



MISC Berhad

(3816 | MISC MK) Main | Transportation & Logistics

Maintain BUY

Earnings Gained from Charter, Upstream Activities

Unchanged Target Price: RM9.75

KEY INVESTMENT HIGHLIGHTS

- **MISC's 1HFY24 core earnings up +36%yoy; in-line with expectations**
- **Higher profit from increased charter rates, higher heavy engineering and marine activities**
- **Higher LNG demand, higher charter rates, higher upstream activities to support MISC moving forward**
- **Maintain BUY with an unchanged target price of RM9.75**

Maintain BUY, TP: RM9.75. MISC Berhad (MISC)'s 1QFY24 core earnings came in within our yearly earnings estimates at 55% and consensus' at 54%. As such, we maintain a **BUY** call with the **target price of RM9.75**.

1HFY24 normalised earnings up +36%yoy. MISC's 1HFY24 normalised earnings gained +54.5%yoy to RM1.3b. Meanwhile, 1HFY24 revenue added +5.1%yoy to RM7.0b.

Gas Assets & Solutions. 1HFY24 revenue slipped -4.2%yoy to RM1.5b and operating income dropped -24%yoy to RM361.1m. The lower revenue was due to lower earning days from contract expiries and lower charter rates in the current quarter. Meanwhile, the lower income was due to lower revenue and higher vessel operating costs.

In the LNG shipping market, spot rates remained subdued in 2QCY23, driven by: (i) heatwaves in Asia that uplifted LNG demand, (ii) increased competition for Europe-bound cargoes for inventory restocking, and (iii) the restart of key LNG terminals post-maintenance. We expect the LNG market to remain sanguine in the near-term, following seasonal demand and winter restocking, in line with the expected onset of La Nina coming into CY25.

Petroleum & Product Shipping. 1HFY24 revenue added +9.9%yoy to RM2.7b, and operating income added +24.2%yoy to RM792.3m. The higher performance of this segment was due higher freight rates and earning days achieved.

Mid-sized tankers remained resilient while VLCC rates had softened amid weaker imports from China in 2QCY24. However, the overall tanker market remains positive with increasing long-haul exports from the US, Brazil and Guyana, as well as low fleet growth. We expect that the long-term charter and elevated rates will continue to benefit this segment moving forward.

Offshore Business. 1HFY24 revenue slipped -8.4%yoy to RM963.1m, while operating income fell -45.9%yoy. The lower performance for this segment was due to lower recognition of revenue from the conversion of a Floating, Production, Storage and Offloading unit (FPSO) following lower project progress, as well as adjustment on cost provisions relating to an asset.

RETURN STATISTICS	
Price @ 23 rd August 2024 (RM)	8.59
Expected share price return (%)	+13.5
Expected dividend yield (%)	+5.3
Expected total return (%)	+18.8

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.4	-2.3
3 months	8.8	8.2
12 months	7.8	7.4

INVESTMENT STATISTICS

FYE Dec	2024F	2025F	2026F
Revenue	15,318	16,286	17,217
Operating Profit	3,723	3,958	4,219
Profit Before Tax	2,944	3,136	3,321
Core PATAMI	2,374	2,931	3,185
Core EPS	0.53	0.65	0.71
DPS	0.45	0.46	0.48
Dividend Yield	5.3%	5.4%	5.6%


KEY STATISTICS

FBM KLCI	1635.74
Issue shares (m)	4463.79
Estimated free float (%)	24.29
Market Capitalisation (RM'm)	38344.0
52-wk price range	RM8.18 - RM8.89
3-mth average daily volume (m)	5.2
3-mth average daily value (RM'm)	44.7
Top Shareholders (%)	
Petroleum Nasional Bhd	51.0
Employees Provident Fund	12.2
Amanah Saham Nasional Bhd	7.2

With the increased upstream activities globally amid the relatively stable Brent crude oil, we expect that the demand for newbuild FPSO to remain robust in the coming years, driven by projects in South America, West Africa and the Asia-Pacific regions, anticipated steady growth in global oil demand. Despite the lower 1HFY24 profit, we believe that the long-term contractual nature of this segment will continue to open more opportunities for the group in contributing to the upstream division in the long run.

Marine & Heavy Engineering. 1HFY24 revenue surged +21.4%yoy to RM1.9b, and operating income increased by +124.7%yoy to RM93.5m. The higher revenue from ongoing Heavy Engineering projects and Marine sub-segment contributed to the improved performance of this segment.

With stable oil prices expected until the end-year, we opine that the upstream activities will remain robust, in tandem with the demand for sustained energy security. Additionally, demand for low-carbon solutions would continue to climb among the oil and gas sector players, as well as the shipping and industrial sectors. Hence, we believe that this segment has the leverage on its balanced portfolio which served both conventional and clean energy industry. Risks for this segment remained on the supply chain disruptions and material price volatility, although we are positive that this segment is able to mitigate them.

No changes to earnings estimates. In consideration that the 1HFY24 earnings came in within our expectations, we make no changes to our earnings forecast. We maintain our **BUY** call with a **target price of RM9.75**, by pegging a PER of 15x to EPS25 of 65sen. The PER is the marine and shipping industry's 3-Year PER. 

MISC: 2QFY24 RESULTS SUMMARY

All in RM'm unless stated otherwise Income Statement	Quarterly Results					Cumulative		
	2Q24	1Q24	2Q23	QoQ	YoY	6M24	6M23	YoY
Revenue	3,329.4	3,638.3	3,078.7	-8.5%	8.1%	6,967.7	6,628.3	5.1%
Cost of Sales	(2,339.6)	(2,573.6)	(2,186.4)	9.1%	-7.0%	(4,913.2)	(5,013.0)	2.0%
Gross Profit	989.8	1,064.7	892.3	-7.0%	10.9%	2,054.5	1,615.3	27.2%
Net Operating Expenses	(197.6)	(182.7)	562.6	-8.2%	-135.1%	(380.3)	370.9	-202.5%
Operating Profit	792.2	882.0	1,454.9	-10.2%	-45.5%	1,674.2	1,986.2	-15.7%
Net one off gains/(losses)	(13.0)	83.9	(21.6)	-115.5%	39.8%	70.9	(37.1)	291.1%
Finance costs	(190.9)	(194.8)	(176.3)	2.0%	-8.3%	(385.7)	(352.9)	-9.3%
Profit/(Loss) before tax	588.3	771.1	1,257.0	-23.7%	-53.2%	1,359.4	1,596.2	-14.8%
Taxation	(17.0)	(17.3)	(16.6)	1.7%	-2.4%	(34.3)	(33.9)	-1.2%
PAT	571.3	753.8	1,240.4	-24.2%	-53.9%	1,325.1	1,562.3	-15.2%
Minority Interest	(30.4)	6.1	1.9	-598.4%	-1700.0%	(24.3)	132.9	-118.3%
PATAMI	540.9	759.9	612.9	-28.8%	-11.7%	1,300.8	1,065.8	22.0%
Core Earnings	464.7	840.3	544.0	-44.7%	-14.6%	1,305.0	962.0	35.7%

SEGMENTAL BREAKDOWN

Revenue	2Q24	1Q24	2Q23	QoQ	YoY	6M24	6M23	YoY
Gas Assets & Solutions	688.4	775.3	771.8	-11.2%	-10.8%	1,463.7	1,527.7	-4.2%
Petroleum & Product Shipping	1,312.7	1,359.4	1,218.1	-3.4%	7.8%	2,672.1	2,430.3	9.9%
Offshore Business	431.4	531.7	466.7	-18.9%	-7.6%	963.1	1,051.3	-8.4%
Marine & Heavy Engineering	900.0	984.5	1,056.3	-8.6%	-14.8%	1,884.5	1,552.5	21.4%
Operating Profit/Loss								
Gas Assets & Solutions	249.2	361.1	418.6	-31.0%	-40.5%	610.3	803.4	-24.0%
Petroleum & Product Shipping	402.2	390.1	325.2	3.1%	23.7%	792.3	637.7	24.2%
Offshore Business	73.2	146.6	239.7	-50.1%	-69.5%	219.8	406.4	-45.9%
Marine & Heavy Engineering	79.1	14.4	(385.3)	449.3%	120.5%	93.5	(378.3)	124.7%

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2023A	2024E	2025F	2026F	2027F
Revenue	14,271.7	15,318.4	16,285.8	17,217.1	17,973.9
EBITDA	5,029.6	4,578.2	5,252.4	5,500.3	5,711.7
D&A	2,140.8	2,297.8	2,442.9	2,582.6	2,696.1
Net interest	164.6	33.6	35.8	37.9	50.0
Profit before tax	2,588.3	2,916.0	3,106.9	3,289.8	3,330.2
Tax	-134.8	-27.8	-29.6	-31.4	-33.6
PATAMI	2,123.5	2,882.4	3,071.0	3,251.9	3,280.3
Core PATAMI	1,968.2	2,374.4	2,931.4	3,185.2	3,199.4
Balance Sheet (RM'm)	2023A	2024E	2025F	2026F	2027F
Fixed assets	25,423.3	26,344.5	26,439.8	27,040.4	27,557.4
Intangible assets	949.1	934.3	953.0	979.8	1,013.6
Others	24,779.4	20,319.2	21,069.9	22,206.7	22,601.4
Non-current assets	51,151.8	47,598.1	48,462.7	50,226.9	51,172.4
Cash	6,545.3	7,515.0	7,847.9	7,663.3	8,074.9
Trade debtors	4,480.50	5,150.2	5,183.4	5,760.8	5,794.7
Current assets	13,908.30	14,383.3	14,783.5	15,175.1	15,599.3
Trade creditors	6,110.60	5,152.5	5,514.6	5,862.9	6,181.6
Short-term debt	1,719.40	2,759.8	2,910.5	3,264.0	3,349.0
Current liabilities	8,767.1	7,943.5	7,618.9	8,086.4	8,745.9
Long-term debt	15,825.60	15,066.0	14,467.0	14,179.3	14,093.0
Non-current liabilities	17,150.80	16,381.5	15,894.5	15,555.2	15,449.2
Share capital	8,923.3	8,923.3	8,923.3	8,923.3	8,923.3
Retained earnings	19,496.4	20,214.1	21,178.8	22,234.1	23,056.0
Equity	39,965.8	37,598.1	38,837.7	40,636.6	41,703.9
Cash Flow (RM'm)	2023A	2024E	2025F	2026F	2027F
PBT	2,588.3	2,916.0	3,106.9	3,289.8	3,330.2
Depreciation & amortisation	3,108.2	2,628.7	2,584.8	2,600.5	2,640.2
Changes in working capital	973.9	381.9	451.8	461.2	454.2
Operating cash flow	5,696.3	5,910.5	6,188.7	6,422.6	6,480.5
Capital expenditure	-2,523.4	-2,522.0	-2,594.2	-2,641.4	-2,814.9
Investing cash flow	-1,866.2	-2,015.5	-2,112.0	-2,220.7	-2,331.5
Debt raised/(repaid)	-1,248.1	-759.6	-1,492.6	-2,021.0	-1,003.7
Dividends paid	-1,614.9	-1,656.7	-1,966.7	-2,129.9	-2,377.4
Financing cash flow	-3,920.4	-3,040.8	-3,896.0	-4,584.4	-3,946.9
Net cash flow	-90.3	854.2	180.8	-382.5	202.1
Beginning cash flow	6,406.1	6,545.3	7,515.0	7,847.9	7,663.3
Ending cash flow	6,545.3	7,515.0	7,847.9	7,663.3	8,074.9
Profitability Margins	2023A	2024E	2025F	2026F	2027F
EBITDA margin	35.2%	29.9%	32.3%	31.9%	31.8%
PBT margin	18.1%	19.0%	19.1%	19.1%	18.5%
PAT margin	14.9%	18.8%	18.9%	18.9%	18.3%
Core PAT margin	13.8%	15.5%	18.0%	18.5%	17.8%

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