

# MISC Bhd (MISC MK)

## A defensive name

### Maintain BUY with an unchanged SOP-TP of MYR8.34

We continue to like MISC for its: i) defensive nature from LT LNG charters which provide recurring cash flows; ii) and attractive dividend yields of 5.0% for an investible, stable blue-chip name. Our DPS payout assumption for FY25-27E stands at a conservative 36 sen annually. We reiterate our BUY recommendation on MISC with an unchanged SOP-based TP of MYR8.34 and no changes to our FY25-27E earnings estimates.

### Mero 3 has finally de-risked after achieving first oil

Based on TotalEnergies's official press release ([link](#)), Mero 3 has successfully achieved first oil on 30 Oct 2024. Despite recording an additional cost provision of c.USD150m in 4Q24, we are confident that MISC will begin on a new, clean slate for its Offshore Business Unit (OBU) segment in FY25E. After Mero 3's successful first oil, we highlight that MISC has de-risked from construction, project and delivery risks & cost overruns.

### Upside to DPS payout of 36 sen?

Mero 3 will rake in bareboat charter rates of USD595k/day (based on our assumption) beginning 30 Oct 2024 for 22.5 years. This will boost MISC's cash flows and could translate into a potentially a higher dividend payout from FY25E, in our view. The delivery of Mero 3 should free up MISC's balance sheet to bid for new jobs in the current global FPSO upcycle. Management has repeatedly guided over the past few quarters that it would likely collaborate with a strategic partner to share resources, capabilities and risks.

### Offers defensiveness

MISC is a defensive name in our view, with its LT LNG, Petroleum tankers and FPSO/FSO assets that provides recurring, stable earnings & cash flows. We view MISC's valuations undemanding at current levels, trading at a 12x of FY26E forecasts - close to its -2SD of its 5-year forward PER valuations. Our annual DPS estimate of 36 sen implies a dividend yield of 5.0%, which we believe would be supportive of MISC's share price.

FYE Dec (MYR m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	14,272	13,238	13,719	14,390	14,420
EBITDA	4,858	4,070	5,116	5,333	5,258
Core net profit	2,410	2,096	2,400	2,687	2,693
Core EPS (sen)	54.0	47.0	53.8	60.2	60.3
Core EPS growth (%)	61.6	(13.0)	14.5	12.0	0.2
Net DPS (sen)	36.0	36.0	36.0	36.0	36.0
Core P/E (x)	13.5	16.2	13.2	11.8	11.8
P/BV (x)	0.8	0.9	0.8	0.8	0.8
Net dividend yield (%)	4.9	4.7	5.1	5.1	5.1
ROAE (%)	5.5	3.1	6.3	6.9	6.7
ROAA (%)	3.8	3.3	4.0	4.5	4.6
EV/EBITDA (x)	8.9	10.7	7.9	7.4	7.3
Net gearing (%) (incl perps)	24.6	23.0	20.3	16.8	13.5
Consensus net profit	-	-	2,337	2,470	2,686
MIBG vs. Consensus (%)	-	-	2.7	8.8	0.3

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# BUY

Share Price MYR 7.11  
12m Price Target MYR 8.34 (+17%)  
Previous Price Target MYR 8.34

### Company Description

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

### Statistics

52w high/low (MYR)	8.90/6.93
3m avg turnover (USDm)	3.0
Free float (%)	30.5
Issued shares (m)	4,464
Market capitalisation	MYR31.7B USD7.2B

### Major shareholders:

PETRONAS	52.2%
Employees Provident Fund	12.9%
Permodalan Nasional Bhd.	7.7%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	(4)	(6)
Relative to index (%)	1	2	(4)

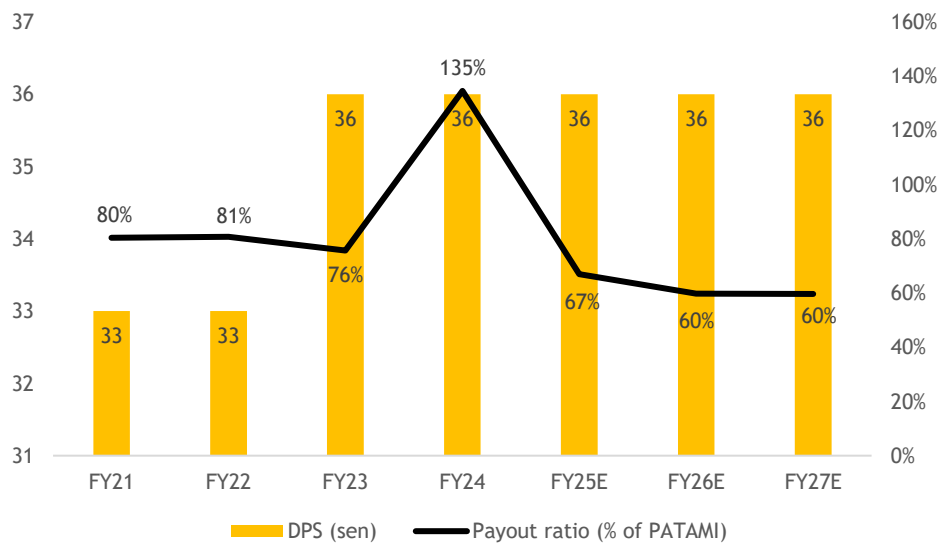
Source: FactSet

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

Division	Equity Value (MYR million)	Value/share (MYR)	Basis
Gas Assets & Solutions	24,200.0	5.42	NPV: WACC of 7.0%, TG: 0.3%
Petroleum	8,251.4	1.85	0.8x FY23 PBV
Offshore	11,993.6	2.69	NPV: WACC of 7.0% (firm period)
Heavy Engineering	712.9	0.16	Consensus's TP of MYR0.67 for MMHE and MISC's stake of 66.5%
<b>Sub-total</b>	<b>45,157.9</b>		
FY26E Net Debt	-7,940.9		
<b>Total</b>	<b>37,217.0</b>		
No. of shares	4,463.8		
<b>Target Price (MYR/share)</b>	<b>8.34</b>		

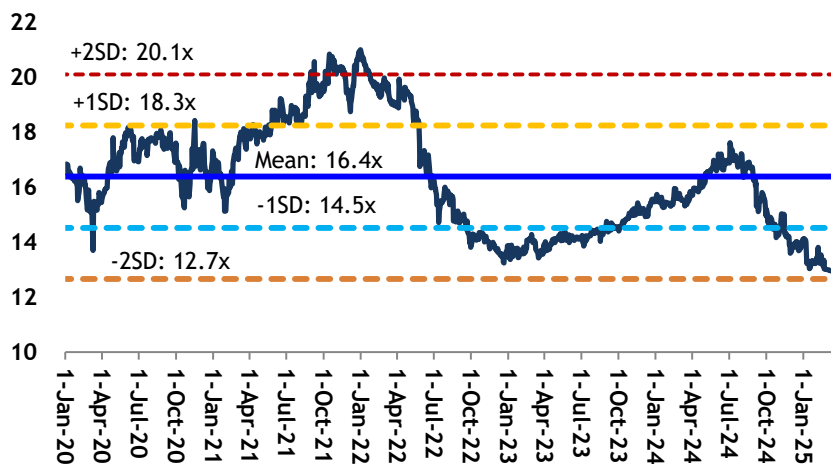
Source: Maybank IBG Research

**Fig 2: MISC's dividend and payout ratio chart (FY21-27E)**



Note: FY24 payout ratio would be 67% of core PATAMI (ex impairments), Source: Maybank IBG Research

**Fig 3: MISC's 5-year forward PER chart**



Source: Maybank IBG Research, Bloomberg

## 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.

## Appendix I

### Methodology of our proprietary ESG scoring methodology

We evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%).

For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters, to derive the score of each of the three parameters.

The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

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Risk Rating & Score <sup>1</sup>	17.8 (Low)
Score Momentum <sup>2</sup>	-0.0
Last Updated	23 May 2024
Controversy Score <sup>3</sup> (Updated: 16 Aug 2024)	2 - Operations Incidents (Emissions, Effluences & Waste)

## Business Model & Industry Issues

- MISC is among the world's 5 biggest shipping conglomerates. It has businesses in energy shipping, offshore floating platforms, 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 impact 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.
- MISC scores above average in our proprietary ESG scoring methodology (see next page) with an overall score of 67/100.

### Material E issues

- In FY23, total GHG emissions: 7,099k mtCO<sub>2</sub>e. (FY22: 7,072k tCO<sub>2</sub>e).
- FY23 NO<sub>x</sub>: 43.7t (FY22: 43.3kt).
- FY23 SO<sub>x</sub>: 3.9kt (FY22: 3.7kt).
- FY23 total group energy consumption: 16.6 GWh (FY22: 17.1 GWh).
- FY23 total freshwater withdrawal: 883.0k m<sup>3</sup> (FY22: 799.5k m<sup>3</sup>).
- FY23 cases of environmental non-compliance: 0 (FY22: 2).
- FY23 total spill incidents: 2 (FY22: 4).

### Material S issues

- FY23 LTIF: 0.09 (FY22: 0.08).
- FY23 penalties concerning health & safety impact: 0 (FY22: 2).
- FY23 work-related fatalities/major incidents: 3 (FY22: 0).
- FY23 total female employees: 15% (FY22: 14%).
- FY23 percentage of women in management roles: 24.7% (FY22: 24.0%).
- FY23 employee data: 30 years old and below: 28.9%; 31-50 years old: 59.9%; over 50 years old: 11.2%. (FY22 employee data: 30 years old and below: 26.4%; 31-50 years old: 62.1%; over 50 years old: 11.5%).
- FY23 non-Malaysian employee: 31.1% (FY22: 30.8%).
- FY23 average training hours per employee: 30 hours (FY22: 24 hours).

### Key G metrics and issues

- PETRONAS is the group's largest shareholder, with its latest controlling shareholding at 51%.
- Out of the total 8 Board members, 5 are independent directors (IDs), representing 63% of the Board.
- An experienced and gender-diversified Board where 88% are above 60 years old and 50% are female.
- All 3 Board committees (audit, nomination & remuneration, governance & risk) are chaired by and comprised of an independent majority.
- CEO's remuneration is at 0.15% of FY23 group net profit (FY22: 0.17%).
- 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: 33)						
	Particulars	Unit	FY21	FY22	FY23	K-Line (FY23)
E	Scope 1 emissions	k tCO <sub>2</sub> e	4,135.6	4,184.2	4,106.2	6,551.0
	Scope 2 emissions	k tCO <sub>2</sub> e	37.9	40.6	39.9	17.6
	<b>Total</b>	<b>k tCO<sub>2</sub>e</b>	<b>4,173.5</b>	<b>4,224.8</b>	<b>4,146.1</b>	<b>6,568.6</b>
	Scope 3 emissions	k tCO <sub>2</sub> e	1,344.2	2,846.8	2,953.0	4,027.5
	<b>Total</b>	<b>k tCO<sub>2</sub>e</b>	<b>5,517.7</b>	<b>7,071.6</b>	<b>7,099.1</b>	<b>10,596.1</b>
	Fleets' carbon intensity efficiency ratio (per unit of transport work)	gCO <sub>2</sub> e/ton-nm	6.5	6.3	5.8	N/A
	Energy consumption	GWh	16,842	17,110	16,635	890,815
	Fleet garbage generation per vessel	m <sup>3</sup>	65	67	70	N/A
	Total freshwater withdrawal	m <sup>3</sup>	658,153	799,532	883,033	N/A
	Total spills	number	3	4	2	0
S	Cases of environmental non-compliance	number	1	2	0	N/A
	SO <sub>x</sub> emissions	tonnes	3,213	3,679	3,932	29,963
	NO <sub>x</sub> emissions	tonnes	42,552	43,260	43,663	117,089
	% of women in workforce	%	13%	14%	15%	29.0%
	% of women in management roles	%	22.9%	24.0%	24.7%	6.8%
	Average training hours per employee	hours	N/A	24	30	160
	Lost-time injury frequency	number	0.15	0.08	0.09	0.57
	Penalties concerning health and safety impacts	number	2	2	0	N/A
	Fatalities/major security incidents	number	0	0	3	0
	G	CEO's remuneration % of net profit	%	0.18%	0.17%	0.15%
Total directors' remuneration net profit		%	0.33%	0.33%	0.28%	N/A
Independent directors (tenure <10yrs)		%	66.7%	66.7%	62.5%	50.0%
% of women on the board		%	33.3%	41.7%	50.0%	12.5%
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>MISC has a Sustainability Framework in place. The ultimate oversight of MISC's ESG/Sustainability performance is the Board.</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>Yes, MISC publishes a standalone TCFD report as well.</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, business travel, employee commute, purchased goods &amp; services, fuel &amp; energy related activities 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, where the VOCs captured are reused as supplementary fuel - this, along with other efficiencies, help 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 the recovered gas elsewhere in the facility - which reduce GHG emissions, 3) installation of a combined-cycle power system at its offshore assets - which reuses waste heat from the turbine exhaust to generate steam, thus reducing emissions vs. an 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; the pathway suggests 12% of carbon emissions will need to be offset starting 2031.</i>

Target (Score: 100)		
Particulars	Target	Achieved
Net Zero GHG emissions by 2050	2050	N/A
To reduce GHG intensity by 2030 for shipping operations (base year 2008)	-50%	-15%
Lost Time Injury Frequency (LTIF) <0.19	<0.19	0.09
Total Recordable Case Frequency (TRCF) <0.59	<0.59	0.31
27% reduction in plastic waste generation per vessel by 2025	-27%	N/A
Increase the annual 3R rate of non-hazardous waste generated to 70% by 2025	70%	3%
Deploy zero emission vessels by 2030	2030	N/A
<b>Impact</b>		
NA		
<b>Overall Score: 67</b>		
As per our ESG matrix, MISC (MISC MK) has an overall score of 67.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	33	17
Qualitative	25%	100	25
Target	25%	100	25
<b>Total</b>			<b>67</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 **67**, 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).

FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Key Metrics</b>					
P/E (reported) (x)	15.2	29.6	13.2	11.8	11.8
Core P/E (x)	13.5	16.2	13.2	11.8	11.8
P/BV (x)	0.8	0.9	0.8	0.8	0.8
P/NTA (x)	0.8	0.9	0.8	0.8	0.8
Net dividend yield (%)	4.9	4.7	5.1	5.1	5.1
FCF yield (%)	9.8	7.3	9.5	10.2	10.0
EV/EBITDA (x)	8.9	10.7	7.9	7.4	7.3
EV/EBIT (x)	15.9	22.8	13.7	12.4	12.3

**INCOME STATEMENT (MYR m)**

Revenue	14,271.7	13,237.5	13,718.8	14,389.6	14,419.9
EBITDA	4,857.5	4,070.4	5,116.3	5,332.6	5,258.4
Depreciation	(2,149.0)	(2,165.2)	(2,158.4)	(2,158.4)	(2,158.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	2,708.5	1,905.2	2,957.9	3,174.2	3,100.0
Net interest income / (exp)	(730.5)	(718.8)	(539.8)	(459.8)	(379.8)
Associates & JV	115.7	97.1	97.1	97.1	97.1
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	2,093.7	1,283.5	2,515.3	2,811.5	2,817.3
Income tax	(134.8)	(50.3)	(75.5)	(84.3)	(84.5)
Minorities	164.6	(39.7)	(39.7)	(39.7)	(39.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2,123.5	1,193.5	2,400.1	2,687.5	2,693.1
Core net profit	2,409.8	2,096.2	2,400.1	2,687.5	2,693.1

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	7,731.6	6,676.6	5,553.4	4,710.8	3,896.8
Accounts receivable	5,997.7	6,076.3	6,297.2	6,605.1	6,619.1
Inventory	92.9	105.9	109.8	115.1	115.4
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	38,316.3	43,527.5	43,369.1	43,210.7	43,052.3
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,485.4	1,660.0	1,757.1	1,854.2	1,951.3
Other assets	11,436.2	2,388.9	2,388.9	2,388.9	2,388.9
<b>Total assets</b>	<b>65,060.1</b>	<b>60,435.2</b>	<b>59,475.5</b>	<b>58,884.9</b>	<b>58,023.7</b>
ST interest bearing debt	1,719.4	3,332.9	2,332.9	1,332.9	332.9
Accounts payable	6,110.6	5,706.2	5,913.7	6,202.8	6,215.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	15,825.6	12,161.4	11,161.4	10,161.4	9,161.4
Other liabilities	1,439.0	921.0	921.0	921.0	921.0
<b>Total Liabilities</b>	<b>25,094.3</b>	<b>22,121.7</b>	<b>20,329.2</b>	<b>18,618.3</b>	<b>16,631.4</b>
Shareholders Equity	39,285.8	37,604.1	38,397.2	39,477.7	40,563.8
Minority Interest	680.0	709.4	749.1	788.8	828.5
<b>Total shareholder equity</b>	<b>39,965.8</b>	<b>38,313.5</b>	<b>39,146.3</b>	<b>40,266.5</b>	<b>41,392.3</b>
<b>Total liabilities and equity</b>	<b>65,060.1</b>	<b>60,435.2</b>	<b>59,475.5</b>	<b>58,884.9</b>	<b>58,023.7</b>

**CASH FLOW (MYR m)**

Pretax profit	2,093.7	1,283.5	2,515.3	2,811.5	2,817.3
Depreciation & amortisation	2,149.0	2,165.2	2,158.4	2,158.4	2,158.4
Adj net interest (income)/exp	330.5	272.8	539.8	459.8	379.8
Change in working capital	973.9	176.7	(17.3)	(24.1)	(1.1)
Cash taxes paid	(60.1)	(102.3)	(75.5)	(84.3)	(84.5)
Other operating cash flow	216.4	487.8	(97.1)	(97.1)	(97.1)
Cash flow from operations	5,703.4	4,283.7	5,023.6	5,224.1	5,172.7
Capex	(2,523.4)	(1,812.9)	(2,000.0)	(2,000.0)	(2,000.0)
Free cash flow	3,180.0	2,470.8	3,023.6	3,224.1	3,172.7
Dividends paid	(1,606.9)	(1,606.9)	(1,607.0)	(1,607.0)	(1,607.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(1,150.8)	(1,539.1)	(2,000.0)	(2,000.0)	(2,000.0)
Other invest/financing cash flow	(505.5)	(398.3)	(539.8)	(459.8)	(379.8)
Effect of exch rate changes	229.5	(154.8)	0.0	0.0	0.0
<b>Net cash flow</b>	<b>146.3</b>	<b>(1,228.3)</b>	<b>(1,123.2)</b>	<b>(842.6)</b>	<b>(814.0)</b>

FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	2.9	(7.2)	3.6	4.9	0.2
EBITDA growth	10.0	(16.2)	25.7	4.2	(1.4)
EBIT growth	13.2	(29.7)	55.3	7.3	(2.3)
Pretax growth	11.7	(38.7)	96.0	11.8	0.2
Reported net profit growth	16.5	(43.8)	101.1	12.0	0.2
Core net profit growth	61.6	(13.0)	14.5	12.0	0.2
<b>Profitability ratios (%)</b>					
EBITDA margin	34.0	30.7	37.3	37.1	36.5
EBIT margin	19.0	14.4	21.6	22.1	21.5
Pretax profit margin	14.7	9.7	18.3	19.5	19.5
Payout ratio	75.7	134.6	67.0	59.8	59.7
<b>DuPont analysis</b>					
Net profit margin (%)	14.9	9.0	17.5	18.7	18.7
Revenue/Assets (x)	0.2	0.2	0.2	0.2	0.2
Assets/Equity (x)	1.7	1.6	1.5	1.5	1.4
ROAE (%)	5.5	3.1	6.3	6.9	6.7
ROAA (%)	3.8	3.3	4.0	4.5	4.6
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(43.3)	(54.9)	(45.4)	(46.5)	(45.9)
Days receivable outstanding	143.5	164.2	162.3	161.4	165.1
Days inventory outstanding	3.2	3.7	3.9	3.9	4.0
Days payables outstanding	190.1	222.9	211.6	211.9	215.0
Dividend cover (x)	1.3	0.7	1.5	1.7	1.7
Current ratio (x)	1.8	1.4	1.4	1.5	1.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.6	2.7	2.9	3.2	3.5
Net gearing (%) (incl perps)	24.6	23.0	20.3	16.8	13.5
Net gearing (%) (excl. perps)	24.6	23.0	20.3	16.8	13.5
Net interest cover (x)	3.7	2.7	5.5	6.9	8.2
Debt/EBITDA (x)	3.6	3.8	2.6	2.2	1.8
Capex/revenue (%)	17.7	13.7	14.6	13.9	13.9
Net debt/ (net cash)	9,813.4	8,817.7	7,940.9	6,783.5	5,597.5

Source: Company; Maybank IBG Research



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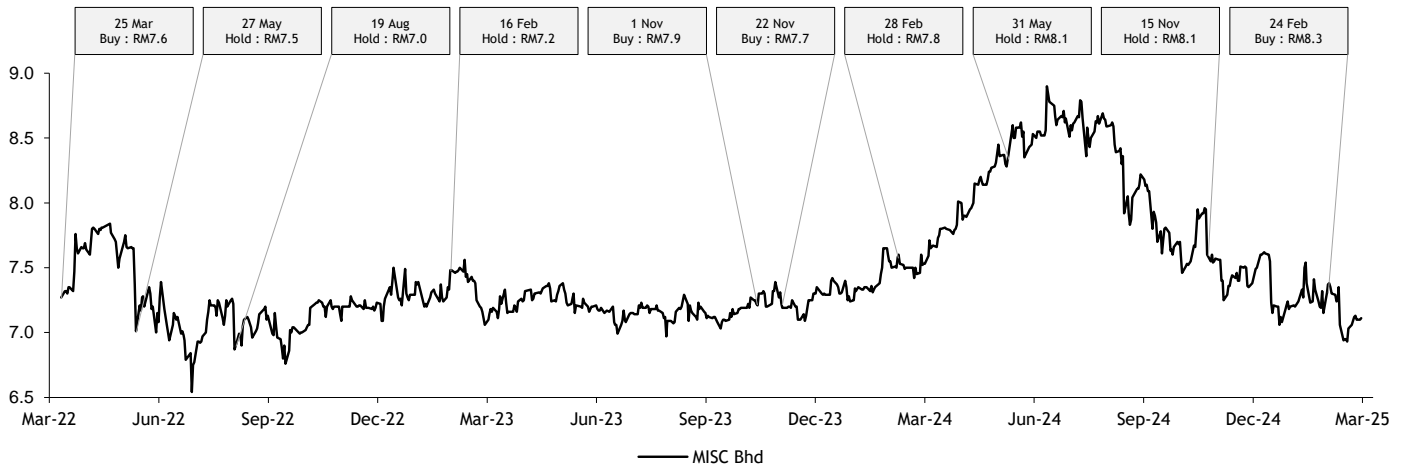
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