

## MISC Berhad

(3816 | MISC MK) Main | Transportation &amp; Logistics

### Higher Charter Rates Pushed FY23 to End on A Positive Note

#### KEY INVESTMENT HIGHLIGHTS

- **Upgrade to BUY with revised target price of RM8.48**
- **MISC's 4QFY23 revenue up +3%yoy while core earnings down -4%yoy, in-line with our expectation**
- **Higher profit from improved freight rates in Petroleum & Product Shipping segment, lower cost provisions**
- **Higher capex in upstream, higher trade demand, clean energy initiatives to support MISC's FY24 performance**

**Upgrade BUY, revised TP: RM8.48.** MISC Berhad (MISC)'s 4QFY23 core earnings came in within our yearly earnings estimates at 101% and consensus' at 96%. As such, we upgrade MISC to **BUY** a revised **target price of RM8.48 (previously RM7.37)**. We revised our earnings estimates to cater for FY23 performance and management's outlook guidance. We view positively MISC's outlook on the backdrop of an expected elevated and stabilized crude oil price translating into higher capex in the upstream, continuous trade hiccup in the Red Sea contributing to higher charter rates, and the group's endeavors into renewable energy and cleaner fuel.

**4QFY23 earnings down by -4%yoy.** MISC's 4QFY23 adjusted core earnings dropped by -4%yoy to RM575.8m. Despite this, the cumulative FY23 core earnings gained +14.6%yoy to RM2b. Meanwhile, 4QFY23 revenue added by +2.5%yoy to RM4.3b. The cumulative FY23 revenue gained +2.9%yoy to RM14.3b.

**Gas Assets & Solutions.** 4QFY23 earnings slipped -25.9%yoy to RM340.8m while revenue added +9.0%yoy to RM875.6m. The lower earnings were due to higher vessel operating costs, while higher revenue was contributed by higher charter rates. In the near term, we expected the higher demand for LNG especially in the Asia-Pacific region will contribute to the growth of MISC's LNG fleet capacity.

Additionally, stricter environmental policies will be imposed in line with the call for cleaner energy solutions for industrials and marine sectors, consequently helping to boost LNG demand, of which we expect that MISC will leverage on in the long run.

**Petroleum & Product Shipping.** 4QFY23 earnings added +4.9%yoy to RM422.7m, while revenue was down marginally by -0.5%yoy to RM1.4b. The higher earnings were mainly due to the translational impact from weakening of MYR against USD. We expect the tightness in oil supply from OPEC+'s output cuts and the low US inventory will continue to elevate oil prices in FY24. Nevertheless, the impact is lessened for this segment in the near term, given strong trade for crude in the Asian and South American regions. Additionally, we foresee that the disruptions in the Red Sea which could last well into 1HCY24 to add into the tonne-mile demand as well as the need to innovate and improve on the ships' engine and fuel to adhere to sustainability scores.

### Upgrade to BUY

(Previously NEUTRAL)

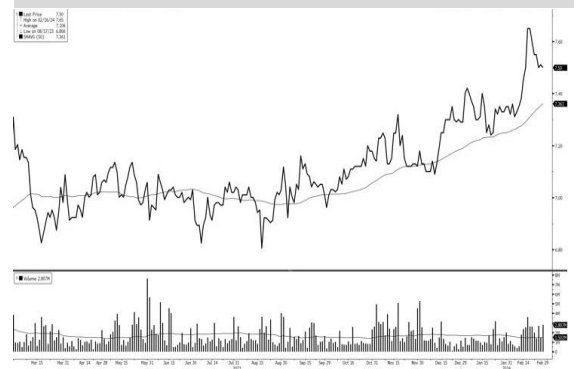
### Revised Target Price: RM8.48

(Previously RM7.37)

#### RETURN STATISTICS

Price @ 27 <sup>th</sup> February 2024 (RM)	7.50
Expected share price return (%)	+13.1
Expected dividend yield (%)	+4.4
Expected total return (%)	+17.5

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	2.0	-1.4
3 months	2.9	-3.2
12 months	-0.8	-7.5

#### INVESTMENT STATISTICS

FYE Dec	2024F	2025F	2026F
Revenue	15,318	16,286	17,217
Operating Profit	3,723	3,958	4,185
Profit Before Tax	2,944	3,137	3,287
Core PATAMI	2,374	2,931	3,185
Core EPS	0.53	0.66	0.71
DPS	0.37	0.44	0.48
Dividend Yield	4.4%	5.2%	5.6%

#### KEY STATISTICS

FBM KLCI	1,558.80
Issue shares (m)	4,463.75
Estimated free float (%)	20.59
Market Capitalisation (RM'm)	33,478.09
52-wk price range	RM6.94–RM7.71
3-mth average daily volume (m)	1.52
3-mth average daily value (RM'm)	11.17
Top Shareholders (%)	
Petroleum Nasional Bhd	51.00
Employees Provident Fund	12.42
Amanah Saham Nasional Bhd	6.75

**Offshore Business.** 4QFY23 earnings was down -39.7%yoy to RM187.7m, in-tandem with the -42.8%yoy decline in revenue to RM881.5m. The lower earnings were due to lower construction gain from the FPSO conversion and additional cost provisions relating to an incident involving an asset in early CY23. Meanwhile, lower revenue was attributable to lower recognition of revenue from the conversion of an FPSO following lower project progress.

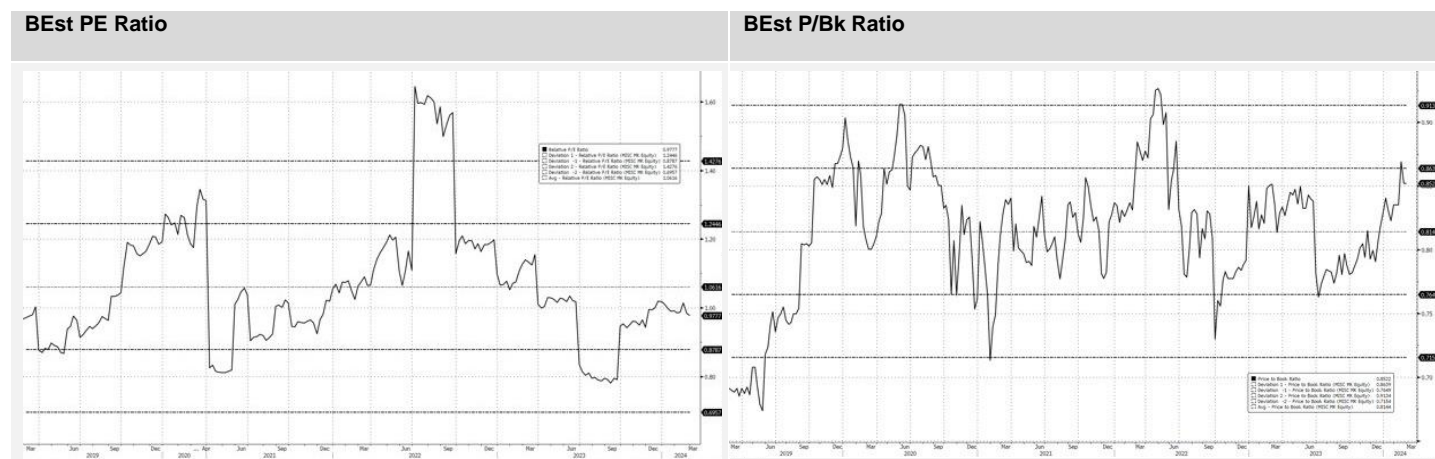
Despite the uncertainties in the global energy market, the upstream oil and gas division is expected to remain robust via sustainable oil demand and increased capex by major oil players. As such, higher demand for FPSO, notably in the South American, European and Asian region, is expected, on top of existing contracts that we believe will continue to progress with minimal hitches in FY24, barring any global geopolitical turmoil and unsustainable crude oil prices.

**Marine & Heavy Engineering.** 4QFY23 earnings gained +12.4%yoy to RM10.9m and revenue surged nearly 2-fold to RM1.1b from RM424m in 4QFY22. Despite the added earnings, the segment's profit was plagued by: (i) additional cost provisions recognised for on-going heavy engineering projects, (ii) lower margins due tight competition for marine services, and (iv) lower demand for dry-docking activities. Higher revenue was from new and ongoing projects for Heavy Engineering sub-segment.

The Marine sub-segment foresees continued challenges as competition with other firms intensifies, particularly with the emergence of new LNGC-repair shipyards in China and neighbouring countries. Nevertheless, we believe that this segment will continue to seize opportunities within local and regional markets, including decarbonisation projects and renewable energy initiatives.

**Revised earnings estimates.** We make no changes to our FY24 but revise our FY25 earnings estimates slightly downward by -1%; noting the uncertainties within the oil market in CY24 that would impact the materials and operational cost for its Offshore in the long run. Following the revised earnings forecast, we revised our **target price to RM8.48** (previously RM7.37), by pegging a higher PER of 16x (previously 14x) to revised EPS24 of 53sen. The upward revision in our valuation multiple was mainly to take into account of the expected shift for higher LNG demand coming in CY24 following energy transition initiatives within the Asian, South American and European regions. The new PER is also a slight premium from MISC's current PER of 15.7x, as we reiterate our positive stance for MISC's future endeavours in the ESG space and the anticipated improvement on its Gas Assets and Petroleum Shipping businesses.

## FORWARD BAND



Source: Bloomberg, MIDFR

**MISC: 4Q23 RESULTS SUMMARY**

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
	4Q23	3Q23	4Q22	QoQ	YoY	FY23	FY22	YoY
<b>Income Statement</b>								
Revenue	4,278.3	3,365.1	4,173.0	27.1%	2.5%	14,271.7	13,867.0	2.9%
Cost of Sales	(3,175.8)	(2,473.0)	(2,867.9)	-28.4%	-10.7%	(10,661.8)	(10,159.8)	-4.9%
Gross Profit	1,102.5	892.1	1,305.1	23.6%	-15.5%	3,609.9	3,707.2	-2.6%
Net Operating Expenses	(227.8)	(242.2)	(210.8)	5.9%	-8.1%	(99.1)	(605.2)	83.6%
Operating Profit	874.7	649.9	1,094.3	34.6%	-20.1%	3,510.8	3,102.0	13.2%
Net one off gains/(losses)	(21.5)	1.4	(265.7)	-1635.7%	91.9%	(57.2)	(576.5)	90.1%
Finance costs	(190.9)	(186.7)	(178.3)	-2.2%	-7.1%	(730.5)	(651.2)	-12.2%
Profit/(Loss) before tax	662.3	464.6	650.3	42.6%	1.8%	2,723.1	1,874.3	45.3%
Taxation	(35.0)	(65.9)	0.8	46.9%	-4475.0%	(134.8)	(39.3)	-243.0%
PAT	627.3	398.7	651.1	57.3%	-3.7%	2,588.3	1,835.0	41.1%
Minority Interest	0.0	31.7	(6.1)	-100.0%	100.0%	164.6	(12.1)	1460.3%
<b>PATAMI</b>	627.3	430.4	645.0	<b>45.7%</b>	<b>-2.7%</b>	2,123.5	1,822.9	<b>16.5%</b>
Core Earnings	575.8	430.4	600.0	33.8%	-4.0%	1,968.2	1,717.5	14.6%

**SEGMENTAL BREAKDOWN**

Revenue	4Q23	3Q23	4Q22	QoQ	YoY	FY23	FY22	YoY
Gas Assets & Solutions	875.6	860.6	803.1	1.7%	9.0%	3,263.9	3,113.4	4.8%
Petroleum & Product Shipping	1,389.8	1,210.1	1,382.8	14.9%	0.5%	5,030.2	4,667.2	7.8%
Offshore Business	881.5	615.4	1,542.1	43.2%	-42.8%	2,548.2	4,322.4	-41.0%
Marine & Heavy Engineering	1,118.2	638.5	424.0	75.1%	163.7%	3,309.2	1,651.6	100.4%
<b>Operating Profit/Loss</b>								
Gas Assets & Solutions	340.8	427.9	460.1	-20.4%	-25.9%	1,572.1	1,536.6	2.3%
Petroleum & Product Shipping	422.7	296.2	403.0	42.7%	4.9%	1,356.6	1,021.0	32.9%
Offshore Business	187.7	58.1	311.4	223.1%	-39.7%	652.2	665.8	-2.0%
Marine & Heavy Engineering	10.9	(100.3)	9.7	110.9%	12.4%	(467.7)	60.8	-869.2%

## FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	13,867.0	14,271.7	15,318.4	16,285.8	17,217.2
EBITDA	3,707.2	3,609.9	3,829.6	4,071.5	4,304.3
D&A	3,108.2	2,628.7	2,584.8	2,600.5	2,640.2
EBIT	3,102.0	3,510.8	3,723.2	3,958.4	4,184.7
Net interest	-12.1	164.6	33.6	35.8	37.6
Profit before tax	1,874.3	2,723.1	2,943.9	3,136.5	3,286.8
Tax	-39.3	-134.8	-27.8	-29.6	-31.0
PATAMI	1,822.9	2,123.5	2,882.4	3,071.0	3,218.2
Core PATAMI	1,717.5	1,968.2	2,374.4	2,931.5	3,185.2

Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
Fixed assets	24,285.9	25,423.3	26,344.6	26,439.8	27,040.4
Intangible assets	1,001.6	949.1	934.3	953.0	979.8
Others	24,631.9	24,779.4	20,319.2	21,069.9	21,706.7
<b>Non-current assets</b>	<b>49,919.4</b>	<b>51,151.8</b>	<b>47,598.1</b>	<b>48,462.7</b>	<b>49,726.9</b>
Cash	6,406.1	6,545.3	7,515.0	7,847.9	8,878.8
Trade debtors	3,858.6	4,480.5	5,150.2	5,183.4	5,260.8
<b>Current assets</b>	<b>12,744.8</b>	<b>13,908.3</b>	<b>14,383.3</b>	<b>14,783.5</b>	<b>15,860.7</b>
Trade creditors	5,147.6	6,110.6	5,152.5	5,514.6	5,862.9
Short-term debt	3,605.5	1,719.4	2,759.8	2,910.5	3,264.0
<b>Current liabilities</b>	<b>8,767.1</b>	<b>7,943.5</b>	<b>8,001.8</b>	<b>8,514.1</b>	<b>9,210.2</b>
Long-term debt	14,256.0	15,825.6	15,066.0	14,467.0	14,364.8
<b>Non-current liabilities</b>	<b>15,592.9</b>	<b>17,150.8</b>	<b>16,381.5</b>	<b>15,894.5</b>	<b>15,740.7</b>
Share capital	8,923.3	8,923.3	8,923.3	8,923.3	8,923.3
Retained earnings	18,980.0	19,496.4	20,214.1	21,178.8	22,234.1
<b>Equity</b>	<b>38,304.2</b>	<b>39,965.8</b>	<b>37,598.1</b>	<b>38,837.7</b>	<b>40,636.6</b>

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	1,874.3	2,093.7	2,943.9	3,136.5	3,286.8
Depreciation & amortisation	3,108.2	2,628.7	2,584.8	2,600.5	2,640.2
Changes in working capital	-1,989.0	973.9	381.9	451.8	461.2
<b>Operating cash flow</b>	<b>2,993.5</b>	<b>5,696.3</b>	<b>5,910.5</b>	<b>6,188.7</b>	<b>6,388.2</b>
Capital expenditure	-2,293.5	-2,523.4	-2,522.0	-2,594.2	-2,641.4
<b>Investing cash flow</b>	<b>-1,943.0</b>	<b>-1,866.2</b>	<b>-2,015.5</b>	<b>-2,112.0</b>	<b>-2,220.7</b>
Debt raised/(repaid)	-241.8	-1,248.1	-759.6	-1,492.6	-771.0
Dividends paid	-1,473.0	-1,614.9	-1,656.7	-1,966.7	-2,129.9
<b>Financing cash flow</b>	<b>-1,991.6</b>	<b>-3,920.4</b>	<b>-3,040.9</b>	<b>-3,896.0</b>	<b>-3,334.4</b>
<b>Net cash flow</b>	<b>-941.1</b>	<b>-90.3</b>	<b>854.2</b>	<b>180.8</b>	<b>833.1</b>
<b>Beginning cash flow</b>	<b>6,994.3</b>	<b>6,406.1</b>	<b>6,545.3</b>	<b>7,515.0</b>	<b>7,847.9</b>
<b>Ending cash flow</b>	<b>6,406.1</b>	<b>6,545.3</b>	<b>7,515.0</b>	<b>7,847.9</b>	<b>8,878.8</b>

Profitability Margins	2022A	2023A	2024E	2025F	2026F
EBITDA margin	26.7%	25.3%	25.0%	25.0%	25.0%
PBT margin	13.5%	19.1%	19.2%	19.3%	19.1%
PAT margin	13.1%	14.9%	18.8%	18.9%	18.7%
Core PAT margin	12.4%	13.8%	15.5%	18.0%	18.5%

Source: Bloomberg, MIDFR

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#### 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