

26 August 2015 | 2QFY15 Results Review

Malaysia Bulk Carriers

Poor charter rates due to commodity slump

INVESTMENT HIGHLIGHTS

- 1HFY15 earnings disappointing
- Baltic Dry Index (BDI) down 47%yoy in 1H15
- Lower oil prices hits POSH
- Maintain NEUTRAL with lower TP of RM0.77

1HFY15 earnings disappointing. Maybulk reported 1H15 net loss of RM45m which is below expectation, as we had forecasted full year FY15 net profit of RM45m previously while consensus had forecasted a smaller loss of RM12m. Average Time Charter Equivalent (TCE) rates are lower than expected due to slowing growth in China. Contributions from an associate, PACC Offshore Services Holdings Ltd (POSH), also came in lower than expected due to lower oil prices.

Baltic Dry Index (BDI) down 47%yoy in 1H15. The depressed TCE rates was in line with lower average BDI as demand from China for dry bulk commodities such as iron ore and coal remained lacklustre. Looking ahead, dry bulk capacity growth is expected to fall to 2.3% (from 4.4% in FY14) which could provide some breathing space for TCE rates. However, this is negated by slowing growth in China.

Lower oil prices hits POSH. For 1H15, Maybulk's 20% associate POSH recorded profit that was down -86%yoy due to lower oil prices and absence of USD35m gain on disposal of vessels recorded last year. Stripping the one-off gain, profit for the segment was down 55%. Quarter-on-quarter, POSH turned a profit 2Q15 (1Q15: breakeven) as it took delivery of 2 new offshore accommodation vessels.

Maintain NEUTRAL with lower TP of RM0.77 (from: RM1.28). We are now assuming FY15 net loss of RM77m (from RM45m profit) after: 1) lowering our average TCE rates estimate for the dry bulk segment, and 2) lower contributions from POSH. However, we maintain our NEUTRAL call with TP of RM0.77 based on sum-of-parts (SOP) valuation with the bulk of the value coming from Maybulk's assets which comprise of its fleet which holds second-hand value. 

Maintain NEUTRAL

Revised Target Price (TP): RM0.77
(Previously: RM1.28)

RETURN STATS	
Price (25 Aug 2015)	RM0.795
Target Price	RM0.77
Expected Share Price Return	-3.1%
Expected Dividend Yield	+0.7%
Expected Total Return	-2.4%

STOCK INFO	
KLCI	1,563.94
Bursa / Bloomberg	5077 / MBC MK
Board / Sector	Main/Trading Services
Syariah Compliant	Yes
Issued shares (mil)	1,000.0
Par Value (RM)	0.25
Market cap. (RM'm)	795.0
Price over NA	0.39x
52-wk price Range	RM0.80-RM1.79
Beta (against KLCI)	1.49
3-mth Avg Daily Vol	0.32m
3-mth Avg Daily Value	RM0.32m
Major Shareholders	
Kuok (Singapore) Ltd.	34.46%
Minister of Finance	18.39%
PPB Group Bhd	14.00%

INVESTMENT STATISTICS

FYE Dec	FY14	FY15F	FY16F
Revenue (RM' m)	255.7	266.0	282.9
EBIT (RM'm)	23.7	(77.6)	16.2
Pretax Profit (RM' m)	18.3	(81.3)	16.2
Net Profit (RM' m)	17.5	(77.2)	15.3
Core Profit (RM'm)	1.5	(77.2)	15.3
EPS (sen)	1.7	(7.7)	1.5
EPS growth (%)	(65.3)	(542.2)	119.9
PER (x)	80.2	(18.1)	91.2
Net Dividend (sen)	1.0	1.0	2.0
Net Dividend Yield (%)	0.7	0.7	1.4

Source: Company, MIDFR

Maybulk: 2QFY15 RESULTS SUMMARY

FYE Dec	Quarterly Results			Cumulative		Comments
	2Q15	%YoY	%QoQ	1H15	%YoY	
Revenue (net of voyage expense)	41.5	-8.4%	24.7%	74.7	-22.6%	Weaker 4Q due to lower TCE rates
Operating expenses	(60.4)	-20.6%	-5.9%	(117.5)	-16.2%	Higher due to compliance costs and new ships
Other op. income	(1.8)	-109.9%	-124.1%	5.6	-67.5%	
Admin exp.	(3.3)	-15.8%	-11.1%	(6.3)	-14.6%	
Operating profits	(24.1)	-330.1%	-24.1%	(43.5)	-702.3%	
Finance costs	(2.9)	-354.0%	-3.4%	(5.8)	-521.1%	Financing of newbuildings
Share of Assoc.	4.7	-43.0%	463.4%	4.7	-86.2%	POSH registered a loss in line with a slump in oil and gas activity
Share of J.C.E	1.1	-26.8%	219.7%	0.2	-93.4%	
Profit before tax	(21.3)	-209.6%	7.9%	(44.4)	-204.1%	
Net profit	(21.5)	-511.7%	8.2%	(44.9)	-302.9%	
Core profit	(21.5)	-511.7%	8.2%	(44.9)	-302.9%	
Dry bulk						
Avg TCE/Day, USD	5,297	-43.6%	-12.9%	5,691.1	-43.1%	Waning demand from China
Hire days	1,329	24.9%	12.4%	2,511.0	14.9%	Higher hire days due to fleet expansion
Product Tankers						
Avg TCE/Day, USD	13,630	2.2%	1.7%	13,518.6	2.1%	
Hire days	272	5.0%	0.7%	542.0	6.3%	Higher hire days due fewer dry-docking days

Source: Company, MIDFR

SUM-OF-PARTS VALUATION

Shipping earnings at 20x of FY16-PER (RM'm)	123.3
20% associate contribution in POSH at 19x FY16-PER (RM'm)	190.0
Other assets (RM'm)	833.5
FY15 net borrowing (RM'm)	-379.7
Total equity value (RM'm)	767.06
O/S shares (m)	1,000.00
Target price (RM/share)	0.77

Source: Company, MIDFR

DAILY PRICE CHART



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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.