09 May 2016 | 1QFY16 Results Review

MISC Berhad

Future growth seen from acquisitions

Maintain BUY

Reduced* Target Price (TP): *RM9.53
(From: RM10.27)

INVESTMENT HIGHLIGHTS

- **3MFY16 earnings within our estimate**
- **LNG segment slumped in 1QFY16**
- **MISC's LNGC are partly shielded by long-term charters**
- **Petroleum tanker segment performed better**
- **Offshore segment to be lifted by Gumusut-Kakap SFPS**
- **BUY with reduced target price to RM9.53 (from: RM10.27)**

Earnings within our estimate. MISC reported 3MFY16 core net profit of RM619.8m which was +27.4% higher year-on-year. The results were within our expectation but below consensus representing 24% and 22% of full year FY16 forecasts respectively. There were several exceptional items in the quarter, notably gain on reversal of legal suit (RM251m), gain on compensation for early termination of Aman Class LNG vessels (RM365m), impairments for its 2 MOPU offshore units (-RM238.8m) and provisions for its liner vessels (-RM200.9m).

LNG segment slumped in 1QFY16. 1QFY16 PBT for the LNG segment decreased by -40%yoy after we excluded a one-off compensation amounting US$87m for early termination of 2 Aman Class vessels (11,000 dead weight tonnes/vessel). These older vessels with average age of 20 years would be redeployed on spot charters or converted into FSU. Meanwhile, the poorer performance for the segment was also partly affected by a temporary 1 year suspension of one of its vessel charters serving Yemen LNG due to ongoing unrest in the country.

However, MISC's LNGC are partly shielded by long-term charters. While a current slump in spot LNG charter rates which declined -40%yoy is a concern, we take comfort that the bulk of MISC's LNG fleet are on long-term charters. This bodes well for the company as we expect the current weakness in LNG charter rates to persist with 137 newbuilds (30% without employment) set to be delivered in 2016-2019. In addition, MISC will see delivery of 2 new LNG Carriers (LNGC) in 3QFY16 and 4QFY16 which will be employed on long-term charter with Petronas immediately.

RETURN STATS	
Price (6 May 2016)	RM8.34
Target Price	RM9.53
Expected Share Price Return	+14.2%
Expected Dividend Yield	+2.2%
Expected Total Return	**+16.4%**

STOCK INFO	
KLCI	1,649.36
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)	37,228.03
Price over NA	1.05
52-wk price Range	RM7.49 - RM9.41
Beta (against KLCI)	0.80
3-mth Avg Daily Vol	3.09m
3-mth Avg Daily Value	RM27.1m
Major Shareholders	
Petronas	62.67%
EPF	6.87%
PNB	5.60%

Petroleum tanker segment performed better. The Petroleum tanker segment's PBT rose more than 2-fold as MISC (1) tweaked the proportion of term versus spot mix to 70:30 from 60:40; (2) secured higher rates for 3 of its VLCC's and 2 Aframaxes; and (3) benefitted from lower bunker rates. We reckon that MISC renewed these vessel charters at an opportune time at the start of the year as 1-year and 3-year charter rates subsequent fell by -20%yoy in the 1QFY16. Meanwhile, we expect the segment to continue to perform well as earlier contracts get rolled-over at current higher rates compared to weaker rates in 2014.

Offshore segment to be lifted by full ownership of Gumusut-Kakap SFPS. The offshore segment's PBT declined -14%yoy on a core level due to early termination of 2 MOPU units deployed on marginal fields which dried up earlier than expected. However, we are taking a forward view of the segment which would see an increase in net profit of approximately US14m contribution per quarter from the acquisition of the 50% remaining stake of Gumusut-Kakap SFPS which will be completed in mid-May 2016.

Target price reduced to RM9.53 (from: RM10.27) but maintain BUY. We are revising our target price to RM9.53 due to lower sum-of-parts value for the (1) heavy engineering segment, MMHE with lower target price of RM0.81 from RM1.01; and (2) the LNG segment due to a slight increase in our WACC assumption with higher implied risks arising from the weaker LNG rate outlook. Despite the reduction in Target Price, we maintain our BUY call due to: (i) buoyant Petroleum tanker rates with addition of 50% stake in Paramount tankers adding its effective tonnage by +3%; and (ii) acquisition of 50% stake in Gumusut-Kakap SFPS to see additional US$14m contribution from the offshore segment.

Segments	Value (US$'m)	Value/share (RM)	Valuation method
LNG	4,800.0	4.30	DCF (WACC: 6.5%)
Offshore	2,000.0	1.79	DCF (WACC: 7%)
Petroleum	2,403.0	2.15	2nd hand value of vessels
Chemical	114.1	0.10	2nd hand value of vessels
Heavy Engineering	215.5	0.19	Based on MIDF TP of RM0.81
Other fixed assets	661.51	0.59	1.0x FY16F P/BV
Equity stakes in JV and asso.	1183.99	1.06	1.0x FY16F P/BV
Less: Net debt	-747.9	-0.67	Imputed cash reduction of $445m for 50% remaining stake in Gumusut-Kakap
Total (US$'m)	**10,630.2**		
USD/MYR exchange rate	4.0		
Number of shares o/s	4,463.8		
Target Price (RM)	9.53	9.53	

Source: Company, MIDFR

INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16F	FY17F
Revenue (RM' m)	9,296.3	10,908.4	10,329.5	10,913.5
EBIT (RM' m)	2,644.2	2,746.9	2,948.8	3,127.7
Pretax Profit (RM' m)	2,410.3	2,566.9	2,707.8	2,886.7
Net Profit (RM' m)	1,765.5	3,097.0	2,626.5	2,800.1
EPS (sen)	39.6	69.4	58.8	62.7
EPS growth (%)	9.6	75.4	-15.2	6.6
PER (x)	21.1	12.0	14.2	13.3
Net Dividend (sen)	10.0	18.0	18.0	18.0
Net Dividend Yield (%)	1.2	2.2	2.2	2.2

Source: MIDFR, Company

DAILY PRICE CHART



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Source: Bloomberg

MISC: 3MFY16 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results			Cumulative	
FYE Dec	***1Q16***	***%YoY***	***%QoQ***	***3MFY16***	***%YoY***
Revenue	2,394.5	-3.8%	-27.7%	2,394.5	-3.8%
COGS	(1,599.7)	9.5%	29.8%	(1,599.7)	9.5%
Gross profit	794.7	10.1%	-23.0%	794.7	10.1%
Other income	779.5	1379.0%	42.1%	779.5	1379.0%
SG&A	(799.5)	-160.8%	-60.5%	(799.5)	-160.8%
Operating profit	774.8	65.5%	-28.4%	774.8	65.5%
Finance Cost	(47.7)	13.3%	50.7%	(47.7)	13.3%
Asso. & JV Contribution	127.1	28.8%	-24.8%	127.1	28.8%
Exceptional gain/(loss)	(73.4)	->100%	81.2%	(73.4)	-1686.9%
Profit before tax	780.7	51.2%	2.3%	780.7	51.2%
Tax expense	14.7	4870.5%	236.5%	14.7	4870.5%
Net profit	795.4	62.0%	5.7%	795.4	62.0%
Core net profit	619.8	27.4%	-45.8%	619.8	27.4%

OPERATING SUMMARY (USD'm)

Segmental PBT	***1Q16***	***%YoY***	***%QoQ***	***3MFY16***	***%YoY***
LNG	56.8	-39.7%	-60.5%	56.8	-39.7%
Petroleum	41.2	125.1%	4.8%	41.2	125.1%
Offshore	40.6	-14.0%	-11.7%	40.6	-14.0%
Heavy Engineering	(1.5)	-115.5%	-113.8%	(1.5)	-115.5%
Total	**137.1**	**-10.3%**	**-37.1%**	**137.1**	**-10.3%**

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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 *rise* 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 *fall* 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.