

14 February 2018 | 4QFY17 Results Review

MISC Berhad

Earnings boost from effective cost cutting

INVESTMENT HIGHLIGHTS

- **FY17 earnings exceeded estimates**
- **LNG registered PBT growth of +12.8%yoy**
- **Petroleum segment remains challenging**
- **Strong rebound in heavy engineering segment**
- **Maintain BUY with unchanged TP of RM7.68 per share**

FY17 earnings exceeded expectations. MISC reported a normalised PATAMI of approximately RM565.0m in FY17. Excluding impairment losses on vessels and other exceptional items, the full year FY17 cumulative normalised earnings is around RM2.72b, exceeding our and consensus estimates by a variance of more than >20%.

LNG segment registered a loss before tax in 4QFY17. Despite a +60%qoq spike in LNG spot rates in 4QFY17 underpinned by higher demand from China during the winter season, the LNG segment registered a loss before tax of -USD20.2m. The bulk of the losses arise from the impairment of 5 LNG vessels amounting to around USD53.5m coupled with an impairment of receivables from Yemen LNG amidst political turbulence.

Incoming delivery of vessels. Two new Seri C class vessels are scheduled to be delivered by 1HFY18. Hence, the growth in the LNG fleet could mitigate the risk of lower charter rates and contract expiry of vessels.

Petroleum segment remains in the red for 4QFY17. Although there was a higher number of lightering days in 4QFY17, the petroleum segment recorded a loss before tax of USD70.9m compared to a PBT of USD7m in the same quarter of the preceding year. The loss is mainly attributable to the lower-than-expected spot tanker rates following oversupply of tonnage combined with the extension of OPEC production cuts. Aside from that, 7 vessels in this segment were impaired up to an amount around USD76.5m.

Growth in its Petroleum tanker fleet. MISC will receive delivery of two new Suezmax class and two new Aframax class vessels in 1QFY18. In view of the addition to its petroleum fleet size, MISC is well positioned to cushion a prolonged low charter rate environment with its current portfolio mix at 54:46, term to spot compared to 43:57 in the previous year.

Maintain BUY

Unchanged Target Price (TP): RM7.68

RETURN STATS	
Price (13 Feb 2018)	RM7.08
Target Price	RM7.68
Expected Share Price Return	+8.5%
Expected Dividend Yield	+4.2%
Expected Total Return	+12.7%

STOCK INFO	
KLCI	1,833.20
Bursa / Bloomberg	3816 / MISC MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	4,463.8
Market cap. (RM'm)	31,603.66
Price over NA	0.87
52-wk price Range	RM6.89 - RM7.90
Beta (against KLCI)	1.17
3-mth Avg Daily Vol	1.49m
3-mth Avg Daily Value	RM10.8m
Major Shareholders	
Petronas	62.67%
PNB	6.72%
EPF	5.95%

Offshore segment remains strong. The segment's PBT increased by a staggering +228.3%yoy in 4QFY17 underpinned by higher progress billings for construction works of FSO Benchamas 2 which will be completed in April 2018. Meanwhile, on a full year basis, the offshore segment's PBT was higher by 94.7% due to favourable GKL adjudication results.

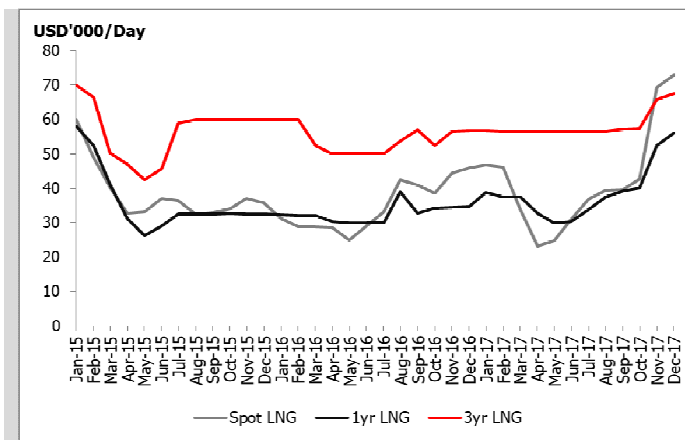
Rebound in heavy engineering. The heavy engineering segment staged a recovery in 4QFY17 as shown by the 405.9%yoy increase in PBT due to finalisation of completed projects. These projects include: (i) FSO Benchamas 2 External Turret and (ii) the sail-away of Petronas PFLNG2 Turret system.

Earnings impact. We maintain our earnings forecast for FY18 and FY19 at this juncture, premised on management's guidance of the flattish 1HFY18 earnings growth in LNG which may be buoyed by contribution of new vessels. Despite FY17 normalised earnings registered strong yoy growth, we practice conservatism at this point for our FY18 and FY19 forecasts as the risk of impairments remain.

Maintain BUY recommendation with TP of RM7.68 per share pegged to 0.96x price-to-book value representing a discount of -1.0 standard deviation. Our BUY recommendation is predicated on: (i) MISC's strategic term to spot ratio for its vessels; (ii) contribution of the delivery of the 2 Seri C Class vessels 1HFY18; (iii) removal of older tonnages from trade for demolition and; (iv) effective cost reduction efforts ie. opex and COGS.



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



Source: Company, Ship Brokers' Reports, MIDFR

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

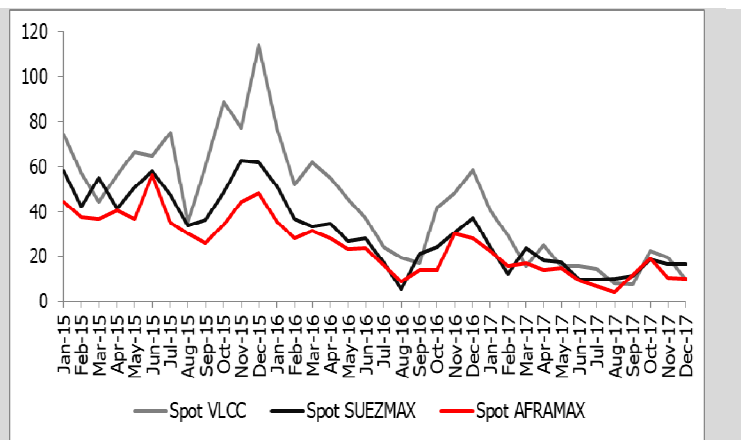
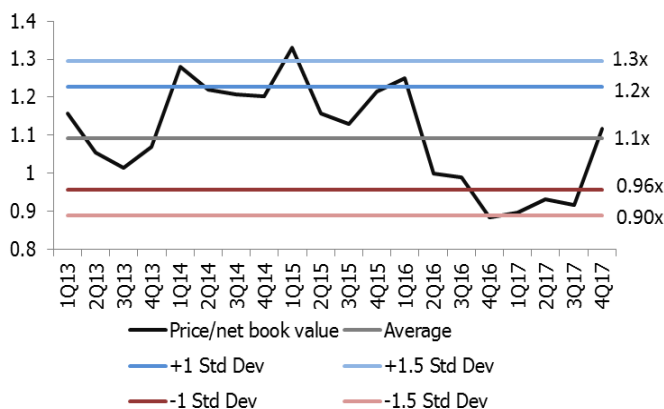


Figure 3: 5-year average price/net book value



Source: Bloomberg, MIDFR

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM' m)	10,908.4	9,597.2	10,037.7	10,457.0	10,666.2
EBIT (RM' m)	2,746.9	3,011.6	2,268.5	2,592.0	2,643.9
Pretax Profit (RM' m)	2,566.9	2,814.0	2,003.5	2,418.8	2,491.3
Net Profit (RM' m)	2,513.9	2,581.6	1,990.6	2,346.2	2,416.6
Normalised Profit (RM'm)	3,085.1	1,883.0	2,722.8	2,346.2	2,416.6
EPS (sen)	69.4	42.2	62.8	52.6	54.1
EPS growth (%)	75.4	-39.2	48.8	2.0	3.0
PER (x)	10.6	17.4	11.3	13.5	13.1
Net Dividend (sen)	30.0	30.0	30.0	30.0	30.0
Net Dividend Yield (%)	4.1	4.1	4.2	4.2	4.2

Source: MIDFR, Company

DAILY PRICE CHART



Source: Bloomberg

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MISC: FY17 RESULTS SUMMARY

<i>All in RM'm unless stated otherwise</i>	Quarterly Results			Cumulative		Comments
FYE Dec	4Q17	%YoY	%QoQ	12MFY17	%YoY	
Revenue	2,434.5	-3.3	5.1	10,037.7	4.6	Increased fleet size
COGS	-1,713.0	-0.5	9.8	-6,766.5	0.1	
Gross profit	721.5	-9.3	-4.5	3,271.2	15.2	
Other income	151.8	-60.6	46.8	557.6	-56.1	
SG&A	-246.3	-52.2	36.2	-1,125.0	-39.4	Effective cost cutting effort
Operating profit	627.0	-5.9	-7.5	2,703.8	20.0	
Finance Cost	-68.6	0.4	4.7	-265.0	6.9	
Asso. & JV Contribution	35.9	434.9	-26.7	194.8	-32.4	
Exceptional gain/(loss)	-552.3	449.8	-1338.3	-630.1	-220.9	
Profit before tax	42.0	-91.7	-94.1	2,003.5	-28.8	
Tax expense	5.1	-207.5	-149.0	-12.9	-37.7	
PATAMI	68.2	-87.1	-90.0	1,981.4	-23.2	
Core PATAMI	565.0	22.1	-30.6	2,722.8	44.6	Add back impairment of vessels

OPERATING SUMMARY (USD'm)

Segmental Revenue	4Q17	%YoY	%QoQ	12MFY17	%YoY	Comments
LNG	153.8	20.3	-4.1%	650	8.5	Delivery of 2 vessels
Petroleum	281.5	-4.3	-1.4%	1049	-8.6	Lower earnings days
Offshore	107.4	22.0	166.9%	440.8	73.6	Revenue from FSO Benchamas
Heavy Engineering	60	-14.4	225.7%	222.9	-14.4	Completion of projects
Total	602.7	3.9	27.6%	2,362.70	4.5	
Segmental PBT	4Q17	%YoY	%QoQ	12MFY17	%YoY	
LNG	-20.2	-137.1	-123.1	259.0	12.8	Delivery of 2 vessels
Petroleum	-70.9	-1112.9	279.1	-87.0	-347.2	Lower freight rates
Offshore	83.4	228.3	9.4	276.9	94.7	Favourable adjudication results
Heavy Engineering	17.20	405.9	377.8	13.7	1145.5	Completion of projects
Total	9.5	-89.5	-93.6	462.6	13.3	

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.