>	<b>12,218.8</b>	<b>12,744.8</b>	<b>13,363.6</b>	<b>15,439.4</b>	<b>17,722.4</b>
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
<b>Current liabilities</b>	<b>7,144.9</b>	<b>8,767.1</b>	<b>9,055.6</b>	<b>9,752.9</b>	<b>10,475.1</b>
Long-term debt	11,423.5	14,256.0	12,087.6	12,578.7	12,963.8
<b>Non-current liabilities</b>	<b>12,897.9</b>	<b>15,592.9</b>	<b>16,937.2</b>	<b>17,848.5</b>	<b>18,256.6</b>
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
<b>Equity</b>	<b>34,297.9</b>	<b>38,304.2</b>	<b>39,635.8</b>	<b>41,615.5</b>	<b>43,673.4</b>
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
<b>Operating cash flow</b>	<b>874.3</b>	<b>2,993.5</b>	<b>4,109.3</b>	<b>5,339.4</b>	<b>6,168.1</b>
Capital expenditure	-1,773.8	-2,293.5	-2,725.8	-2,812.5	-2,942.8
<b>Investing cash flow</b>	<b>-1,667.1</b>	<b>-1,943.0</b>	<b>-2,619.6</b>	<b>-2,416.1</b>	<b>-2,592.8</b>
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
<b>Financing cash flow</b>	<b>477.1</b>	<b>-1,991.6</b>	<b>-1,244.7</b>	<b>-1,423.5</b>	<b>-2,091.8</b>
<b>Net cash flow</b>	<b>-315.7</b>	<b>-941.1</b>	<b>245.0</b>	<b>1,499.7</b>	<b>1,483.5</b>
<b>Beginning cash flow</b>	<b>5,545.1</b>	<b>6,994.3</b>	<b>6,406.1</b>	<b>6,741.3</b>	<b>8,328.6</b>
<b>Ending cash flow</b>	<b>5,368.6</b>	<b>6,406.1</b>	<b>6,741.3</b>	<b>8,328.6</b>	<b>9,930.8</b>
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: Company, 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 <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.

#### 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