

MISC Berhad

(3816 | MISC MK) Main | Transportation & Logistics

Maintain BUY


World's first dual-fuel tankers in the making

Target Price: RM8.48

DEVELOPMENT

- MISC Bhd, via its petroleum arm AET, has entered time charter party contracts (TCPs) with PETCO Trading Labuan Company Ltd (PTLCL) for the world's first two ammonia dual-fuel Aframax.
- AET has also signed shipbuilding contracts for the two vessels with Dalian Shipbuilding Industry Co Ltd, a subsidiary of China State Shipbuilding Corporation, said MISC.

OUR VIEW

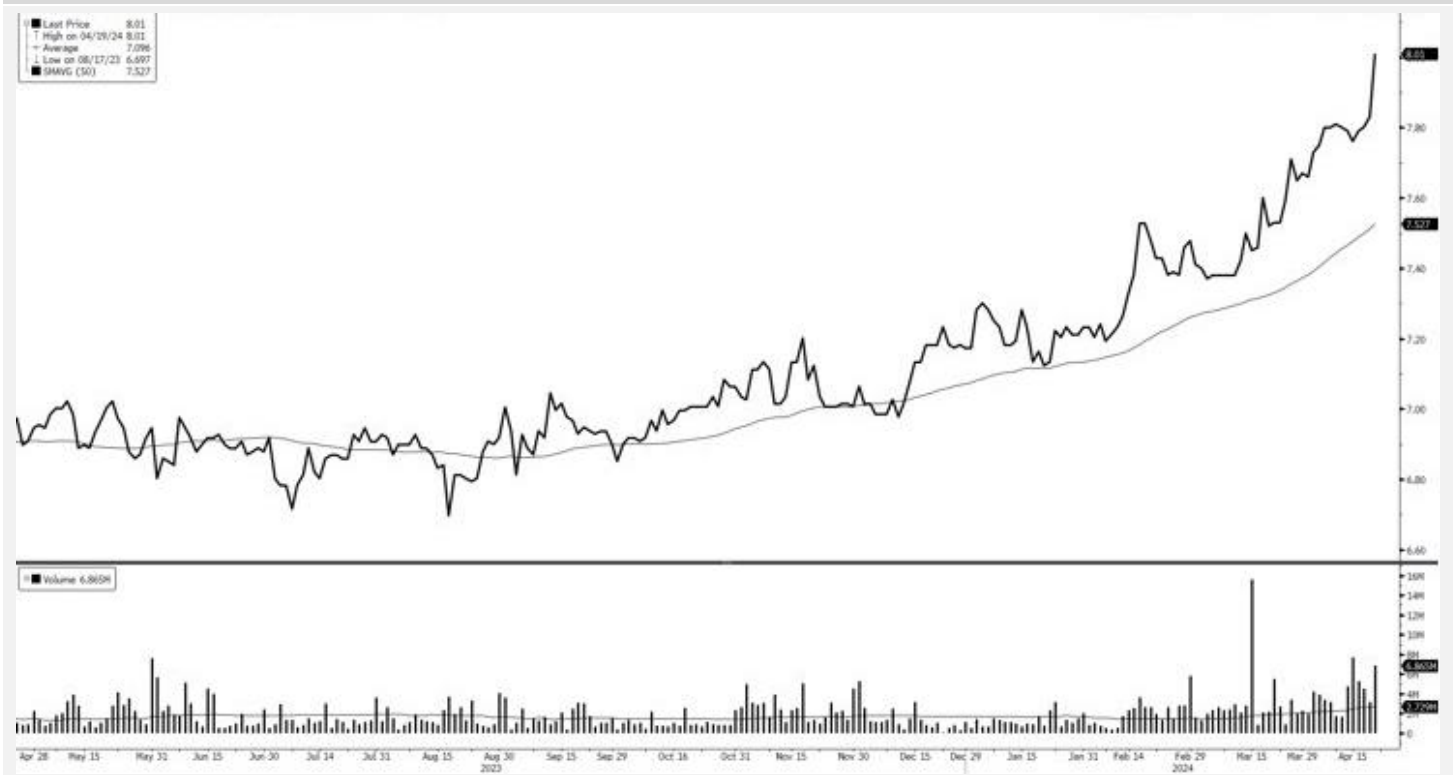
- **Energy transition in the works.** The tankers will enable PTLCL to transport its products to customers around the world while contributing to the industry decarbonisation by utilising ammonia as the cleaner alternative to conventional fuel. This is in line with MISC's decarbonisation efforts for its fleet by incorporating cleaner fuel and less dependency on conventional fuel.
- **Significant reduction in exhaust emissions.** The introduction of these two vessels will reduce the overall emissions from MISC's operations. In general, dual-fuelled engines have the capability to reduce emissions by roughly 15-20%. Additionally, this effort could add into the development of support for ammonia as a bunker fuel, such as additional storage and efficient transportation, soon.
- **Challenges present but manageable.** The risk factors of a dual-fuelled engine include: (i) complex engine structures that require different maintenance routes, (ii) different ecosystem for ammonia production and storage, (iii) safety in handling ammonia, and (iv) regulation compliance on the use of ammonia in different regions. Nevertheless, we believe within the tanker industry that such risks could be manageable in the near term, as regulations and policies on energy transition and clean fuels continue to be improved.
- **Transitional solution for hard-to-abate industry.** All in all, we believe that the development of the dual-fuelled Aframax tankers by MISC are in line with the shipping industry's initiatives to reduce its carbon emissions by 50% in 2030, and net-zero by 2050, regardless of shipping volume. While shipping only contributed to 3-4% of carbon dioxide (CO₂) emissions, ESG scorecard for tankers are high due to its association with fossil fuel transportation. Ammonia itself does not contain carbon and sulphur, hence it does not emit CO₂ and sulphur oxide (Sox) directly upon combustion. Additionally, ammonia can be produced from renewable sources, notably from hydrogen, making the indirect emissions associated with ammonia production to be significantly reduced or eliminated. We reiterate our positive stance for MISC's efforts in not only ensuring the efficiency of its fleet, but also in its initiative to reduce carbon and sulphur emissions in the industry.
- We make no changes to our forecast projection for MISC as the TCPs are still in its early stages, and maintain our **BUY** call, with a **target price of RM8.48**. 

INVESTMENT STATISTICS

Income Statement	2022	2023	2024F	2025F	2026F
Revenue	13,867.0	14,271.7	15,318.4	16,285.8	17,217.1
Gross Profit	3,707.2	3,609.9	3,829.6	4,071.5	4,304.3
Net Operating Expenses	(605.2)	(99.1)	(106.4)	(113.1)	(119.6)
Operating Profit	3,102.0	3,510.8	3,723.2	3,958.4	4,184.7
Net one off gains/(losses)	(576.5)	(57.2)	(49.1)	(42.4)	(36.2)
Finance costs	(651.2)	(730.5)	(730.3)	(779.5)	(861.8)
Profit/(Loss) before tax	1,874.3	2,723.1	2,943.9	3,136.5	3,286.8
Taxation	(39.3)	(134.8)	(27.8)	(29.6)	(31.0)
PAT	1,835.0	2,588.3	2,916.0	3,106.9	3,255.7
PATAMI	1,822.9	2,123.5	2,916.0	3,106.9	3,255.7
Core Earnings	1,717.5	1,968.2	2,374.4	2,931.4	3,185.2
EPS	0.41	0.48	0.53	0.66	0.71
Dividends Yield	4.6%	4.8%	4.4%	5.2%	5.6%

Source: Company, MIDFR

SHARE PRICE CHART



Source: Company, 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