

Equity Beat

25 February 2010

3QFY10 Results Review

MISC Bhd

Hitting an iceberg

Downgrade to TRADING SELL

Reduced Target Price (TP): RM7.50 (from RM7.80)

- MISC's 9MFY10 net profit is RM588.6m, a massive decline of 55.2%yoy. Lower profit in the petroleum business and higher losses in the chemical and liner businesses led to the decline.
- We do not expect the decline to be this steep. Its 9MFY10 net profit is only 30% and 51% of ours and consensus FY10 estimates respectively.
- We do not foresee MISC improving significantly in the remaining 3 months of FY10. With less than a favourable outlook for the oil tanker business, we are downgrading to TRADING SELL, as we expect the market to react adversely to the numbers. We have a 12-month target price of RM7.50, based on Sum-of-Parts valuation.

STOCK INFO

Price (24 February 2010)	RM7.95	KLCI	1,270.78
Issued shares (mil)	4463.8	Bursa / Bloomberg	3816 / MISC MK
Par Value (RM)	1.00	Board / Sector	Main/ Trading/Ser vices
Market cap. (RM'm)	35,487	Syariah Compliant	Yes
Price over NA	1.45		
52-wk price Range	RM7.77– RM9.159	Major Shareholders	
Beta (against KLCI)	0.78	Petronas	52.2%
3-mth Avg Daily Vol	0.24m	EPF	9.1%
3-mth Avg Daily Value	RM2.02m		

Steep decline in net profit. MISC's 9MFY10 net profit declined to RM588.6m, -55.2% lower compared with that in 9MFY09. The massive decline took us by surprise and the cumulative 3 quarters now made up only 30% of ours and 51% of consensus' FY10 earnings estimates. The reason for the decline was lower profit in the petroleum business and higher losses in the chemical and liner businesses.

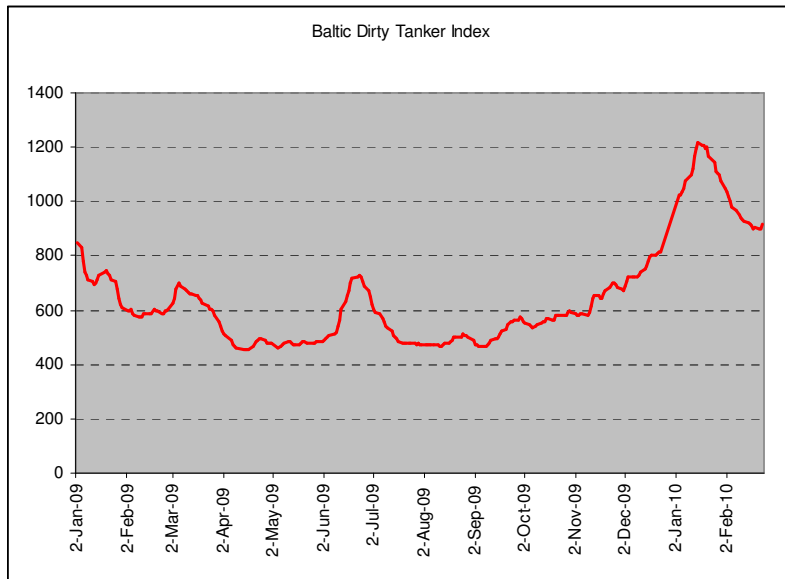
Improvement in the financials rather incremental. There are some improvements when compared with the preceding quarter. The net profit for 3Q10 jumped 46.3% to record a net profit of RM188.4m. However, this is mainly due to higher share in the profits of jointly controlled entities. Operationally, MISC only improved its operating profit by 2.3% in 3Q10, mainly due to containment of costs. MISC needs to increase its revenue to balance its cost control measures.

Less than favourable outlook, especially for tankers. The Baltic Dirty Tanker Index, an indicator of tanker rates, has been on the decline even as the global recovery takes hold. There exist an overcapacity of ships with heavy tanker deliveries which will significantly impact MISC as it needs to find a boost for its revenue. In addition, industry


FYE 31 Mar	FY08	FY09	FY10E	FY11F
Revenue (RM'm)	12,947.4	15,783.5	13,803.94	15,184.33
EBIT (RM'm)	2,944.7	1,997.7	2,017.93	2,359.12
Pretax Profit (RM'm)	2,599.4	1,594.8	1,517.93	1,859.12
Net Profit (RM'm)	2,420.3	1,404.5	1,391.22	1,703.93
EPS (sen)	65.0	37.8	37.4	45.8
EPS growth (%)	-15.6	-41.8	-1.1	22.5
PER(x)	13.1	22.5	21.3	17.4
Net Dividend (sen)	35.0	35.0	15	20
Net Dividend Yield (%)	4.1	4.1	1.9	2.5

Source: Company, Forecasts by MIDFR

experts are still cautious in terms of recovery for the shipping industry as global recovery is still considered fragile.



Source: Bloomberg

Valuations. We are revising our FY10 earnings forecast downwards by -38.7% as we do not foresee MISC making a significant improvement to its earnings. The revision is also to better reflect the less than favourable outlook in the shipping industry. Given the lacklustre performance in 3Q10 and with the cautious outlook, we are recommending a TRADING SELL as we expect the market to react adversely to the numbers in the short term. Our 12-month target price is RM7.50, based on Sum-of-Parts valuation (see table below). 

Sum-of-Parts

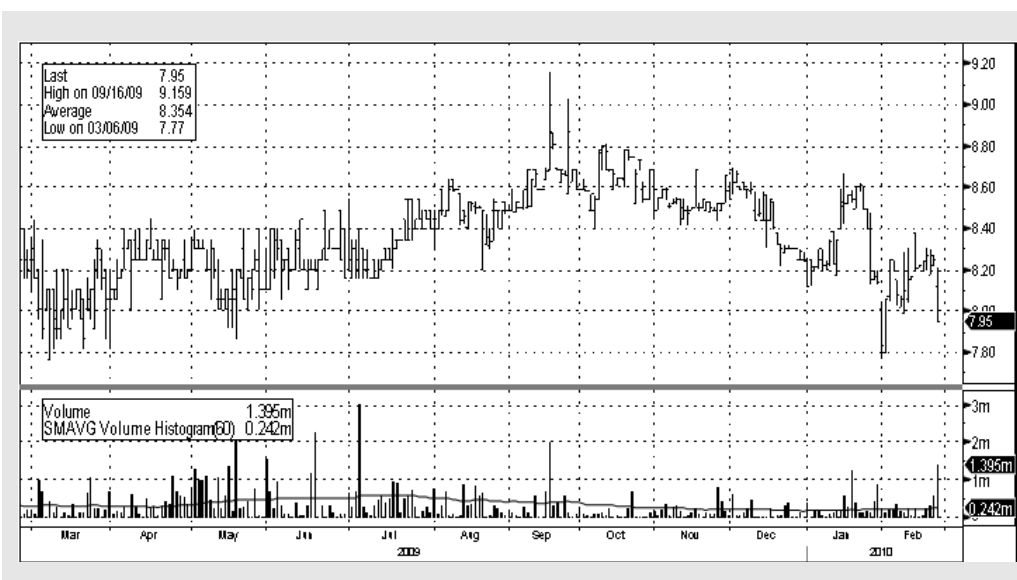
	FY11 EPS (sen)	Value/share (RM)	Valuation method
Energy related Shipping	0.38	5.44	Pegged to 14.2X PER, consistent with peer average
Other Energy Business	0.14	1.37	Pegged to 10.0X PER, consistent with peer average
Non Shipping	0.01	0.08	Pegged to 12X PER, consistent with peer average
	Book Value/share		
Intergrated Liner Logistics	0.51	0.61	Pegged at 1.2 P/Book Value, consistent with peer average. The business is loss making, therefore we use the book value of the business assets.
TOTAL		7.50	

MISC: 3QFY10 RESULTS SUMMARY

All in RM'00 unless stated otherwise	Quarterly Results			Cumulative		Comments
	3Q09	%YoY	%QoQ	9MFY09	%YoY	
FYE Mar						
Revenue	3,047,105	-17.2%	-13.6%	10,467,642	-11.2%	
Segmental Revenue						
Energy Related Shipping	1,632,560	-20.2%	-0.1%	4,971,311	-18.6%	Revenue decline as there exist overcapacity of tankers.
Other Energy Business	689,673	23.8%	-38.4%	3,251,418	63.8%	
Intergrated Liner Logistics	724,872	-32.6%	-6.5%	2,244,913	-39.2%	
Non-shipping	-	-	-	-	-	
Segmental Profit						
Energy Related Shipping	438,068	-20.8%	2.3%	1,339,248	-22.9%	Better cost control as evident in the qoq increase.
Other Energy Business	164,565	-18.8%	-12.7%	519,486	9.5%	
Intergrated Liner Logistics	(315,478)	4.1%	3.0%	(955,419)	-67.3%	
Non-shipping	(24,801)			(29,779)		
Operating Profit	262,354	-36.2%	2.3%	873,536	-47.6%	
Finance Costs	(96,996)	7.2%	-22.7%	(264,335)	12.9%	
Net Profit	188,383	-32.7%	46.3%	588,559	-55.2%	Increased from previous quarter as there is the possibility of recovery. However, outlook remain less than favourable.

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

OVERWEIGHT	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.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.