

## MISC Bhd (MISC MK)

# A visit to Seri Alam LNG tanker in the Land of the Hornbill

### Maintain BUY. SOP-TP unchanged at MYR7.65

MISC hosted a group of sell-side analysts to visit its Seri Alam LNG tanker in Bintulu, Sarawak. Post-visit, we maintain BUY on MISC with an unchanged SOP-based TP of MYR7.65. We continue to like MISC for its: defensive nature from its LT LNG charters which provide recurring cash flows; and ii) decent dividend yields of ~5% for an investible, stable and solid blue-chip name.

### More about the Seri Alam LNG carrier

The LNG carrier was originally named Puteri Intan Dua and was built in 2005 (currently 18 years of age) by Samsung Shipbuilding & Heavy Industries Co. Ltd. It was renamed to Seri Alam in 2010 and has an LNG carrying capacity of 145.6k cbm. It is currently chartered to Petronas and we estimate the DCR to range between USD70k-80k and the total firm tenure period ranges between 20-25 years.

### Global LNG fleet expected to increase to 1k by 2026

Howe Robinson Partners (a global market-leading shipbroker) is forecasting that the global LNG fleet will exceed 1,000 units in 2026 (from about 700 currently). We believe that this is due to few key drivers: (i) growing LNG demand due to decarbonisation efforts globally as LNG offers a cleaner and acts as a transitional fuel during the shift to RE; (ii) LNG is more flexible and offers security of supply compared to pipeline gas - improving energy security for importing nations; (iii) increasing global energy consumption, driven by the general economic development and population growth.

### 3 term charters to expire in FY24E

Based on our findings, we understand that 3 of MISC's LT LNG charters are set to expire in FY24E, namely (i) Portovenere; (ii) Puteri Zamrud Satu; and (iii) Puteri Firuz Satu respectively. There will be 2 replacement newbuilds coming onstream in 2023, 4 in 2025 and 9 in 2026 - ensuring the longevity of MISC's free cash flows.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	10,672	13,867	12,440	12,116	13,031
EBITDA	3,792	4,415	4,706	4,744	4,986
Core net profit	1,780	2,074	2,133	2,168	2,406
Core EPS (sen)	39.9	46.5	47.8	48.6	53.9
Core EPS growth (%)	(17.5)	16.5	2.8	1.7	11.0
Net DPS (sen)	33.0	33.0	36.0	33.0	33.0
Core P/E (x)	17.7	16.1	14.9	14.6	13.2
P/BV (x)	0.9	0.9	0.8	0.8	0.8
Net dividend yield (%)	4.7	4.4	5.1	4.6	4.6
ROAE (%)	5.5	5.1	5.7	5.7	6.1
ROAA (%)	3.3	3.5	3.4	3.4	3.7
EV/EBITDA (x)	10.9	10.2	9.2	9.2	8.9
Net gearing (%) (incl perps)	26.0	28.0	27.7	28.2	29.2
Consensus net profit	-	-	2,159	2,327	2,463
MIBG vs. Consensus (%)	-	-	(1.2)	(6.8)	(2.3)

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## BUY

Share Price	MYR 7.10
12m Price Target	MYR 7.65 (+13%)
Previous Price Target	MYR 7.65

### Company Description

MISC is a leading provider of international energy-related maritime solutions and services

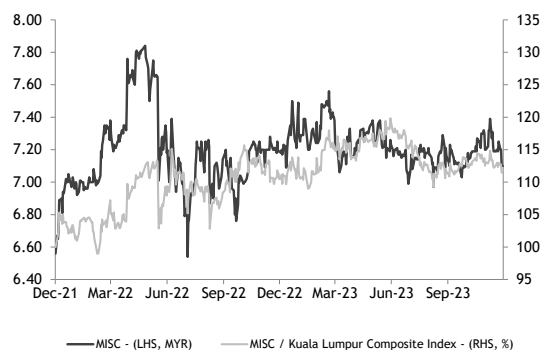
### Statistics

52w high/low (MYR)	7.56/6.97
3m avg turnover (USDm)	2.7
Free float (%)	32.2
Issued shares (m)	4,464
Market capitalisation	MYR31.7B
	USD6.8B

### Major shareholders:

Government of Malaysia	51.0%
Employees Provident Fund	12.4%
Permodalan Nasional Bhd.	7.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(1)	(1)
Relative to index (%)	(2)	0	0

Source: FactSet

ESG@MAYBANK IBG

Tear Sheet Insert

Risk Rating & Score <sup>1</sup>	17.8 (Low)
Score Momentum <sup>2</sup>	-0.3
Last Updated	06 Oct 2023
Controversy Score <sup>3</sup> (Updated: 30 Aug 2023)	2 - Operating Incidents (Emissions/Effluents/Waste)

## Business Model & Industry Issues

- MISC is among the world's 5 biggest shipping conglomerates. It has businesses in energy shipping, offshore floating platform, marine engineering, construction, conversion and repair, as well as port management services.
- The group strictly complies with various safety, regulatory and environmental standards in all its bases of operations globally. A member of the FTSE4Good Index for 8 consecutive years, it is also one of a few large Malaysian conglomerates that has made sustainability a core ethos, in line with the UN's Sustainable Development Goals (SDGs).
- Although the group has had its fair share of corporate governance issues in the past, it has displayed a resolute commitment towards reducing its environmental impacts and promoting fair labour practises. With an outward-looking management team keen on growing its international business and reducing revenue reliance on its parent (PETRONAS), MISC is well-placed to continue thriving as a global leader in the maritime energy trade.

### Material E issues

- In FY22, total GHG emissions: 4.2mtCO<sub>2</sub>e. (FY21: 4.2mtCO<sub>2</sub>e).
- FY22 air emissions: (NO<sub>x</sub>: 87t; SO<sub>x</sub>: 3.3kt; PM emission: 3t).  
FY21 air emissions: (NO<sub>x</sub>: 38.8kt; SO<sub>x</sub>: 3.9kt; PM emission: 3t).
- FY22 total group energy consumption: 58mGJ. (FY21: 59.0mGJ).
- FY22 total hazardous waste generation: 16.4kt (FY21: 15.8kt).
- FY22 total freshwater withdrawal: 799.5k m<sup>3</sup> (FY21: 658.2k m<sup>3</sup>).
- FY22 water consumption: 313.4k m<sup>3</sup> (FY21: 315.2k m<sup>3</sup>).
- FY22 total spills: 4 (FY21: 3).
- FY22 fines/penalties on environmental-related non-compliance: 2 (FY21: 1).

### Material S issues

- FY22 total working hours: 65.3m hours (FY21: 48.2m hours).
- FY22 number of lost time injury: 5 (FY21: 7).
- FY22 total employees: 9.4k (FY21: 8.9k).
- FY22 total female employees: 14.0% (FY21: 13.3%).
- FY22 employee data: (30 years old and below: 26.4%; 31-50 years old: 62.1%; over 50 years old: 11.5%). FY21 employee data: (30 years old and below: 23.4%; 31-50 years old: 64.7%; over 50 years old: 11.9%).
- FY22 non-Malaysian employee: 30.8% (FY21: 33.4%).
- FY22 average amount invested in training per employee: USD1.9k. (FY21: USD1.7k).

### Key G metrics and issues

- PETRONAS is the group's largest shareholder, with its latest controlling shareholding at 51%.
- Out of the total 12 Board members, 9 are independent directors (IDs), representing 75% of the Board.
- An experienced and gender-diversified board: 58% are above 60 years old and 42% are female.
- All 3 board committees (audit, nomination & remuneration, governance & risk) are chaired by and comprised of an independent majority.
- Total directors' remuneration is low at 0.1% of FY22 group core net profit (FY21: 0.1%).
- Audited by Ernst & Young (one of the Big Four Accounting Firms).
- In 2018, four senior employees were investigated by MACC for corruption, but no charges were pressed.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative Parameters (Score: 43)						
	Particulars	Unit	2019	2020	2021	K-Line (2020)
E	Scope 1 emissions	k tCO <sub>2</sub> e	4342.4	4132.4	4148.6	9,202.6
	Scope 2 emissions	k tCO <sub>2</sub> e	51.7	48.5	37.9	21.8
	<b>Total</b>	<b>k tCO<sub>2</sub>e</b>	<b>4394.1</b>	<b>4180.9</b>	<b>4186.6</b>	<b>9224.4</b>
	Scope 3 emissions	k tCO <sub>2</sub> e	N/A	N/A	1352.6	1,219.5
	<b>Total</b>	<b>k tCO<sub>2</sub>e</b>	<b>4394.1</b>	<b>4180.9</b>	<b>5539.2</b>	<b>10443.9</b>
	Fleets' carbon intensity efficiency ratio	gCO <sub>2</sub> e/ton-nm	5.7	6.0	6.5	4.5
	Energy consumption	GJ	60,341,818	58,771,890	58,956,125	N/A
	Fleet garbage generation per vessel	m <sup>3</sup>	71	65	71	42
	Fleet plastic waste generation per vessel	m <sup>3</sup>	32	27	27	N/A
	Total freshwater withdrawal	m <sup>3</sup>	740,542	635,686	658,153	N/A
S	Total spills	number	2	1	3	0
	Cases of environmental non-compliance	number	2	0	1	N/A
	Sox emissions	tonnes	30,500	3,352	3,922	N/A
	Nox emissions	tonnes	44,174	38,289	38,763	N/A
	% of women in workforce	%	12.5%	13.0%	13.3%	25.9%
% of women on the board	%	22.2%	27.3%	33.3%	10.0%	
Total turnover rate	%	26%	30%	22%	N/A	
Lost-time injury frequency	number	0.10	0.04	0.15	0.00	
Penalties concerning health and safety impacts	number	1	0	2	N/A	
Fatalities/major security incidents	number	0	1	0	0	
G	CEO's remuneration % of net profit	%	0.21%	-1.88%	0.18%	N/A
	Total directors' remuneration to avg staff cost	x	5.0	6.2	8.9	N/A
	Independent directors (tenure <10yrs)	%	44.4%	63.6%	66.7%	40.0%
	Major corruption and bribery cases	number	0	0	0	N/A

Qualitative Parameters (Score: 100)	
a) Is there an ESG policy in place and whether there is a standalone ESG Committee or is it part of Risk committee?	<i>Yes - it has an established sustainability framework established since 2012, lead by the Sustainability Steering Committee. In 2021 a Board Governance and Risk Committee was established to provide board oversight on sustainability</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>Yes, in 2021, the board approved the addition of ESG-related key performance indicators into the 2022 Management scorecard</i>
c) Does the company follow TCFD framework for ESG reporting?	<i>In 2021 MISC initiated the process of adopting TCFD. MISC is also a signatory to the Neptune Declaration on Seafarer Wellbeing and Crew Change, the Call to Action for Shipping Decarbonisation and became constituent of the Dow Jones Sustainability Emerging Markets Index</i>
d) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>Yes, from 2021 the company has started to capture Scope 3 - upstream leased assets, downstream leased assets and investments</i>
e) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>1) LNG dual-fuel DPSTs are fitted with volatile organic compound (VOC) recovery systems, the VOCs captured is reused as a supplementary fuel, along with other efficiencies helps save up to 4,000 tonnes of fuel/year per vessel, 2) installed a flare gas recovery system (FGRS) on FPSO Kikeh that recovers gas and uses it elsewhere in the facility reducing GHG emissions, 3) installation at offshore assets of a combined-cycle power system which reuses waste heat from the turbine exhaust to generate steam reducing emissions vs open cycle system</i>
f) Does carbon offset form part of the carbon mitigation plan?	<i>Yes - Offsets from nature-based sequestration or technological carbon removal projects will be used to compensate residual emissions to reach net zero by 2050, pathway suggests 12% of carbon emissions will need to be offset starting 2031</i>
g) Is there an ESG policy in place and whether there is a standalone ESG Committee or is it part of Risk committee?	<i>Yes - it has an established sustainability framework established since 2012, lead by the Sustainability Steering Committee. In 2021 a Board Governance and Risk Committee was established to provide board oversight on sustainability</i>

Target (Score: 100)		
Particulars	Target	Achieved
Net Zero GHG emissions by	2050	N/A
To reduce GHG intensity by 2030 for shipping operations (base year 2008)	-50%	-15%
Deploy zero emission vessels by	2030	N/A
<b>Impact</b>		
NA		
<b>Overall Score: 71</b>		
As per our ESG matrix, MISC (MISC MK) has an overall score of 71.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	43	21
Qualitative	25%	100	25
Target	25%	100	25
<b>Total</b>			<b>71</b>

As per our ESG assessment, MISC has an established framework, internal policies, and tangible targets. However, there is still room for improvements on areas such as carbon pricing implementation. MISC's overall ESG score is 71, which makes a very strong ESG rating and is well above the industry's average, in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

## Valuations

**Figure 1: Sum of Parts Valuation for MISC**

Division	Equity Value (MYR million)	Value/share (MYR)	Basis
Gas Assets & Solutions	19,456.1	4.36	NPV: WACC of 7.13%, TG: 0.5%
Petroleum	11,587.8	2.60	1.2x FY22 PBV
Offshore	13,217.1	2.96	NPV: WACC of 7.13% (firm period)
Heavy Engineering	659.7	0.15	Consensus's TP of MYR0.68 for MMHE and MISC's stake of 66.5%
<b>Sub-total</b>	<b>44,920.6</b>		
FY23 Net Debt	-10,758.7		
<b>Total</b>	<b>34,161.9</b>		
No. of shares	4,463.8		
<b>Target Price (MYR/share)</b>	<b>7.65</b>		
WACC (Discount Rate)	7.13%		
Equity Risk Premium	3.70%		
Beta	1.15		

Source: Maybank IBG Research

## Risk statement

There are several risk factors affecting our earnings estimates, target price and rating for MISC. Abrupt changes in the momentum of petroleum tanker rates and bunker prices may lead to lower earnings for MISC. Additionally, sharp appreciation of MYR vis-a-vis USD will also affect its earnings, as the group's revenue is almost entirely derived in USD. Lastly, disruptive force majeure events in relation to the construction of the Mero 3 FPSO could also pose a drag on MISC's earnings.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	16.6	17.6	14.9	14.6	13.2
Core P/E (x)	17.7	16.1	14.9	14.6	13.2
P/BV (x)	0.9	0.9	0.8	0.8	0.8
P/NTA (x)	0.9	0.9	0.8	0.8	0.8
Net dividend yield (%)	4.7	4.4	5.1	4.6	4.6
FCF yield (%)	nm	2.2	6.9	5.4	4.4
EV/EBITDA (x)	10.9	10.2	9.2	9.2	8.9
EV/EBIT (x)	22.4	18.8	16.0	15.9	14.9
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	10,671.7	13,867.0	12,439.8	12,116.2	13,030.9
EBITDA	3,791.7	4,414.8	4,706.0	4,743.6	4,986.5
Depreciation	(1,949.1)	(2,021.4)	(2,000.0)	(2,000.0)	(2,000.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,842.6	2,393.4	2,706.0	2,743.6	2,986.5
Net interest income / (exp)	(369.1)	(494.0)	(616.1)	(617.2)	(617.2)
Associates & JV	301.1	(25.1)	103.0	103.0	103.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,774.6	1,874.3	2,193.0	2,229.4	2,472.3
Income tax	(41.1)	(39.3)	(48.2)	(49.0)	(54.4)
Minorities	97.7	(12.1)	(12.0)	(12.0)	(12.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,831.3	1,822.9	2,132.7	2,168.3	2,405.9
Core net profit	1,780.1	2,074.1	2,132.7	2,168.3	2,405.9
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	7,952.3	7,134.0	8,102.8	8,214.8	7,534.8
Accounts receivable	4,754.3	5,380.6	4,826.8	4,701.2	5,056.1
Inventory	120.1	97.9	87.8	85.5	92.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	38,851.2	39,057.8	39,557.8	40,557.8	42,057.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,068.5	1,335.6	1,438.6	1,541.6	1,644.7
Other assets	4,774.9	9,658.4	9,658.4	9,658.4	9,658.4
<b>Total assets</b>	<b>57,521.5</b>	<b>62,664.2</b>	<b>63,672.2</b>	<b>64,759.4</b>	<b>66,043.8</b>
ST interest bearing debt	8,309.3	3,605.5	4,105.5	4,355.5	4,355.5
Accounts payable	4,041.8	5,147.7	4,617.9	4,497.7	4,837.3
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	8,719.7	14,256.1	14,756.1	15,006.1	15,006.1
Other liabilities	1,526.0	1,351.0	1,351.0	1,351.0	1,351.0
<b>Total Liabilities</b>	<b>22,596.5</b>	<b>24,360.2</b>	<b>24,830.4</b>	<b>25,210.2</b>	<b>25,549.8</b>
Shareholders Equity	34,162.7	37,458.7	37,984.4	38,679.7	39,612.6
Minority Interest	762.2	845.4	857.4	869.4	881.4
<b>Total shareholder equity</b>	<b>34,924.9</b>	<b>38,304.1</b>	<b>38,841.8</b>	<b>39,549.1</b>	<b>40,494.0</b>
<b>Total liabilities and equity</b>	<b>57,521.5</b>	<b>62,664.2</b>	<b>63,672.2</b>	<b>64,759.4</b>	<b>66,043.8</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	1,774.6	1,874.3	2,193.0	2,229.4	2,472.3
Depreciation & amortisation	1,949.1	2,021.4	2,000.0	2,000.0	2,000.0
Adj net interest (income)/exp	342.1	412.5	616.1	617.2	617.2
Change in working capital	(973.8)	(1,978.8)	34.0	7.7	(21.8)
Cash taxes paid	(44.0)	(56.7)	(48.2)	(49.0)	(54.4)
Other operating cash flow	(139.4)	769.4	(103.0)	(103.0)	(103.0)
Cash flow from operations	2,908.6	3,042.1	4,691.8	4,702.3	4,910.3
Capex	(3,775.2)	(2,293.5)	(2,500.0)	(3,000.0)	(3,500.0)
Free cash flow	(866.6)	748.6	2,191.8	1,702.3	1,410.3
Dividends paid	(1,473.0)	(1,473.0)	(1,607.0)	(1,473.1)	(1,473.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	3,192.6	(167.4)	1,000.0	500.0	0.0
Other invest/financing cash flow	419.4	(49.1)	(616.1)	(617.2)	(617.2)
Effect of exch rate changes	176.9	352.8	0.0	0.0	0.0
Net cash flow	1,449.2	(588.2)	968.8	112.0	(680.0)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	13.5	29.9	(10.3)	(2.6)	7.5
EBITDA growth	(5.4)	16.4	6.6	0.8	5.1
EBIT growth	(3.3)	29.9	13.1	1.4	8.9
Pretax growth	nm	5.6	17.0	1.7	10.9
Reported net profit growth	nm	(0.5)	17.0	1.7	11.0
Core net profit growth	(17.5)	16.5	2.8	1.7	11.0
<b>Profitability ratios (%)</b>					
EBITDA margin	35.5	31.8	37.8	39.2	38.3
EBIT margin	17.3	17.3	21.8	22.6	22.9
Pretax profit margin	16.6	13.5	17.6	18.4	19.0
Payout ratio	80.4	80.8	75.3	67.9	61.2
<b>DuPont analysis</b>					
Net profit margin (%)	17.2	13.1	17.1	17.9	18.5
Revenue/Assets (x)	0.2	0.2	0.2	0.2	0.2
Assets/Equity (x)	1.7	1.7	1.7	1.7	1.7
ROAE (%)	5.5	5.1	5.7	5.7	6.1
ROAA (%)	3.3	3.5	3.4	3.4	3.7
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(15.3)	(27.4)	(44.8)	(45.6)	(45.9)
Days receivable outstanding	146.9	131.6	147.7	141.6	134.8
Days inventory outstanding	4.7	3.9	3.7	3.6	3.5
Days payables outstanding	166.9	162.8	196.3	190.7	184.2
Dividend cover (x)	1.2	1.2	1.3	1.5	1.6
Current ratio (x)	1.0	1.4	1.5	1.5	1.4
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.5	2.6	2.6	2.6	2.6
Net gearing (%) (incl perps)	26.0	28.0	27.7	28.2	29.2
Net gearing (%) (excl. perps)	26.0	28.0	27.7	28.2	29.2
Net interest cover (x)	5.0	4.8	4.4	4.4	4.8
Debt/EBITDA (x)	4.5	4.0	4.0	4.1	3.9
Capex/revenue (%)	35.4	16.5	20.1	24.8	26.9
Net debt/ (net cash)	9,076.7	10,727.5	10,758.7	11,146.7	11,826.8

Source: Company; Maybank IBG Research

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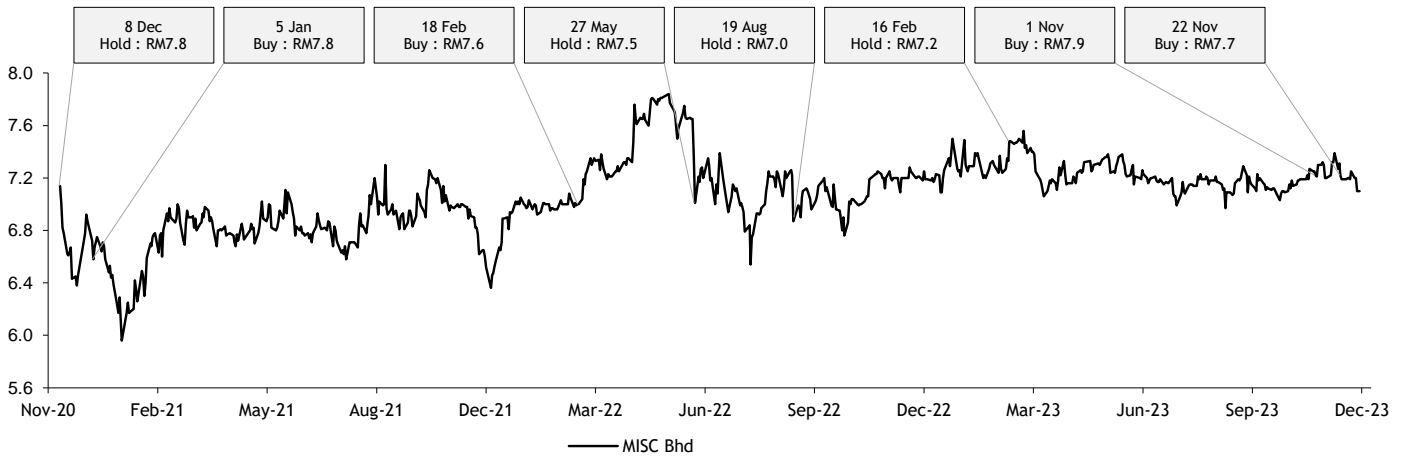
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