

2 October 2024

Transport | Shipping

MISC (MISC MK)

Buy (Maintained)

Two New LNG Carrier Contract Wins; Reiterate BUY

- **Reiterate BUY, new MYR9.31 SOP-based TP (from MYR9.84), 17% upside, c.5% yield.** We are generally positive on the two additional LNG carrier charter contracts secured by MISC, which should boost its recurring income base. However, to achieve decent project returns amid elevated asset prices, the charter rates will need to be significantly higher than current spot rates. While we are optimistic about its two charter contract extensions, we remain neutral on the early terminations as we await further clarification on the compensation to assess the overall impact.
- **Contract wins.** MISC secured 15-year long-term time charter contracts from Petronas LNG (PLSB) for two newbuild LNG carriers. These vessels, to be built by Samsung Heavy Industries, are expected to commence operations in 2027. While the contract wins are positive, as it will expand MISC's fleet size and enhance its recurring income profile, we have some reservations on the potential returns, pending further disclosures by management. We note that the project IRR could be unexciting due to higher asset prices compared to previous contracts. Although the cost of building new vessels has fallen slightly to c.USD262.5m (-0.6% MoM), the daily charter rate (DCR) should be in the range of USD100,000-110,000/day to achieve a 7-8% IRR.
- **Terminations and extensions.** MISC announced the early time charter terminations for three vessels (Seri Ayu, Seri Angkasa, and Seri Begawan) scheduled for redelivery on the 20th anniversary of their charters in 2027/2028. MISC will receive compensation from PLSB for these early terminations, which may be based on the NPV of the remaining charter contracts, in our view. Meanwhile, Seri Alam and Seri Amanah will have their time charters extended until 31 Mar 2028, after their current contracts expire in 2025 and 2026.
- **Earnings.** Assuming each vessel costs USD260m, with 15-year firm tenure and USD110,000/day DCR, the IRR would be c.8%. At 7.5% WACC, we value the contracts at MYR0.02/share, and expect it to contribute MYR50m net profit (c.2% of FY25F earnings). As MISC's balance sheet is solid, with net gearing at 0.3x in 2Q24, we believe it is capable of funding the equity portion of net capex estimated at USD156m, assuming 70% debt financing. For now, we slash earnings estimates by 3%, 10%, and 10% for FY24-26 to account for the stronger MYR. However, the early contract terminations have not been factored in, pending further details. Our lower TP of MYR9.31 is in line with a stronger MYR assumption and includes a 4% ESG discount. We continue to like the company for its steady operating cash flow, with anticipation of a bump-up from the start of the Mero 3 project.
- **Downside risks:** Higher vessel operating costs, contract termination, and regulatory risks.

Target Price (Return):	MYR9.31 (17.4%)
Price (Market Cap):	MYR7.93 (USD8,515m)
ESG score:	2.8 (out of 4)
Avg Daily Turnover (MYR/USD)	38.2m/8.58m

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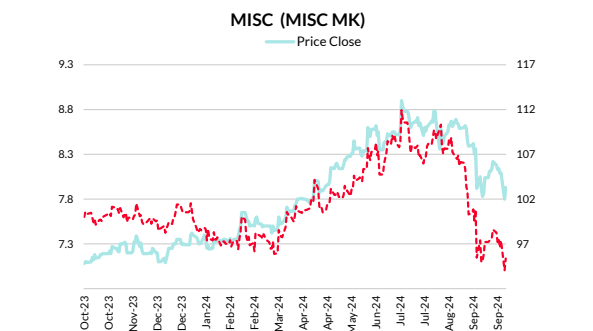


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	8.8	(5.5)	(6.9)	3.5	12.0
Relative	(5.1)	(4.2)	(10.5)	(3.8)	(4.3)
52-wk Price low/high (MYR)				7.08	-8.90



Source: Bloomberg

Overall ESG Score: 2.8 (out of 4)

E: MODERATE

MISC is involved in multiple global environmental initiatives as the group has set a medium-term target of reducing 50% GHG intensity by 2030. It currently owns green vessels, and has also invested in R&D for the future production of such vessels. Additionally, MISC introduced its Ship Recycling Policy in 2021 to avoid wastage. Despite the nature of the business, it takes active steps to manage environmental risks, and it has earned recognition for its efforts.

S: EXCELLENT

MISC won awards for its health & safety policies, and is actively involved in community engagement, as well as invests heavily in employee relations. The group also participates in various community engagements eg its Mersing Islands Initiative on Reef Conservation, UMT-MMS Sea Turtle Conservation Initiative, and Texas Adopt-ABeach clean-up.

G: EXCELLENT

MISC provides high levels of transparency and disclosure, ensures shareholder rights are protected. The group maintains a board independence level that is in line with the Malaysian Code on Corporate Governance with 75% independent directors and 40% of female representation.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	13,867	12,623	13,698	13,087	13,407
Recurring net profit (MYRm)	2,086	2,212	2,476	2,391	2,513
Recurring net profit growth (%)	64.0	6.0	11.9	(3.4)	5.1
Recurring P/E (x)	16.97	16.00	14.30	14.81	14.08
P/B (x)	0.9	0.9	0.9	0.9	0.9
P/CF (x)	11.64	6.95	5.38	6.57	5.90
Dividend Yield (%)	4.2	4.5	4.8	4.8	4.8
EV/EBITDA (x)	9.09	9.28	8.06	8.05	7.79
Return on average equity (%)	5.1	5.3	6.2	5.9	6.1
Net debt to equity (%)	28.0	24.6	26.1	30.6	33.4

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.47	0.50	0.55	0.54	0.56
Transport	DPS	0.33	0.36	0.38	0.38	0.38
MISC	BVPS	8.39	8.80	8.98	9.13	9.31
MISC MK	Return on average equity (%)	5.1	5.3	6.2	5.9	6.1
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	16.97	16.00	14.30	14.81	14.08
SOP	P/B (x)	0.9	0.9	0.9	0.9	0.9
	FCF Yield (%)	2.1	0.3	4.4	1.1	2.8
Key drivers	Dividend Yield (%)	4.2	4.5	4.8	4.8	4.8
i. Higher tanker charter rates;	EV/EBITDA (x)	9.09	9.28	8.06	8.05	7.79
ii. Offshore contract awards;	EV/EBIT (x)	15.50	19.23	14.95	15.45	15.07
iii. New LNG contract awards						
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	13,867	12,623	13,698	13,087	13,407
i. Higher vessel operating costs;	Gross profit	5,021	4,784	5,586	5,830	6,192
ii. Contract terminations;	EBITDA	5,021	4,784	5,586	5,830	6,192
iii. Regulatory risks.	Depreciation and amortisation	(2,076)	(2,475)	(2,575)	(2,793)	(2,992)
	Operating profit	2,945	2,309	3,011	3,036	3,200
Company Profile	Net interest	(512)	(584)	(701)	(771)	(797)
MISC is an international energy shipping company and maritime solutions provider.	Pre-tax profit	1,874	2,046	2,602	2,517	2,642
	Taxation	(39)	(43)	(55)	(53)	(55)
	Reported net profit	1,823	2,031	2,476	2,391	2,513
	Recurring net profit	2,086	2,212	2,476	2,391	2,513
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	502	351	1,042	(387)	(135)
	Cash flow from operations	3,042	5,092	6,574	5,390	6,002
	Capex	(2,294)	(5,000)	(5,000)	(5,000)	(5,000)
	Cash flow from investing activities	(1,943)	(5,000)	(5,000)	(5,000)	(5,000)
	Dividends paid	(1,473)	(1,607)	(1,696)	(1,696)	(1,696)
	Cash flow from financing activities	(2,040)	(439)	(645)	(715)	(741)
	Cash at beginning of period	7,952	7,134	7,732	8,660	8,335
	Net change in cash	(941)	(346)	929	(325)	261
	Ending balance cash	7,364	6,788	8,660	8,335	8,596
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	7,134	7,732	8,660	8,335	8,596
	Tangible fixed assets	24,504	25,635	28,060	30,266	32,274
	Total investments	1,336	1,485	1,777	2,028	2,267
	Total assets	62,664	65,060	67,231	69,152	71,765
	Short-term debt	3,605	1,719	1,719	1,719	1,719
	Total long-term debt	14,256	15,826	17,578	19,330	21,082
	Total liabilities	24,360	25,094	26,414	27,568	29,290
	Total equity	38,304	39,966	40,817	41,585	42,475
	Total liabilities & equity	62,664	65,060	67,231	69,152	71,765
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	29.9	(9.0)	8.5	(4.5)	2.4
	Recurrent EPS growth (%)	64.0	6.0	11.9	(3.4)	5.1
	Gross margin (%)	36.2	37.9	40.8	44.5	46.2
	Operating EBITDA margin (%)	36.2	37.9	40.8	44.5	46.2
	Net profit margin (%)	13.1	16.1	18.1	18.3	18.7
	Dividend payout ratio (%)	80.8	79.1	68.5	71.0	67.5
	Capex/sales (%)	16.5	39.6	36.5	38.2	37.3
	Interest cover (x)	4.52	3.73	4.09	3.76	3.84

Source: Company data, RHB

Figure 1: SOP valuation

Segments	FY25F (MYRm)	Remarks
Petroleum tankers	9,644	1.1x P/BV
LNG tankers	23,601	Discounted FCF to firm at 7.5% WACC
Offshore	20,020	Discounted FCF to firm at 7.5% WACC
Heavy engineering	649	Based on Malaysia Marine And Heavy Engineering Holdings' (MMHE MK, BUY, TP: MYR0.61) TP
Total value	53,915	
Net cash/(debt)	-10,637	Net debt end-FY24F
Shares outstanding (m)	4,464	
ESG premium/discount	-4%	
TP (MYR)	9.31	

Source: RHB

Emissions And ESG

Trend analysis

MISC's total GHG emissions decreased by 1.9% YoY to 4.1 mtCO₂e from 4.2 mtCO₂e due to its continuous efforts in adopting clean energy solutions, including the use of dual-fuel vessels and the adoption of LNG as a transitional fuel through its fleet renewal program.

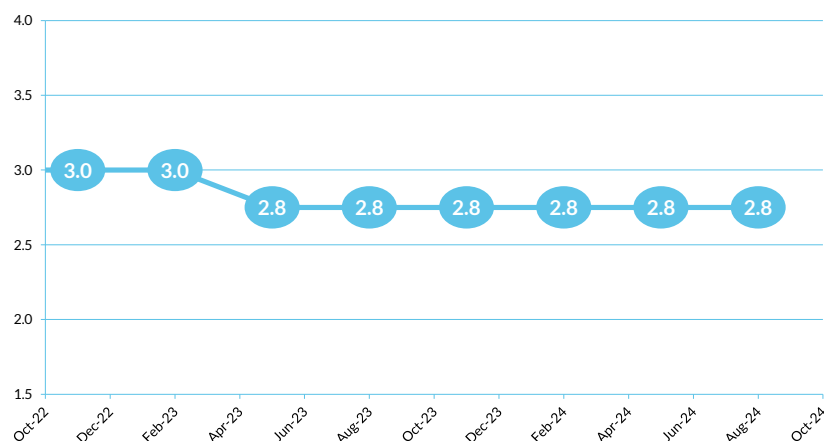
Emissions (tCO ₂ e)	Dec-21	Dec-22	Dec-23
Scope 1	4,136	4,184	4,106
Scope 2	38	41	40
Scope 3	-	-	na
Total emissions	4,174	4,225	4,146

Source: Company data, RHB

Latest ESG-Related Developments

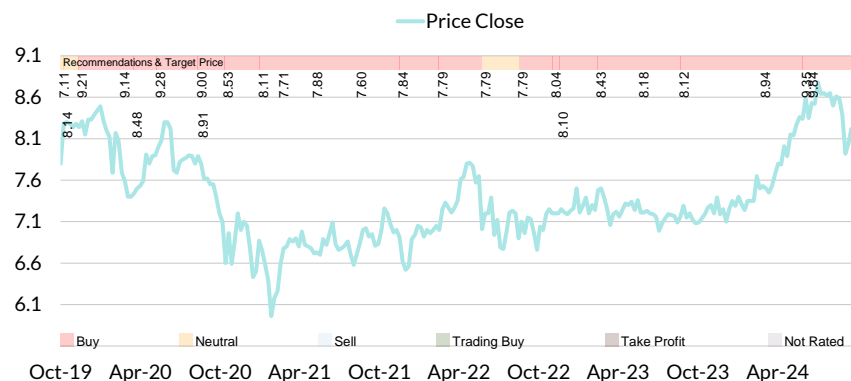
- MISC has begun making inroads into developing internal carbon pricing mechanism by conducting sensitivity assessments and is looking to apply it in the sensitivity analysis considerations of its projects.
- The group entered into MOUs with Mitsui & Co. Ltd, Samsung Heavy Industries and Andritz AG in Jan 2023 to tap into opportunities for CCS solutions in the maritime value chain which includes identifying storage hubs, development of floating solutions and carbon capture parts and equipment.
- The group also signed MOUs to take the lead in developing and constructing zero emission tankers and zero-emission ammonia-fuelled vessels.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-08-25	Buy	9.84	8.59
2024-05-31	Buy	9.35	8.34
2024-02-28	Buy	8.94	7.58
2023-11-23	Buy	8.12	7.19
2023-08-25	Buy	8.12	7.16
2023-05-24	Buy	8.18	7.30
2023-02-15	Buy	8.43	7.33
2022-11-20	Buy	8.10	7.20
2022-11-04	Buy	8.04	7.20
2022-08-19	Buy	7.79	6.90
2022-05-27	Neutral	7.79	7.01
2022-02-17	Buy	7.79	7.00
2021-11-18	Buy	7.84	6.96
2021-08-15	Buy	7.60	6.71
2021-05-07	Buy	7.88	6.72

Source: RHB, Bloomberg

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