TRANSPORTATION & LOGISTICS

MISC

(MISC MK EQUITY, MISC.KL)

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AmInvestment Bank

Company Report

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Pre-bid signals from Kelidang development

HOLD

(Maintained)

Rationale for report: Company Update

Price	**RM7.29**
Fair Value	**RM7.81**
52-week High/Low	RM7.61/RM6.94

Key Changes

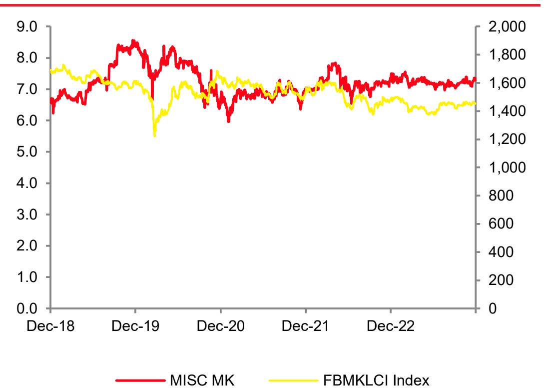
Fair value	⇔
EPS	⇔

YE to Dec	**FY22**	**FY23F**	**FY24F**	**FY25F**
Revenue (RM mil)	13,867.0	13,186.1	13,656.4	14,535.1
Core net profit (RM mil)	2,128.2	2,173.9	2,358.9	2,612.7
FD Core EPS (sen)	47.7	48.7	52.8	58.5
FD Core EPS growth (%)	20.8	2.1	8.5	10.8
Consensus Net Profit (RM mil)	-	2,305.0	2,401.0	2,554.3
DPS (sen)	33.0	33.0	33.0	33.0
PE (x)	15.3	15.0	13.8	12.5
EV/EBITDA (x)	9.1	8.9	8.9	8.7
Div yield (%)	4.6	4.6	4.6	4.6
ROE (%)	5.1	5.7	6.0	6.5
Net Gearing (%)	28.6	29.0	35.6	40.6

Stock and Financial Data

Shares Outstanding (million)	4,463.8
Market Cap (RMmil)	32,541.1
Book Value (RM/Share)	8.39
P/BV (x)	0.9
ROE (%)	5.1
Net Gearing (%)	28.6
Major Shareholders	Petronas (51.0%)
	EPF (12.7%)
	ASNB (6.8%)
Free Float	29.5
Avg Daily Value (RMmil)	12.2

Price performance	**3mth**	**6mth**	**12mth**
Absolute (%)	2.4	1.8	(0.8)
Relative (%)	1.4	(2.9)	0.6



Investment Highlights

- **We maintain HOLD on MISC with an unchanged sum-of-parts (SOP) based fair value of RM7.81/share, which implies an FY24F EV/EBITDA of 8.4x, slightly below its 3-year average of 9x (Exhibit 2). Our fair value also reflects a premium of 3% for our 4-star ESG rating (Exhibit 5).**

- ***Upstream*** **reported that Petronas had recently issued tender documents to selected floating production, storage and offloading (FPSO) suppliers for the Kelidang ultra-deepwater gas project offshore Brunei. A tender is expected by May 2024, whilst the award is likely to be handed out in 2025F after taking the final investment decision (FID). A pre-bid meeting will take place in January 2024.**

- **The Kelidang cluster is located on Block CA-2, about 125 km off the coast of Brunei (Exhibit 1) and contains 3 discoveries: Kelidang North East, Keratau and Keratau South West, which are said to have combined reserves of several trillion standard cubic feet of gas.**

- **The project is held through a joint venture with Shell and Brunei National Petroleum Company (PetroleumBrunei), with Petronas as the operator. It aims to provide backfill supply for Brunei's largest domestic LNG plant in Lumut.**

- **The projects' field development plan involves a FPSO vessel with a gas handling capacity of up to 450mil standard cubic feet per day (MMscfd) installed in water depth of 150 meters with a network of flowlines connecting up to 6 subsea trees installed in water depths of 2000 meters.**

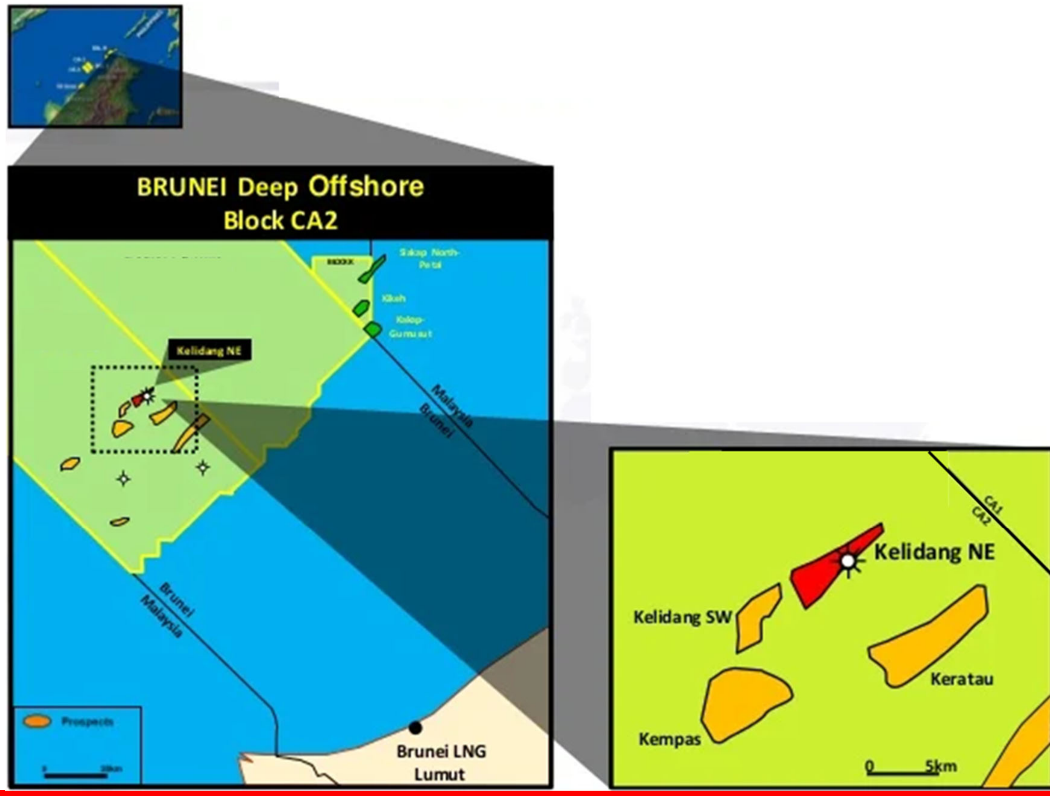
- ***Upstream*** **cited industry sources as saying that the proposed floater will be leased on a 12-year charter contract with an option period of 3 years. Additionally, Petronas is open towards both conversion and redeployment options, but the former is preferred given the lack of relevant spare vessels for use in the region.**

- **Companies that are said to be up for the job include MISC, Yinson, Bumi Armada, MTC Group, Bluewater, and Shapoorji Pallonji Energy.**

- **As Petronas's equity stake in MISC is 51%, we believe that MISC is well positioned to win the charter contract. Assuming a capex assumption of US$750mil, project IRR of 12%, WACC of 7.0% and 60:40 debt-to-equity structure, we estimate this could accrete 3.3% to MISC's SOP.**

- **MISC currently trades at a fair FY24F EV/EBITDA of 8.9x, close to its 3-year average of 9x.**

EXHIBIT 1: KELIDANG CLUSTER (BLOCK CA2) MAP



Source: Murphy Oil Corporation

EXHIBIT 2: SUM-OF-PARTS VALUATION TABLE

Major Operations	Value (RM mil)	Value (RM)/share	Remarks
Gas assets and solutions	23,585.4	5.28	DCF with WACC of 7%
Petroleum and product shipping	13,080.9	2.93	Estimated market value of fleet
Offshore business	4,894.2	1.10	DCF with WACC of 7%
MMHE	1,176.7	0.26	Book value; 66.5% stake
Mero-3 FPSO	1,832.4	0.41	US$2bil capex, WACC of 6%
(-) Net debt as at 31 Dec 2022	(10,727.5)	(2.40)	
Equity Value	**33,754.1**	**7.58**	
ESG premium (%)		3.00	
Fair Value		**7.81**	
EV		44,481.6	
FY24F EBITDA		5,267.6	
Implied EV/EBITDA		**8.4**	

Source: AmInvestment Bank

EXHIBIT 3: PB BAND CHART

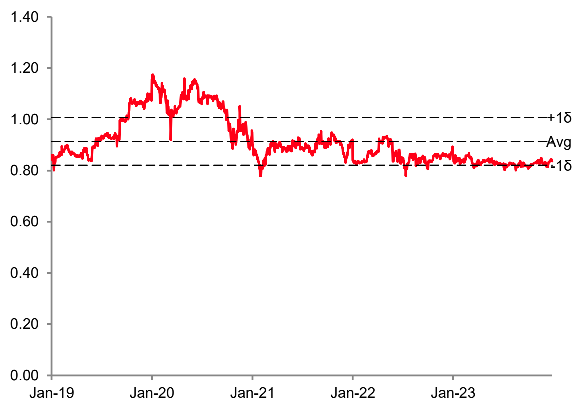


EXHIBIT 4: PE BAND CHART

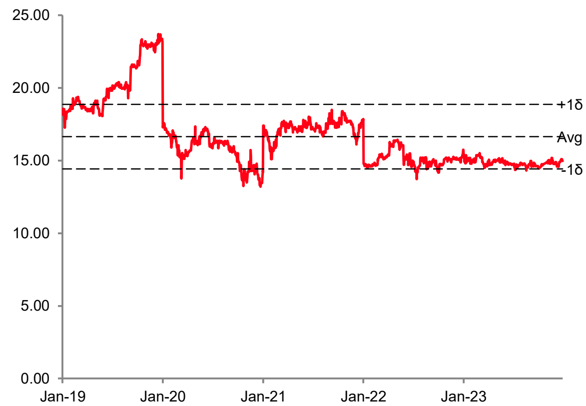


EXHIBIT 5: ESG RATING

Overall	★	★	★	★	
Zero-carbon initiatives	★	★	★	★	
Health & Safety Compliance	★	★	★	★	★
Shareholder accountability	★	★	★	★	
Social responsibility	★	★	★	★	
Pollution control	★	★	★	★	
Supply chain auditing	★	★	★	★	
Corruption-free pledge	★	★	★	★	
Accessibility & transparency	★	★	★		

We accord a discount/premium of ***-6%, -3%, 0%, +3%*** *and* ***+6%*** *on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star*

Source: AmInvestment Bank

EXHIBIT 1: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	10,671.7	13,867.0	13,186.1	13,656.4	14,535.1
EBITDA	3,751.5	4,766.0	4,920.3	5,267.6	5,646.1
Depreciation/Amortisation	(1,978.8)	(2,067.4)	(2,119.1)	(2,225.0)	(2,336.3)
Operating income (EBIT)	1,772.7	2,698.7	2,801.2	3,042.6	3,309.8
Other income & associates	301.1	(25.1)	(26.3)	(29.0)	(30.5)
Net interest	(369.1)	(494.0)	(522.8)	(569.8)	(572.5)
Exceptional items	69.9	(305.3)	-	-	-
Pretax profit	**1,774.6**	**1,874.3**	**2,252.2**	**2,443.9**	**2,706.8**
Taxation	(41.1)	(39.3)	(22.5)	(24.4)	(27.1)
Minorities/pref dividends	97.7	(12.1)	(55.7)	(60.5)	(67.0)
Net profit	**1,831.3**	**1,822.9**	**2,173.9**	**2,358.9**	**2,612.7**
Core net profit	1,761.4	2,128.2	2,173.9	2,358.9	2,612.7

Balance Sheet (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Fixed assets	23,411.7	24,305.0	25,057.9	27,678.6	30,124.2
Intangible assets	1,060.9	1,001.6	991.6	981.6	971.8
Other long-term assets	20,207.7	24,612.8	25,736.1	26,914.5	28,151.9
Total non-current assets	**44,680.3**	**49,919.3**	**51,785.5**	**55,574.8**	**59,247.9**
Cash & equivalent	7,952.3	7,134.0	8,211.3	7,314.7	5,103.8
Stock	120.1	97.9	88.9	90.2	95.6
Trade debtors	4,754.3	5,380.6	5,116.4	5,298.9	5,639.8
Other current assets	14.3	132.5	125.9	130.4	138.8
Total current assets	**12,841.1**	**12,744.9**	**13,542.5**	**12,834.2**	**10,978.0**
Trade creditors	4,041.8	5,147.7	4,675.3	4,744.9	5,027.8
Short-term borrowings	8,309.3	3,605.5	3,785.7	3,861.4	3,938.7
Other current liabilities	76.8	14.0	14.4	14.7	15.1
Total current liabilities	**12,427.9**	**8,767.2**	**8,475.4**	**8,621.0**	**8,981.5**
Long-term borrowings	8,719.7	14,256.1	15,681.7	17,600.5	17,776.5
Other long-term liabilities	1,449.0	1,336.9	1,402.9	1,473.1	1,546.8
Total long-term liabilities	**10,168.6**	**15,593.0**	**17,084.6**	**19,073.6**	**19,323.3**
Shareholders' funds	**34,162.7**	**37,458.7**	**38,866.9**	**39,752.8**	**40,892.5**
Minority interests	762.2	845.4	901.1	961.6	1,028.6
BV/share (RM)	7.65	8.39	8.71	8.91	9.16

Cash Flow (RMmil, YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Pretax profit	1,774.6	1,874.3	2,252.2	2,443.9	2,706.8
Depreciation/Amortisation	1,978.8	2,067.4	2,119.1	2,225.0	2,336.3
Net change in working capital	(973.8)	(1,978.8)	(199.2)	(114.3)	(63.4)
Others	129.0	1,079.2	1,143.4	1,191.1	1,192.8
Cash flow from operations	**2,908.6**	**3,042.1**	**5,315.4**	**5,745.8**	**6,172.5**
Capital expenditure	(3,775.2)	(2,293.5)	(3,500.0)	(4,394.0)	(4,349.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	640.0	350.6	331.0	340.8	351.5
Cash flow from investing	**(3,135.2)**	**(1,943.0)**	**(3,169.0)**	**(4,053.2)**	**(3,997.5)**
Debt raised/(repaid)	3,192.6	(167.4)	1,605.9	1,994.5	253.2
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(1,473.0)	(1,473.0)	(1,473.1)	(1,473.1)	(1,473.1)
Others	(220.6)	(399.7)	(519.4)	(532.7)	(546.2)
Cash flow from financing	**1,499.0**	**(2,040.2)**	**(386.6)**	**(11.2)**	**(1,766.0)**
Net cash flow	**1,272.3**	**(941.0)**	**1,759.8**	**1,681.3**	**409.0**
Net cash/(debt) b/f	**8,185.2**	**9,634.4**	**9,046.2**	**11,158.9**	**13,193.0**
Net cash/(debt) c/f	**9,634.4**	**9,046.2**	**11,158.9**	**13,193.0**	**13,954.8**

Key Ratios (YE 31 Dec)	FY21	FY22	FY23F	FY24F	FY25F
Revenue growth (%)	13.5	29.9	(4.9)	3.6	6.4
EBITDA growth (%)	(4.2)	27.0	3.2	7.1	7.2
Pretax margin (%)	16.6	13.5	17.1	17.9	18.6
Net profit margin (%)	17.2	13.1	16.5	17.3	18.0
Interest cover (x)	4.8	5.5	5.4	5.3	5.8
Effective tax rate (%)	2.3	2.1	1.0	1.0	1.0
Dividend payout (%)	80.4	80.8	67.8	62.4	56.4
Debtors turnover (days)	163	142	142	142	142
Stock turnover (days)	6	4	4	4	4
Creditors turnover (days)	213	206	206	206	206

SOURCE: COMPANY, AMINVESTMENT BANK BHD ESTIMATES

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