MISC (MISC MK)

Petroleum's Strength To Support Dividend Obligation

Highlights

- **Despite geopolitical risks and market turmoil□ crude tankers' fundamentals remain strong.** OPEC+'s new stance in supply management against tariffs and structural shifts in crude demand/refinery developments could generate short-term deviations in tanker spot rates, but time charter rates are still expected to remain strong. In the long run, global crude tanker fleet will remain tight, as the aged/sanctioned tanker mix remains substantially higher vs orderbook. This underpins the strong outperformance of Drewry's Crude Shipping Index (+37% ytd) vs the broader market (Russell 2000, +7% ytd).
- **Petroleum division's strength should mitigate downside risks and protect dividend obligation.** Granted, MISC's diversified business nature may be a reason it will trade at a discount vs pure global tanker stocks, but in hindsight we expect its petroleum division to remain strong, shielding downside risks especially for its LNG and offshore divisions. MISC strives to maintain its dividend payout yoy (but stresses that it is not a policy).
- **Maintain BUY with a target price of RM8.70**.

Analysis

- **Many feel-good market factors for crude tankers.** At the core of these is the continued pace of OPEC+'s unwinding of production cuts. Seasonally speaking, as we have passed the summer months (ie the period when nations like Saudi Arabia consume more oil domestically for power usage), and alongside growth in non-OPEC supply, Teekay Tankers we saw global seaborne crude trade volumes surge past 45m bpd in Sep 25. Open arbitrage also led to a surge in West-East voyages. All these underpin strong spot crude tanker rates. According to Allied Shipping Weekly, spot rates for VLCC/Suezmax/Aframax were US$62,934/US$57,062/US$37,625 respectively. Time charter rates remain stable at US$30,000-49,000.

Key Financials

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	14,272	13,238	16,240	13,667	15,050
EBITDA	4,695	4,202	4,810	5,359	5,977
Operating profit	2,881	2,594	3,028	3,410	3,860
Net profit (rep./act.)	2,124	1,882	2,415	2,697	3,133
Net profit (adj.)	2,498	1,882	2,415	2,697	3,132
EPS	56.0	52.4	54.1	60.4	70.2
PE	14.2	18.9	14.7	13.2	11.3
P/B	0.8	0.8	0.8	0.8	0.8
EV/EBITDA	9.2	10.0	8.9	8.2	7.5
Dividend yield	4.5	4.5	4.5	4.5	4.5
Net margin	14.9	9.0	14.9	19.7	20.8
Net debt/(cash) to equity	25.0	23.4	23.6	25.9	26.2
Interest cover	6.4	5.8	7.1	7.6	8.2
ROE	5.5	3.2	6.3	7.0	7.9
Consensus net profit	-	-	2,368	2,430	2,649
UOBKH/Consensus (x)	-	-	1.02	1.10	1.18

Source: MISC, Bloomberg, UOB Kay Hian

BUY (Maintained)	
Share Price	RM7.30
Target Price	RM8.70
Upside	+30.7%

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Stock Data

GICS Sector	Energy
Bloomberg ticker	MISC MK
Shares issued (m)	4,460
Market cap (RMm)	32,585.0
Market cap (US$m)	7.580
3-mth avg daily t'over (US$m)	1.5-

Price Performance (%)

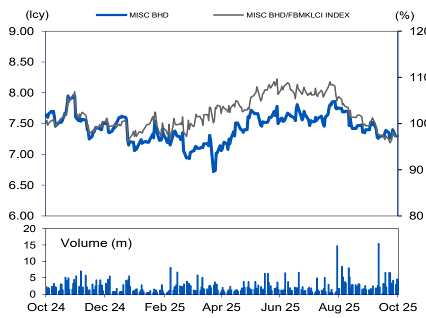
52-week high/low RM2.82/RM1.73

1mth	3mth	6mth	1yr	YTD
(1.0)	(0.8)	2.2	(6.1)	(4.0)

Major Shareholders

	%
Yinson Legacy	51.1
EPF	15.3

Price Chart



Source: Bloomberg

Company Description

Shipping company, it employs finance lease (FL) accounting for assets in which it has long-term charter contracts, especially liquefied natural gas carriers (LNGC). Within its petroleum fleet, it operates very large crude carriers (VLCC), mid-sized tankers, and dynamic positioning shuttle tankers (DPST). The offshore division operates floating, production, storage and offloading (FPSO) vessels

- **Offshore and LNG divisions still facing earnings risk.** For LNG, we retain our assumption that LNG earnings will still look weak for the 2H25 horizon as MISC is going through its fleet rejuvenation programme (to replace its aged steam-turbine LNGC that expired). We guided that this fleet rejuvenation will only be fully completed (and hence, the resolution of this earnings risk) by 2027.
- For the offshore division, the FPSO Marechal Duque de Caxias (Mero-3) is operating well and is expected to be a key cash flow contributor in the long run. Since its first oil on 30 Oct 24, the FPSO had lumpy closed-out costs in 2024, but achieved peak production capacity in May 25. However, due to the complexity of the project, we understand that the cash flow generation from FPSO Mero-3 is not expected to reach steady state within the 2025 horizon. We assume that the efficiency of the FPSO is at 85-90%.
- **Also each division assumes some costs to mature NED's business plans.** To recap, MISC strives to achieve its MISC2030 targets, ie: a) a 50% operating cash flow growth from the 2022 base, with b) a 25% OCF growth to come from new energy and decarbonisation (NED). NED had operationalised with operating cash flow of RM199m/RM285mm in 2023/24 respectively. However, we were not guided on the per-segment costs incurred for NED so far. We assume NED can be at advanced stages for the LNG division, as it is working closely with Petronas to develop liquefied carbon dioxide carriers; in its petroleum division, it is focusing on zero-emission ammonia tankers; and for offshore applications, it is developing the zero-emission ZEUS platform.

Valuation/Recommendation

- **Retain BUY with an SOTP-based target price of RM8.70** implying 14x 2026F PE after rolling over valuations to 2026 (in line with average five-year PE band). We advise accumulating on weakness as MISC weathers the near-term weak LNG outlook, which will be rebalanced by early deliveries of long-term charters, and the removal of the FPSO merger uncertainties. Hence, we retain LNG DCF discount of 25% by 2028.

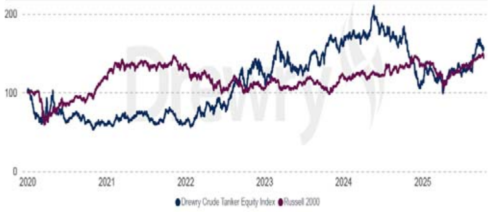
Earnings Revision/Risk

- **Retain earnings forecasts.** Despite prospects of early LNGC delivery within the 2025 horizon, we still assume LNG earnings may remain weak in 2H25, as we lack information on the exact contract expiries, layups, and spot charters.

Share Price Catalyst

- **Unexpected contract wins especially in offshore space.** Theoretically, for MISC to fulfil its 2030 targets, and given it typically requires 30 months (2-3 years) to construct a newbuild vessel in the yard, MISC will need to secure new vessel contracts by 2027. We understand that MISC is competing fiercely in the FPSO bids.

Drewry Crude Shipping Equity Index vs Russell 2000



Note: Drewry Crude Tanker Equity Index includes Frontline, DHT Holdings, Teekay Tankers, Nordic American Tankers, and Tsakos
Source: Drewry Maritime Financial Research

Spot Crude Tanker Rates

				last 12 months		
		03 Oct	w-o-w %	min	avg	max
altic tanker indices						
BDTI		1,087	-5.3%	799	979	1,152
BCTI		579	-7.8%	460	639	848
LCC						
VLCC-TCE	$/day	$62,934	-21.4%	$23,498	$40,760	$88,082
1 year period	$/day	$48,750	0.0%	$35,250	$42,241	$48,750
uezmax						
Suezmax-TCE	$/day	$57,062	-3.8%	$18,449	$40,933	$62,890
1 year period	$/day	$41,000	0.0%	$30,000	$33,259	$41,500
framax						
Aframax-TCE	$/day	$37,625	-1.7%	$23,251	$33,063	$51,450
1 year period	$/day	$33,500	0.0%	$26,250	$30,953	$38,750

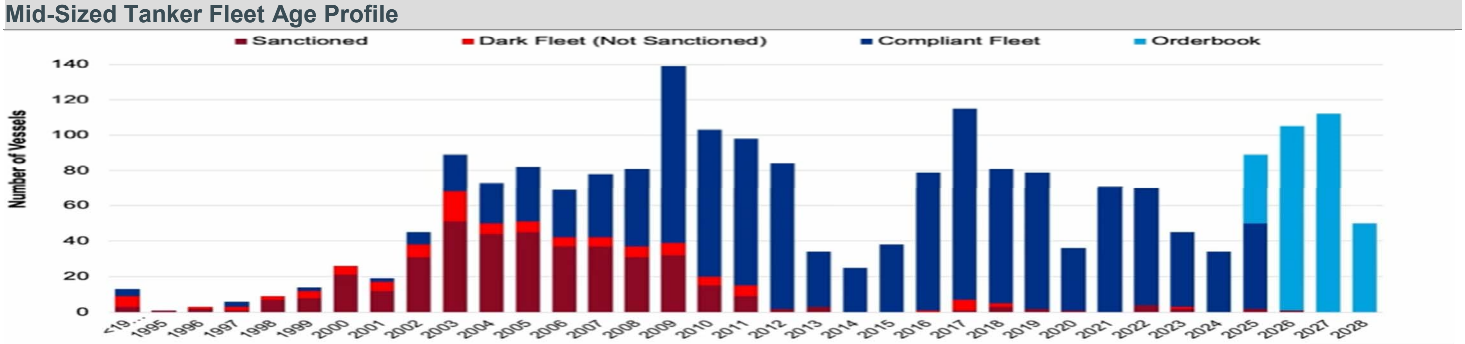
Source: Allied Weekly Shipping

SOTP Target Price

Segments	Valuation	RM/share
LNG	25% discount on DCF	1.78
Petroleum	1.4x P/B	3.46
MMHE (66.5%)	RM0.40 target price	0.09
Gumusut	1x (no DCF discount)	1.74
Kikeh (51%)	1x P/B	0.18
FPSO Mero 3	JV DCF, lesser 10% discount	0.48
Other offshore	0.9x P/B	0.43
(-) Net debt	LNG (RM5b); others RM4b	(0.75)
(+) New contracts	Potential contracts; FPSO and LNG	0.80
	14x 2026F PE	8.70

Source: UOB Kay Hian

Mid-Sized Tanker Fleet Age Profile



Source: Teekay Tankers

Profit & Loss

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Net turnover	13,238	16,240	13,667	15,050
EBITDA	4,203	4,810	5,360	5,977
Deprec. & amort.	1,609	1,782	1,950	2,117
EBIT	2,594	3,028	3,410	3,860
Total other non-operating income	n.a	n.a	n.a.	n.a.
Associate contributions	97	400	334	352
Net interest income/(expense)	-719	-682	-703	-730
Pre-tax profit	1,284	2,746	3,041	3,482
Tax	-50	-58	-64	-73
Minorities	-40	-273	-280	-276
Net profit	1,194	2,415	2,697	3,133

Balance Sheet

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Fixed assets	23,461	25,771	28,081	30,391
Other LT assets	22,974	19,788	19,436	18,840
Cash/ST investment	6,677	6,793	6,252	6,320
Other current assets	6,076	7,382	6,212	6,841
Total assets	60,435	61,852	62,277	65,078
ST debt	3,333	3,080	3,080	3,080
Other current liabilities	5,743	5,715	4,154	4,536
LT debt	12,161	12,777	13,393	14,009
Other LT liabilities	883	883	883	883
Shareholders' equity	37,604	38,412	39,503	41,029
Minority interest	709	983	1,262	1,539

Cash Flow

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Operating	4,277	4,753	5,296	5,904
Pre-tax profit	1,284	2,746	3,041	3,482
Tax	74	-58	-64	-73
Other operating cashflows	2,919	2,064	2,319	2,495
Investing	-1,192	-2,627	-3,827	-3,827
Capex (growth)	-1,985	-4,620	-4,620	-4,620
Others	793	1,993	793	793
Financing	-4,166	-2,011	-2,011	-2,011
Others/interest paid	-4,166	-2,011	-2,011	-2,011
Net cash inflow (outflow)	-1,080	115	-542	67
Beginning cash & cash equivalent	7,732	6,677	6,793	6,252
Ending cash & cash equivalent	6,677	6,793	6,252	6,320

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	31.7	29.6	39.2	39.7
Pre-tax margin	9.7	16.9	22.2	23.1
Net margin	9.0	14.9	19.7	20.8
ROA	2.0	4.1	4.6	5.2
ROE	3.2	6.3	7.0	7.9
Growth				
Turnover	37.9	69.2	42.4	56.8
EBITDA	0.5	15.0	28.1	42.9
Pre-tax profit	(54.4)	(2.4)	8.1	23.7
Net profit	(53.8)	(6.4)	4.5	21.4
Net profit (adj.)	20.1	24.0	38.5	60.9
EPS	20.1	24.0	38.5	60.9
Leverage				
Debt to total capital	40.4	40.3	40.4	40.1
Debt to equity	41.2	41.3	41.7	41.7
Net debt/(cash) to equity	23.4	23.6	25.9	26.2
Interest cover (x)	5.8	7.1	7.6	8.2

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