05 August 2016 | 2QFY16 Results Review

MISC Berhad

Lacking immediate catalysts

***Downgrade to* NEUTRAL**
(from* BUY*)
***Reduced* Target Price (TP): RM8.05**
(from* 9.53*)

INVESTMENT HIGHLIGHTS

- **6MFY16 core PATAMI missed estimates**
- **LNG segment PBT slipped -41%yoy in 6MFY16**
- **Seasonal weakness dented the petroleum tanker segment**
- **Offshore segment the only bright spot in 6MFY16**
- **Downgrade to NEUTRAL with reduced TP of RM8.05**

6MFY16 core PATAMI missed estimates. MISC reported 6MFY16 core PATAMI of RM1.1bm (-4%yoy) which fell short of estimates representing 43% of both our and consensus full year FY16 forecasts. The shortfall can be attributed to lower charter days and weaker than expected spot LNG and Petroleum tanker rates which were, on average, down -32%yoy and -10%yoy respectively in 6MFY16.

LNG segment PBT slipped -41%yoy in 6MFY16 as MISC grappled with lower charter rates and lower charter days from the idling of the Aman Hakata and Aman Bintulu vessels that was laid-up by Petronas and the Seri Balquis and Seri Balhaf vessels that were temporarily suspended by LNG Yemen for 1 year. Recall also that in 4QFY15, Petronas terminated the charter of 2 older Tenaga class LNG tankers.

However, there are some silver linings for the segment as MISC's remaining LNG fleet are employed on long-term charters with an average tenure of 11 years mitigating risk of non-renewals. Meanwhile, MISC will be taking delivery of 2 newbuilds in 3Q and 4QFY16 that are on 15+5 year contracts with Petronas that could cushion a further decline in segmental earnings.

Overcapacity issues could ease but not immediately as the market is currently swamped with 23 unemployed vessels and 30 newbuilds set to be delivered in 2HFY16. Overcapacity issues could ease only further down the road in 2017-2018 with the restarting of the Angola and Gorgon LNG terminals, potential cancellation/slippage in newbuilds and new uses for vessels such as for floating storage and regas units (FSRU). Moreover, new orders for LNG tankers have slowed in 2016 with only 4 vessels ordered (2 with confirmed charters), a far cry from 33 and 69 recorded over the same period in 2015 and 2014 respectively.

RETURN STATS	
Price (4 Aug 2016)	RM7.50
Target Price	RM8.05
Expected Share Price Return	+7.3%
Expected Dividend Yield	+2.7%
Expected Total Return	**+10.0%**

STOCK INFO	
KLCI	1,655.29
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)	33,478.45
Price over NA	0.98
52-wk price Range	RM6.88 - RM9.41
Beta (against KLCI)	0.83
3-mth Avg Daily Vol	4.08m
3-mth Avg Daily Value	RM30.7m
Major Shareholders	
Petronas	62.67%
EPF	6.69%
PNB	5.60%

Seasonal weakness in 2QFY16 dented the petroleum tanker segment's 6MFY16 performance leaving PBT for the segment up only marginally by +1.1%yoy after falling by -62%yoy in 2QFY16. The segment took a blow from lower spot charter rates which was exacerbated by higher exposure with its spot to charter mix falling to 70:30 from 60:40 (it has since been restored to 60:40 in 3QFY16). Tanker rates fell during the quarter as seasonal refinery maintenance and high inventory of petroleum by-products reduced the demand for feedstock with supply interruptions in West Africa adding insult to injury.

Nevertheless, a further downside in rates could be limited with a seasonal pick-up in 4Q is expected as refineries ramp up production. Falling crude oil prices could also be a positive as producers increase output to maintain revenue targets potentially increasing demand for transportation. Meanwhile, low crude oil prices could also spur the need for offshore storage and Contango plays. In addition, new orders have shrunk to just 11 thus far in 2016 compared to 172 orders made in 2016.

Offshore segment the only bright spot in 6MFY16. The segment's PBT rose +6%yoy as MISC fully consolidated GKL's earnings beginning May 2016, reversing the effect of 2 MOPU units being terminated early in 1QFY16. Looking ahead, the segment's deployment of its marginal mobile production unit (MaMPU1) at the Ophir RSC in 4QFY16 could cushion the impact from contract expirations of FSO Angsi and FSO Abu who are themselves likely to win a contract extension and a new contract award respectively.

Downgrade to NEUTRAL (from BUY) with lower target price of RM8.05 (from RM9.53). We reduced our earnings forecast for FY16 by -9% as we lowered our estimates for charter days and rates for both the LNG and Petroleum tanker segments. Thus, our target price is also lowered to RM8.05 due to lower sum-of-parts value for both segments. Our NEUTRAL call is predicated on: i) new vessel deliveries in 3Q and 4QFY16 for the LNG segment could cushion a further decline in segmental profits; ii) weaker Petroleum tanker rates could be offset by the addition of 50% stake in Paramount tankers adding its effective tonnage by +3%; and iii) acquisition of 50% stake in Gumusut-Kakap SFPS to see additional US$14m contribution from the offshore segment.

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

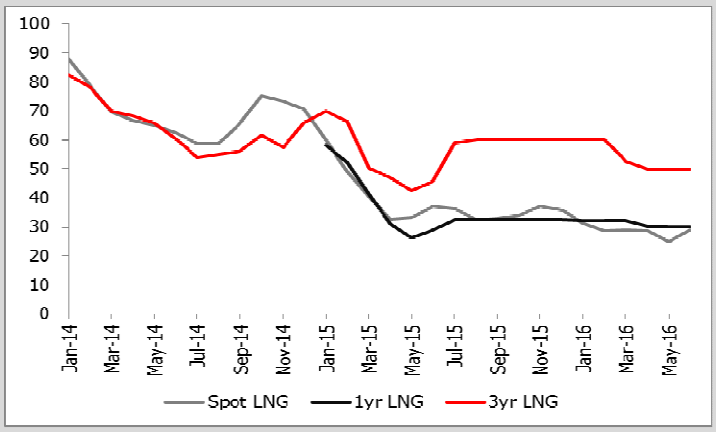
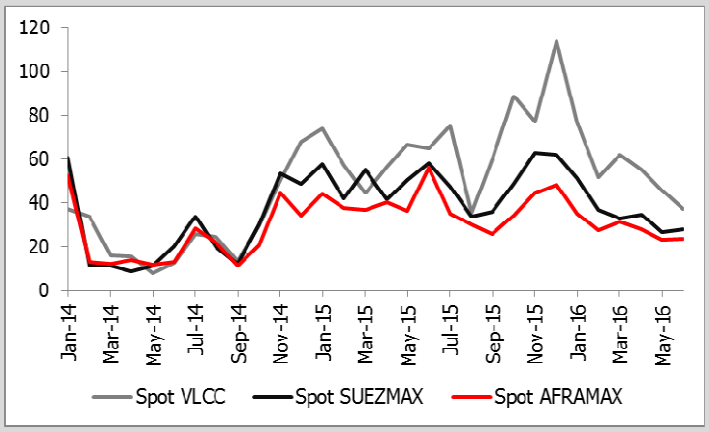


Figure 2: Spot Petroleum tanker rates (US$'000/day)



Source: MISC, Ship Brokers' Reports, MIDFR

Segments	Value (US$'m)	Value/share (RM)	Valuation method
LNG	4,400.0	3.94	DCF (WACC: 6.5%)
Offshore	1,650.0	1.48	DCF (WACC: 7%)
Petroleum	2,403.0	2.15	2nd hand value of vessels
Chemical	114.1	0.10	2nd hand value of vessels
Heavy Engineering	215.5	0.19	Based on MIDF TP of RM0.81
Other fixed assets	572.01	0.51	1.0x FY16F P/BV
Equity stakes in JV and asso.	826.79	0.74	1.0x FY16F P/BV
Less: Net debt	-1,202.4	-1.08	Estimated end-FY16
Total (US$'m)	**8,979.0**		
USD/MYR exchange rate	4.0		
Number of shares o/s	4,463.8		
Target Price (RM)	8.05	8.05	

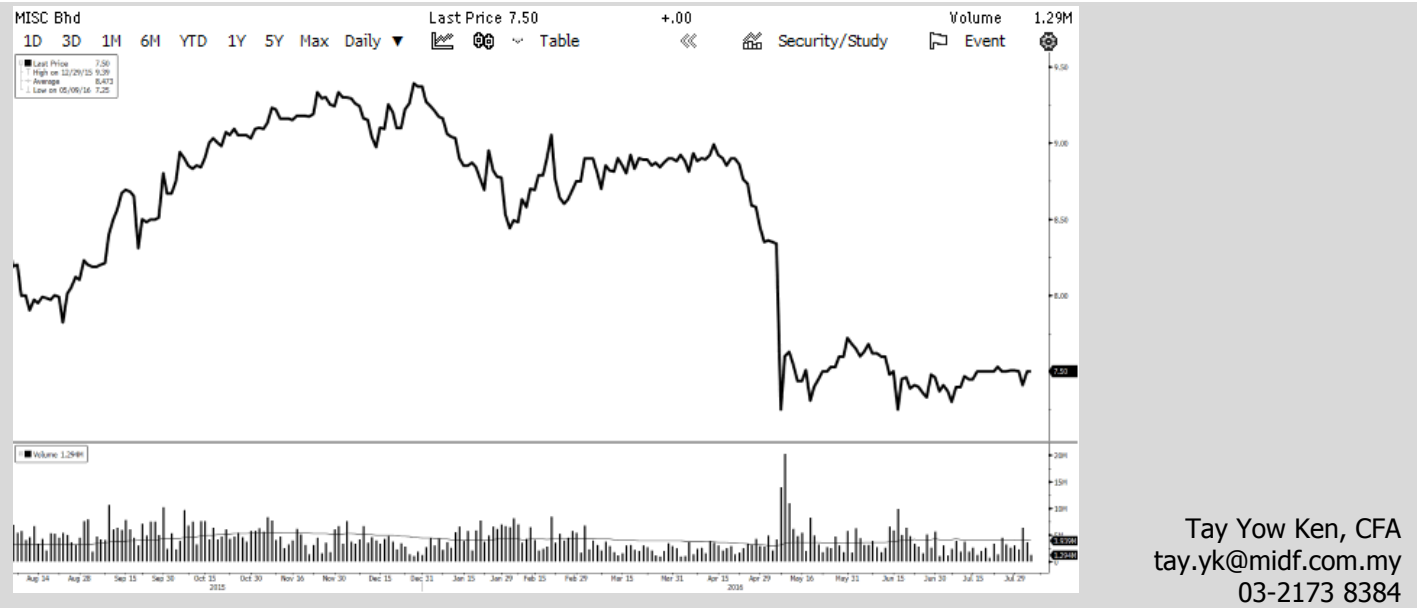
Source: Company, MIDFR

INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15	FY16F	FY17F
Revenue (RM' m)	8,971.8	9,296.3	10,908.4	8,069.9	9,383.9
EBIT (RM' m)	1,782.7	2,644.2	2,746.9	2,707.9	3,127.7
Pretax Profit (RM' m)	2,227.7	2,410.3	2,566.9	2,466.9	2,886.7
Net Profit (RM' m)	1,612.8	1,765.5	3,097.0	2,392.9	2,800.1
EPS (sen)	36.1	39.6	69.4	53.6	62.7
EPS growth (%)	92.2	9.6	75.4	-22.7	17.0
PER (x)	20.8	19.0	10.8	14.0	12.0
Net Dividend (sen)	5.0	10.0	18.0	20.0	20.0
Net Dividend Yield (%)	0.7	1.3	2.4	2.7	2.7

Source: MIDFR, Company

DAILY PRICE CHART



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Source: Bloomberg

MISC: 6MFY16 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results			Cumulative	
FYE Dec	***2Q16***	***%YoY***	***%QoQ***	***6MFY16***	***%YoY***
Revenue	2,392.4	-8.0%	-0.1%	4,786.9	-6.0%
COGS	(1,656.3)	8.8%	-3.5%	(3,256.0)	9.2%
Gross profit	736.1	-6.1%	-7.4%	1,530.9	1.7%
Other income	67.8	46.3%	-91.3%	847.3	755.6%
SG&A	(303.6)	-92.1%	62.0%	(1,103.1)	-137.4%
Operating profit	500.3	-25.6%	-35.4%	1,275.1	11.8%
Finance Cost	(63.8)	-32.2%	-33.7%	(111.5)	-7.9%
Asso. & JV Contribution	91.5	-37.6%	-28.0%	218.6	-10.9%
Exceptional gain/(loss)	846.1	39658.3%	1252.0%	772.6	11336.0%
Profit before tax	1,374.1	77.9%	76.0%	2,154.9	67.2%
Tax expense	(19.4)	-215.5%	-232.1%	(4.7)	19.5%
Net profit	1,346.6	75.7%	135.8%	1,917.6	52.5%
Core net profit	**533.6**	**-25.8%**	**-13.9%**	**1,153.4**	**-4.3%**

OPERATING SUMMARY (USD'm)

Segmental PBT	***2Q16***	***%YoY***	***%QoQ***	***6MFY16***	***%YoY***
LNG	62.3	-42.2%	9.7%	119.1	-41.0%
Petroleum	14.7	-61.5%	-64.3%	55.9	1.1%
Offshore	51.8	2.0%	27.6%	100.8	5.7%
Heavy Engineering	(0.2)	-104.2%	86.7%	92.4	111.7%
Total	**128.6**	**-39.0%**	**-6.2%**	**265.7**	**27.0%**

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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.