



MISC Berhad

(3816 | MISC MK) Main | Transportation & Logistics

Cost Provisions Continue to Push Earnings Down

KEY INVESTMENT HIGHLIGHTS

- **Downgrade with a revised target price of RM7.37**
- **MISC's 3QFY23 core earnings down -46%yoy to RM430m which came in below our expectations**
- **Higher charter rates in MISC's Gas Assets & Solutions, offset by cost provisions in Marine & Heavy Engineering**

Downgrade NEUTRAL, revised TP: RM7.37. MISC Berhad (MISC)'s 3QFY23 core earnings came in below our yearly earnings estimates at 64%. As such, we adjusted our earnings estimates to reflect this and the current earnings trajectory in lieu of the volatile shipping market towards the end of the year. Due to the uncertainties in the tanker and charter rates, we downgraded our call to **NEUTRAL** and revised our **target price to RM7.37** (previously RM8.16).

Earnings down -46%yoy. MISC's 3QFY23 core earnings adjusted dropped -46%yoy to RM430.4m. The cumulative 9 months earnings gained +24.6%yoy. Meanwhile, 3QFY23 revenue slipped by -6.9%yoy to RM3.37b.

Gas Assets & Solutions. 3QFY23 earnings gained +20.5%yoy to RM427.9m while revenue expanded by +8.9%yoy to RM860.6m. The higher earnings and revenue were due to higher charter rates in 3QFY23, as well as higher earning days following deliveries of two LNGCs in 1QCY23.

LNG spot rates continue to strengthen, driven by rerouting of shipments through longer routes due to the geopolitical situation and seasonal demand. The prospects remain positive on the back of growing global LNG demand and additional LNG infrastructure investments. In the near term, we believe the demand for LNG shipments will continue to be robust, notably on long-term charters, in tandem with the upcoming winter season and an expected increase in economic activities.

Petroleum & Product Shipping. 3QFY23 earnings dropped -37.1%yoy to RM296.2m. Meanwhile, revenue slipped -4.4%yoy to RM1.21b. The lower revenue was due to lower earning days achieved for the segment, while the lower earnings were due to a one-off compensation for a contract renegotiation in 3QFY23.

The petroleum shipping market had witnessed softer conditions YTD, with average tanker rates declining due to weak seasonal demand refinery maintenance and a surge in oil prices mid-July CY23. Nevertheless, we expect that shipping rates will strengthen in 4QFY23, on the back of a robust demand amid winter season and increased refinery runs. However, while we are positive of a strong global upstream and midstream capex, as well as strong tanker operations amid new shipping technologies, geopolitical uncertainties will continue to weigh in on this segment.

Downgrade to NEUTRAL

(Previously BUY)

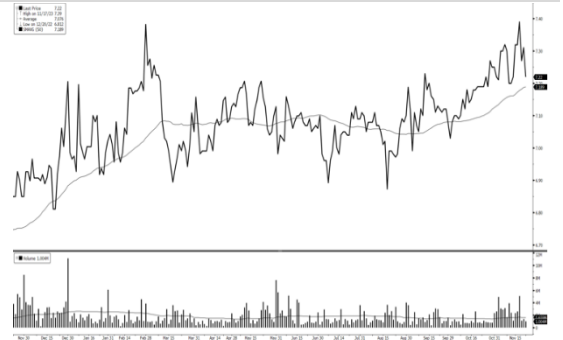
Revised Target Price: RM7.37

(Previously RM8.16)

RETURN STATISTICS

Price @ 22 nd November 2023 (RM)	7.25
Expected share price return (%)	+1.7
Expected dividend yield (%)	+5.9
Expected total return (%)	+7.6

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.4	-0.6
3 months	2.0	1.7
12 months	0.3	-0.7

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	13,448	14,734	15,630
Operating Profit	3,456	3,787	4,329
Profit Before Tax	2,706	3,187	3,829
Core PATAMI	1,948	2,380	2,963
Core EPS	0.44	0.53	0.66
DPS	0.40	0.48	0.59
Dividend Yield	5.0%	5.9%	7.2%

KEY STATISTICS

FBM KLCI	1,455.89
Issue shares (m)	4,463.75
Estimated free float (%)	20.75
Market Capitalisation (RM'm)	32,228.24
52-wk price range	RM6.94–RM7.61
3-mth average daily volume (m)	1.68
3-mth average daily value (RM'm)	12.09
Top Shareholders (%)	
Petroleum Nasional Bhd	51.0
Employees Provident Fund	12.3
Amanah Saham Nasional Bhd	6.8


Offshore Business. 3QFY23 earnings was down -69.4%yoy to RM58.1m, while revenue dropped -45%yoy to RM615.4m. Lower revenue was due to lower construction revenue of Project Mero 3 following lower project progress. Earnings was affected by the lower construction gain from Project Mero 3 and additional cost provisions recognised relating to a malfunction of an asset in early CY23.

The upstream segment had seen an increase in capex following the elevated oil prices that have sustained in tandem with the world economy returning to its pre-pandemic trajectory. As such, we are expecting a growing demand for FPSOs, especially in South America and offshore Africa. Barring the current Mero 3 project, we opine that MISC will continue to seek out new opportunities in this segment, following an expected increase in upstream activities moving forward, and secure long-term contracts for its offshore fleets.

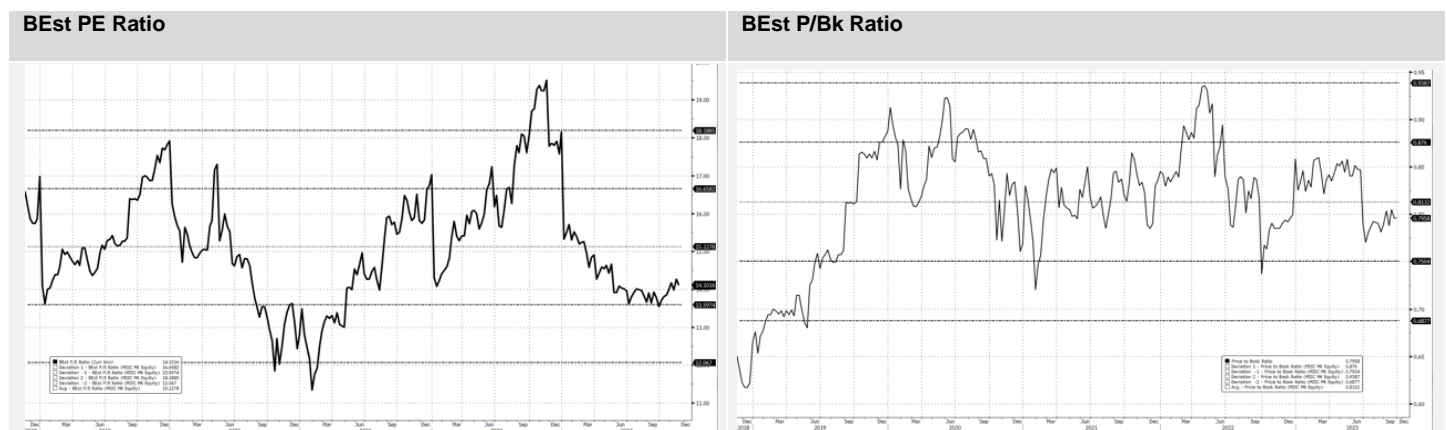
Marine & Heavy Engineering. Earnings lost nearly 6-fold to a deficit of -RM100.3m from -RM19m in 3QFY22. However, revenue surged +56%yoy to RM638.6m. The higher revenue was contributable to the new and ongoing projects for Heavy Engineering segment. Meanwhile, earnings loss was due to additional cost provisions from the price escalation impact on ongoing projects.

Challenges persisted for this segment in executing ongoing Heavy Engineering projects due to additional cost and schedule impacts, although the group had cited efforts to recover these impacts from clients. The Marine subsegment anticipates challenges on deferred dry-docking due to rising energy shipment demand in line with the winter season. Nonetheless, we believe this segment would recover post-winter, as well as in the long run for more opportunities in decarbonisation projects following the success of the construction on Kasawari CCS project.

Revised earnings estimates. In consideration of the lower earnings in 3QFY23 and that 9MFY23 earnings came in below our expectations, we revise our FY23, FY24 and FY25 earnings estimates slightly downward by -10%, -6% and -6% respectively. We also consider the uncertainties of the tanker and charter rates, as well as the expectation of a volatile oil price in CY24-25 in this revision.

Revised target price. Following the revised earnings forecast, we revised our **target price to RM7.37** (previously RM8.16), by pegging a PER of 13.8x to the revised EPS24 of 53sen. 

FORWARD BAND



Source: Bloomberg, MIDFR

MISC: 3Q23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
	3Q23	2Q23	3Q22	QoQ	YoY	9M23	9M22	YoY
Income Statement								
Revenue	3,365.1	3,549.6	3,614.1	-5.2%	-6.9%	9,993.4	9,694.0	3.1%
Cost of Sales	(2,473.0)	(2,826.6)	(2,548.0)	12.5%	2.9%	(7,486.0)	(7,291.9)	-2.7%
Gross Profit	892.1	723.0	1,066.1	23.4%	-16.3%	2,507.4	2,402.1	4.4%
Net Operating Expenses	(242.2)	(191.7)	(36.2)	-26.3%	-569.1%	128.7	(394.4)	132.6%
Operating Profit	649.9	531.3	1,029.9	22.3%	-36.9%	2,636.1	2,007.7	31.3%
Net one off gains/(losses)	1.4	(15.5)	(19.6)	109.0%	107.1%	(35.7)	(310.8)	88.5%
Finance costs	(186.7)	(176.6)	(172.5)	-5.7%	-8.2%	(539.6)	(472.9)	-14.1%
Profit/(Loss) before tax	464.6	339.2	837.8	37.0%	-44.5%	2,060.8	1,224.0	68.4%
Taxation	(65.9)	(17.3)	(15.4)	-280.9%	-327.9%	(99.8)	(40.1)	-148.9%
PAT	398.7	321.9	822.4	23.9%	-51.5%	1,961.0	1,183.9	65.6%
Minority Interest	31.7	131.0	(1.8)	-75.8%	1861.1%	164.6	(6.0)	2843.3%
PATAMI	430.4	452.9	820.6	-5.0%	-47.6%	1,496.2	1,177.9	27.0%
Core Earnings	430.4	418.0	797.0	3.0%	-46.0%	1,392.4	1,117.5	24.6%

SEGMENTAL BREAKDOWN

Revenue	3Q23	2Q23	3Q22	QoQ	YoY	9M23	9M22	YoY
Gas Assets & Solutions	860.6	771.8	790.1	11.5%	8.9%	2,388.3	2,310.3	3.4%
Petroleum & Product Shipping	1,210.1	1,218.1	1,265.2	-0.7%	-4.4%	3,640.4	3,284.4	10.8%
Offshore Business	615.4	466.7	1,119.8	31.9%	-45.0%	1,666.7	2,780.3	-40.1%
Marine & Heavy Engineering	638.5	1,056.3	409.2	-39.6%	56.0%	2,191.0	1,227.6	78.5%
Operating Profit/Loss	3Q23	2Q23	3Q22	QoQ	YoY	9M23	9M22	YoY
Gas Assets & Solutions	427.9	418.6	355.1	2.2%	20.5%	1,231.3	1,076.3	14.4%
Petroleum & Product Shipping	296.2	325.2	470.7	-8.9%	-37.1%	933.9	618.0	51.1%
Offshore Business	58.1	239.7	190.0	-75.8%	-69.4%	464.5	354.4	31.1%
Marine & Heavy Engineering	(100.3)	(385.3)	19.0	74.0%	-627.9%	(478.6)	51.1	-1036.6%

Source: Company, MIDFR

.FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	10,671.7	13,867.0	13,448.1	14,734.1	15,629.5
EBITDA	2,617.50	3,707.20	3,631.0	3,978.2	4,532.6
D&A	528.9	3,108.2	2,462.9	2,551.6	2,560.7
EBIT	1,948.40	3,102.00	3,456.2	3,786.7	4,329.4
Net interest	97.7	-12.1	206.1	215.3	224.5
Profit before tax	1,774.7	1,874.3	2,706.2	3,186.7	3,829.4
Tax	-41.1	-39.3	-129.9	-111.5	-88.1
PATAMI	1,831.3	1,822.9	2,164.1	2,644.6	3,292.3
Core PATAMI	1,888.4	1,717.5	1,947.7	2,380.1	2,963.1
Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	23,386.3	24,285.9	26,381.5	27,644.0	28,299.1
Intangible assets	1,060.9	1,001.6	1,031.6	1,062.6	1,094.5
Others	20,233.1	24,631.9	24,878.2	25,127.0	25,378.3
Non-current assets	44,680.3	49,919.4	52,291.4	53,833.6	54,771.9
Cash	6,385.8	7,134.0	7,590.5	8,677.9	9,826.9

Trade debtors	4,221.8	3,858.6	4,459.9	5,005.9	5,520.7
Current assets	12,218.8	12,744.8	13,797.3	15,452.9	17,156.8
Trade creditors	3,798.6	5,147.6	5,286.1	5,944.9	6,387.1
Short-term debt	3,235.5	3,605.5	3,705.5	3,763.6	3,675.5
Current liabilities	7,144.9	8,767.1	9,055.6	9,772.6	10,126.6
Long-term debt	11,423.5	14,256.0	15,037.6	15,095.4	15,160.1
Non-current liabilities	12,897.9	15,592.9	16,737.5	17,175.1	17,382.9
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	19,256.9	20,423.0	21,301.8
Equity	34,297.9	38,304.2	40,295.6	42,338.7	44,419.2

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	1,774.7	1,874.3	2,706.2	3,186.7	3,829.4
Depreciation & amortisation	528.9	3,108.2	2,462.9	2,551.6	2,560.7
Changes in working capital	-60.3	-1,989.0	95.0	95.0	95.0
Operating cash flow	874.3	2,993.5	5,264.1	5,833.3	6,485.1
Capital expenditure	-1,773.8	-2,293.5	-2,175.8	-2,262.5	-2,392.8
Investing cash flow	-1,667.1	-1,943.0	-2,069.6	-2,141.1	-2,247.8
Debt raised/(repaid)	809.3	-241.8	403.3	157.8	140.6
Dividends paid	-560.1	-1,473.0	-1,803.4	-2,152.6	-2,618.9
Financing cash flow	477.1	-1,991.6	-2,150.1	-2,744.8	-3,228.3
Net cash flow	-315.7	-941.1	1,044.4	947.4	1,009.0
Beginning cash flow	5,545.1	6,994.3	6,406.1	7,590.5	8,677.9
Ending cash flow	5,368.6	6,406.1	7,590.5	8,677.9	9,826.9

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	24.5%	26.7%	27.0%	27.0%	29.0%
PBT margin	16.6%	13.5%	20.1%	21.6%	24.5%
PAT margin	17.2%	13.1%	16.1%	17.9%	21.1%
Core PAT margin	17.7%	12.4%	14.5%	16.2%	19.0%

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 <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