

05 May 2017 | 1QFY17 Results Review

MISC Berhad

Expecting a less volatile 2017

INVESTMENT HIGHLIGHTS

- **First quarter earnings within expectations**
- **The performance of MISC's core businesses were mixed**
- **Outlook stable for the rest of 2017**
- **Maintain NEUTRAL with reduced TP of RM7.90**

First quarter earnings within expectations. MISC reported 1QFY17 core PATAMI of RM540m (-13%yoy) which met both ours and consensus estimates representing 26% of full year FY16 forecasts.

Exceptional items. We excluded several items in deriving our core numbers: 1) Gain of RM289m - adjudication claim for Gumusut-Kakap (GKL) variation order, 2) Gain of RM31m - for disposal of Aman Bintulu LNG vessel, 3) Gain of RM45m - FSO Cendor revision of charter rates and 4) Loss of RM228m - further impairments on MOPU receivables.

The performance of MISC's core businesses were mixed:

- 1) LNG segment PBT improved +24%yoy** driven mainly by the delivery of two newbuilds - The Seri Camellia (delivery: Oct 2016) and Seri Cenderawasih (delivery: Jan 2017) which translated into an increase in effective LNG tonnage by +8% over FY16.
- 2) Petroleum tanker PBT fell -69%yoy** due to lower petroleum tanker rates resulting from OPEC production cuts which resulted in lower tonne mile demand for tankers in the Middle East. Meanwhile, significantly higher bunker fuel prices did not help.
- 3) Offshore PBT rose +22%yoy** following the full consolidation of GKL and progress claims for the conversion of FSO Benchamas 2.

Stable outlook for 2017. For the LNG segment, MISC will be taking delivery of its third Seri C Class LNG vessel at the end of the third quarter. Hence, contributions will only be seen from 4QFY17 onwards. Balancing some of these gains would be the dry docking of Puteri Intan Satu for refurbishment at end-3QFY17 and the Puteri Firus commencing its option extension which are at lower rates.

For the Petroleum tanker segment, MISC will be taking delivery of two LR2 vessels while lower costs from 4 fewer in-chartered vessels would help cushion continued softness in charter rates.

Maintain NEUTRAL

Unchanged Target Price (TP): RM7.90

RETURN STATS	
Price (4 May 2016)	RM7.42
Target Price	RM7.90
Expected Share Price Return	+6.5%
Expected Dividend Yield	+2.7%
Expected Total Return	+9.2%

STOCK INFO	
KLCI	1,758.67
Bursa / Bloomberg	3816 / MISC MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	4,463.8
Par Value (RM)	1.00
Market cap. (RM'm)	33,121.34
Price over NA	0.89
52-wk price Range	RM6.88 - RM8.38
Beta (against KLCI)	0.82
3-mth Avg Daily Vol	1.92m
3-mth Avg Daily Value	RM14.4m
Major Shareholders	
Petronas	62.67%
EPF	6.39%
PNB	5.60%


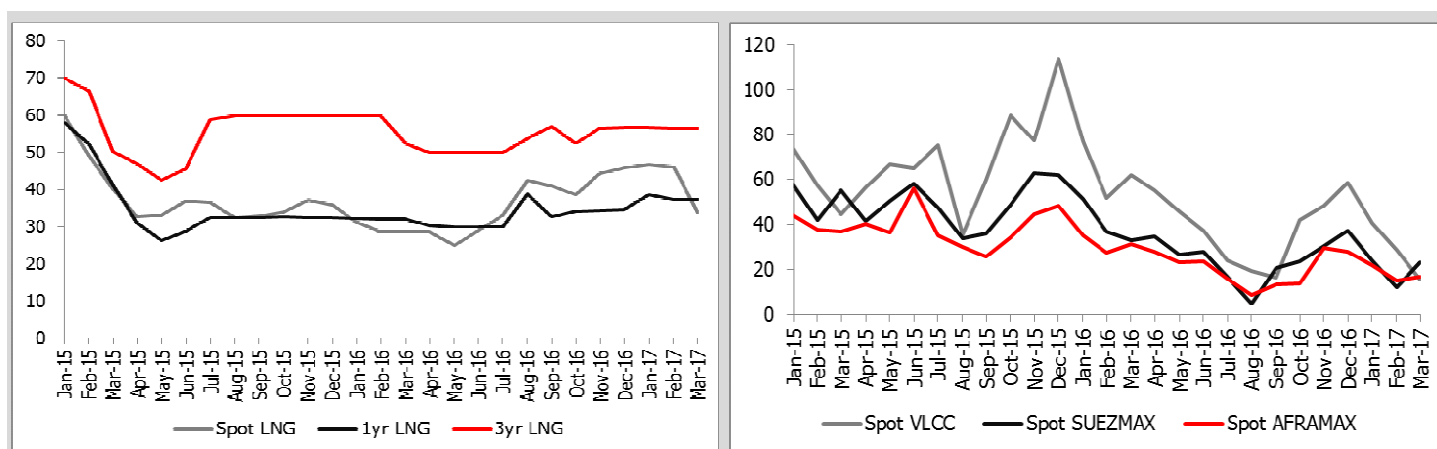
Maintain NEUTRAL with unchanged TP of RM7.90 based on sum-of-parts valuation. Our NEUTRAL call is premised on the oversupply of tonnage in both the LNG and petroleum segments which exerts pressure on charter rates. Impetus for us to revisit our call on MISC include 1) a drastic change in supply-demand dynamics occur driving the LNG or petroleum transportation market closer to equilibrium, 2) the securing of sizable projects in the offshore segment and 3) earnings accretive acquisitions utilising its cash pile of RM1.3b. 

Figure 1: LNG tanker rates (US\$'000/day)

Figure 2: Spot Petroleum tanker rates (US\$'000/day)



Source: Company, Ship Brokers' Reports, MIDFR

Segments	Value (US\$m)	Value/share (RM)	Valuation method
LNG	4,350.0	3.90	DCF (WACC: 6.5%)
Offshore	1,650.0	1.48	DCF (WACC: 7%)
Petroleum	2,353.0	2.11	2nd hand value of vessels
Chemical	114.1	0.10	2nd hand value of vessels
Heavy Engineering	149.0	0.13	Based on MIDF TP of RM0.56
Other fixed assets	572.01	0.51	1.0x FY17F P/BV
Equity stakes in JV and asso.	826.79	0.74	1.0x FY17F P/BV
Less: Net debt	-1,202.4	-1.08	Estimated end-FY17
Total (US\$m)	8,812.5		
USD/MYR exchange rate	4.0		
Number of shares o/s	4,463.8		
Target Price (RM)	7.90	7.90	

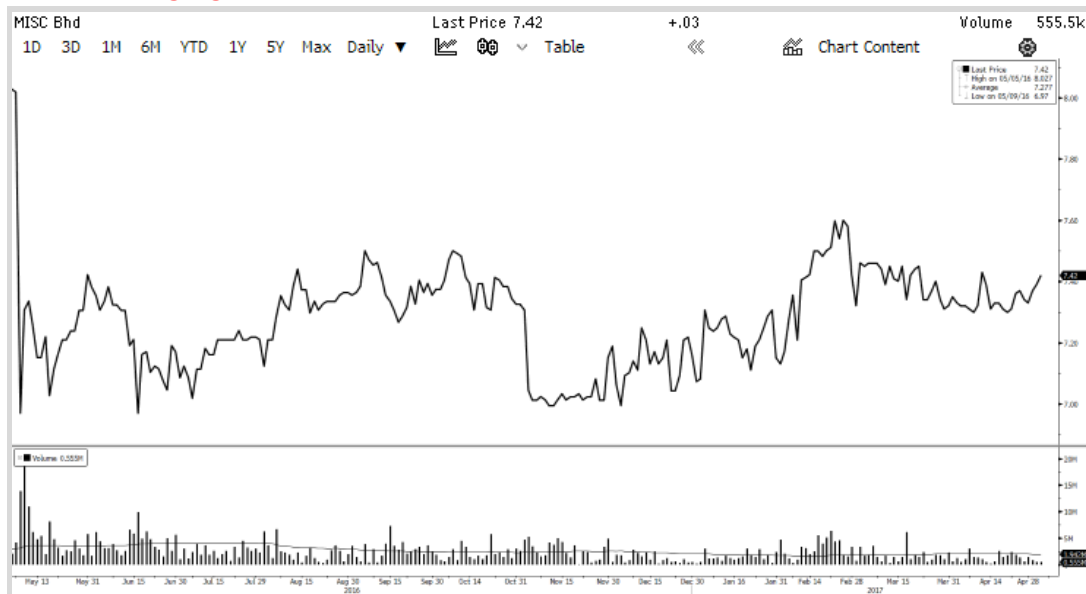
Source: Company, MIDFR

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17F	FY18F	FY19F
Revenue (RM' m)	10,908.4	9,713.0	10,252.0	10,559.6	10,559.6
EBIT (RM' m)	2,746.9	2,218.6	2,346.6	2,417.0	2,417.0
Pretax Profit (RM' m)	2,566.9	1,977.6	2,105.6	2,168.8	2,168.8
Net Profit (RM' m)	3,097.0	1,918.3	2,105.6	2,168.8	2,168.8
EPS (sen)	69.4	43.0	45.8	48.6	48.6
EPS growth (%)	75.4	-38.1	6.5	3.0	3.0
PER (x)	10.8	17.5	16.4	15.4	15.4
Net Dividend (sen)	18.0	20.0	20.0	20.0	20.0
Net Dividend Yield (%)	2.4	2.7	2.7	2.7	2.7

Source: MIDFR, Company

DAILY PRICE CHART



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Source: Bloomberg

MISC: 3MFY17 RESULTS SUMMARY

<i>All in RM'm unless stated otherwise</i>	Quarterly Results			Cumulative	
FYE Dec	1Q17	%YoY	%QoQ	3MFY17	%YoY
Revenue	2,517.5	-24.0%	9.8%	9,597.2	-12.0%
COGS	(1,721.8)	24.5%	3.3%	(6,758.7)	9.4%
Gross profit	795.7	-22.9%	55.4%	2,838.5	-17.6%
Other income	385.7	-29.7%	973.1%	1,268.9	85.8%
SG&A	(514.8)	-3.3%	-117.1%	(1,855.0)	-44.2%
Operating profit	666.6	-38.4%	114.5%	2,252.4	-20.7%
Finance Cost	(68.3)	29.4%	-0.3%	(247.9)	-3.1%
Asso. & JV Contribution	6.7	-96.0%	-89.3%	288.1	-50.9%
Exceptional gain/(loss)	(100.5)	74.3%	33.4%	521.4	184.6%
Profit before tax	504.5	-33.9%	226.3%	2,814.0	9.4%
Tax expense	(4.7)	55.8%	57.8%	(20.7)	34.8%
PATAMI	529.8	-29.6%	294.9%	2,581.6	2.7%
Core PATAMI	462.7	-59.6%	73.3%	1,883.0	-39.0%

OPERATING SUMMARY (USD'm)

Segmental Revenue	1Q17	%YoY	%QoQ	3MFY17	%YoY
LNG	54.4	-62.2%	-3.2%	229.7	-46.8%
Petroleum	7.0	-82.2%	125.3%	35.2	-74.1%
Offshore	25.4	-44.8%	4.1%	142.2	-16.4%
Heavy Engineering	3.4	-68.8%	666.7%	1.1	-96.3%
Total	90.2	-58.6%	72.5%	408.2	-47.1%
Segmental PBT	1Q17	%YoY	%QoQ	3MFY17	%YoY
LNG	54.4	-62.2%	-3.2%	229.7	-46.8%
Petroleum	7.0	-82.2%	125.3%	35.2	-74.1%
Offshore	25.4	-44.8%	4.1%	142.2	-16.4%
Heavy Engineering	3.4	-68.8%	666.7%	1.1	-96.3%
Total	90.2	-58.6%	72.5%	408.2	-47.1%

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.