

05 June 2018 | Briefing Note

MISC Berhad

Performance to be underpinned by offshore segment

INVESTMENT HIGHLIGHTS

- **Restricted growth in LNG segment**
- **Petroleum segment remains a drag**
- **Revise earnings upwards amidst possible recovery in offshore segment**
- **Maintain NEUTRAL with adjusted TP of RM6.52 per share**

MFRS 9 treatment for Yemen LNG. To recap, the deferred arrangement for revenue from Yemen LNG has taken place since FY16 while recognition is done on an accrual basis. According to MFRS 9, MISC is required to carry out annual impairments on the receivables based on an adjusting factor derived from the client's credit risk. For Yemen LNG, 30% of receivables would need to be impaired. The Yemen LNG plant is not expected to resume operations within the next five years. Hence, impairment on receivables from Yemen LNG will continue and this has been imputed into our forecasts previously. Overall, there will not be much growth in the LNG segment as its final Seri C Class LNG vessel was delivered in late April 2018.

Petroleum segment remains a drag. MISC is expecting the delivery of three new Aframax in 3QFY18. However, factors such as; (i) fresh U.S sanctions on Iranian oil exports and; (ii) falling Venezuelan crude oil output could further deteriorate earnings of the petroleum segment. While management noted a possible pickup in the segment should the OPEC and Russia were to ease the oil production curb, we reckon that this may only lift the segment to match that of FY17 earnings, at most.

Offshore segment to stabilise. FSO Puteri Dulang and FSO Angsi will expire in 1QFY21 and August 2018 respectively with no commercial plans to extend. Meanwhile, FPSO Ruby 2's firm contract period is ending this year with an option of a two year extension. As FPSO Ruby 2 is currently deployed in an oil field which has a production record of more than two years, there is a likelihood of the contract to be extended longer than the said period, giving rise to a finance lease gain. This serves well to offset the absence of construction profit from FSO Benchamas 2 which was delivered in late April 2018. Moving forward MISC is also currently working on acquiring a ready built offshore asset on a long term lease in the ASEAN region with an investment value of around USD150-250m.

Maintain NEUTRAL

Adjusted Target Price (TP): RM6.52
(Previously: RM6.13)

RETURN STATS	
Price (4 June 2018)	RM6.37
Target Price	RM6.52
Expected Share Price Return	+2.4%
Expected Dividend Yield	+4.7%
Expected Total Return	+7.1%

STOCK INFO	
KLCI	1,755.17
Bursa / Bloomberg	3816 / MISC MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	4,463.8
Market cap. (RM'm)	28,434.36
Price over NA	0.86
52-wk price Range	RM5.03 - RM7.90
Beta (against KLCI)	1.04
3-mth Avg Daily Vol	2.08m
3-mth Avg Daily Value	RM13.8m
Major Shareholders (%)	
Petronas	62.67
PNB	7.81
EPF	6.20

Earnings forecast. As we opine that the offshore segment will recover based on the abovementioned reasons, Therefore we are revising our earnings forecast upwards for FY18 and FY19 to RM1.80b (previously RM1.73b) and RM2.00b (previously RM1.92b) respectively.

Maintain NEUTRAL with an adjusted TP of RM6.52 per share (previously RM6.13 per share) pegged to FY19E 0.81x price-to-book value representing a discount of -1.0 standard deviation below its five-year average to take into account of the recovery in offshore segment. Our neutral stance is predicated on: (i) timing differences in revenue recognition of tail end and new projects for the heavy engineering segment and; (iii) the demolition in the petroleum shipping space which could not match the supply of tonnage. This could be offset by MISC Berhad's strategic term-to-spot ratio for its petroleum vessels coupled with its chemical tankers being injected into a pool to optimise the utilisation rate. Another rerating catalyst would be a lower-than-expected oil production cut by the OPEC.



INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM' m)	10,908.4	9,597.2	10,068.2	9,080.0	9,383.1
EBIT (RM' m)	2,746.9	3,011.6	2,172.1	2,026.4	2,185.8
Pretax Profit (RM' m)	2,566.9	2,814.0	2,003.6	1,806.9	2,007.8
Net Profit (RM' m)	2,513.9	2,793.3	1,990.7	1,796.1	1,995.7
Normalised Profit (RM'm)	3,085.1	1,883.0	2,788.9	1,796.1	1,995.7
EPS (sen)	69.4	42.2	62.5	40.2	44.7
EPS growth (%)	75.4	-39.2	48.1	-9.8	11.1
PER (x)	9.2	15.1	10.2	15.8	14.2
Net Dividend (sen)	30.0	30.0	30.0	30.0	30.0
Net Dividend Yield (%)	4.7	4.7	4.7	4.7	4.7

Source: MIDFR, Company

DAILY PRICE CHART



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Source: Bloomberg

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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.