10 August 2017 | 2QFY17 Results Review

MISC Berhad

Summer slowdown

***Maintain* NEUTRAL**

***Decreased* Target Price (TP): RM7.43**
(From: RM7.90)

INVESTMENT HIGHLIGHTS

- **First half 2017 earnings within expectations**
- **LNG PBT improved with newbuilds coming on stream**
- **Losses recorded at the petroleum tanker segment due to seasonality factors**
- **Offshore PBT was lower but cushioned by new projects**
- **Maintain NEUTRAL with reduced TP of RM7.43**

1HFY17 earnings in line. MISC reported 1HFY17 core PATAMI of RM1.175b (+2%yoy) which was met both ours and consensus estimates representing 55% of full year FY17 forecasts. In 2QFY17, MISC recorded core PATAMI of RM530m (-1%yoy and -18%qoq). Earnings declined on a quarterly basis as 2Q-3Q are seasonally softer for energy transportation.

LNG segment 2QFY17 PBT improved +40%yoy driven mainly by the full earnings contribution of 2 of its Seri C Class newbuilds - The Seri Camellia (delivery: Oct 2016) and Seri Cenderawasih (delivery: Jan 2017). The third Seri C Class vessel, the Seri Cempaka was delivered in end-July 2017 which will be followed by the final two vessels scheduled to enter MISC's LNG fleet by 1HFY18.

Out with the old, in with the new. With newbuilds entering the fray, MISC's older vessels are being retired, the latest being its 36 year-old Tenaga 3 vessel (last of its class) being fully impaired. The Tenaga 3 will spend its golden years either on short-term charters or be used for conversion.

Petroleum tanker segment fell into the red with lower energy consumption in the summer months, higher refinery maintenance and OPEC production cuts hurting demand. Despite the challenging operating environment, MISC remained busy securing a US$200m-US$275m contract from Statoil ASA for 2 DP Shuttle Tankers in the North Sea which will begin in 2HFY19.

2HFY17 will be kinder to the Petroleum segment. In 3QFY17, MISC will be deploying 2 new LR2 product tankers to TOTAL, as well as 2 new VLCC, both on long term contracts. This is in addition to lower charter costs for its in-charter fleet as vessels are redelivered.

RETURN STATS	
Price (9 Aug 2017)	RM7.33
Target Price	RM7.43
Expected Share Price Return	+1.4%
Expected Dividend Yield	+3.8%
Expected Total Return	**+5.2%**

STOCK INFO	
KLCI	1,777.94
Bursa / Bloomberg	3816 / MISC MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	4,463.8
Market cap. (RM'm)	32,719.60
Price over NA	0.89
52-wk price Range	RM7.03 - RM7.9
Beta (against KLCI)	0.87
3-mth Avg Daily Vol	1.89m
3-mth Avg Daily Value	RM14.1m
Major Shareholders	
Petronas	62.67%
PNB	8.83%
EPF	6.35%

Offshore PBT was lower compared to prior periods following the idling of FSO Abu, as well as MOPU Satu and Dua. Cushioning the lower PBT were variation works for Gumusut-Kakap SFPS Ltd (GKL) amounting to US$6-7m per quarter, progressive billing for the construction of FSO Benchamas 2 and the commencement of its Marginal Mobile Production Unit (MaMPU). Regarding its recent counterclaim by Shell on GKL, management noted that proceedings will be long drawn. Meanwhile, Shell continues to pay MISC for its VO's on a timely manner.

Maintain NEUTRAL with lower TP of RM7.43 based a 0.9x price-to-NBV. Our downward revision in target price comes amid a change in valuation methodology, from sum-of-parts to 0.9x price-to-net book value (NBV) which is -1.5 standard deviations below its 5-year average amid the challenging overcapacity environment. In our view, the price-to-NBV method better reflects MISC's fundamentals with assets consisting mainly of vessels and offshore assets tested for impairment regularly. Hence, the carrying value of these assets mirror their fair value, based on second hand prices and current charter rates. Impetus for us to revisit our call on MISC include a change in supply-demand dynamics in the LNG & petroleum transportation market and the securing of sizable projects in the offshore segment.

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

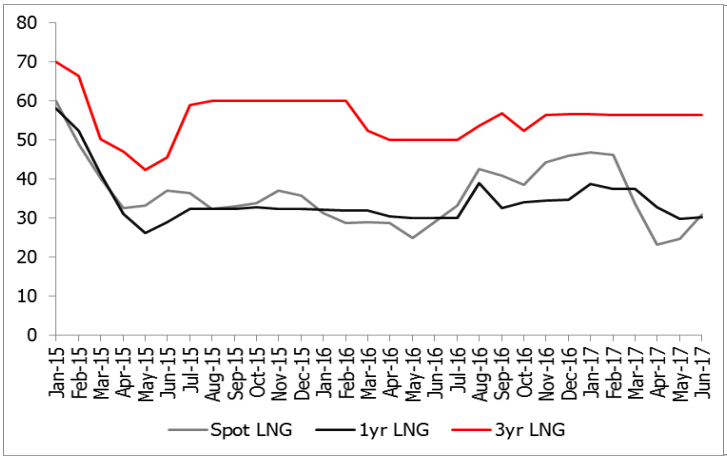
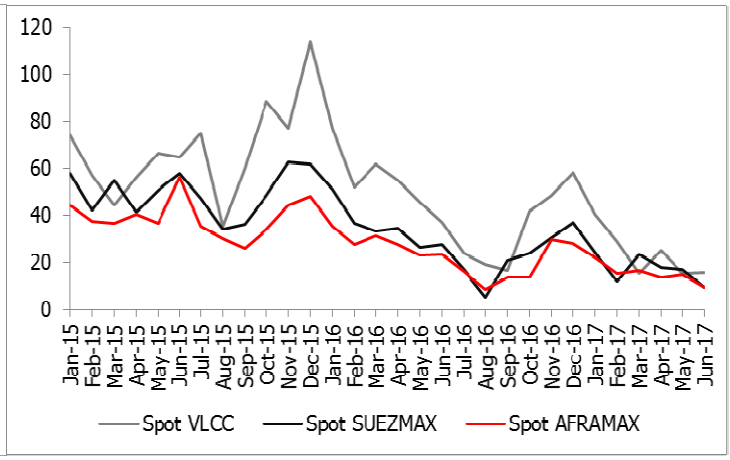
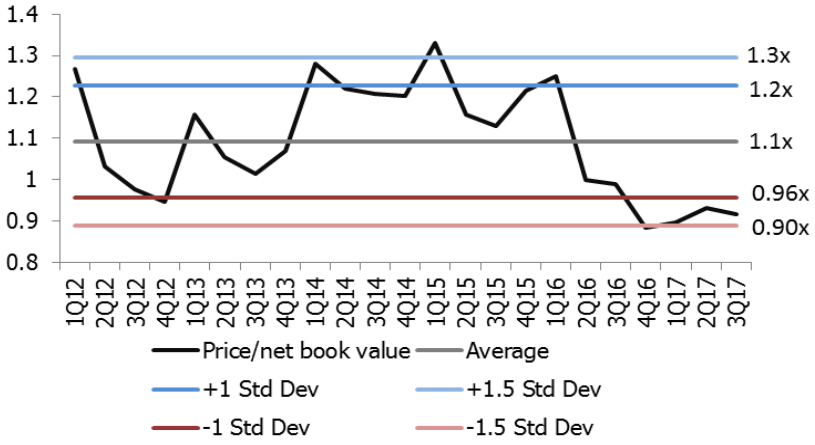


Figure 2: Spot Petroleum tanker rates (US$'000/day)



Source: Company, Ship Brokers' Reports, MIDFR

Figure 3: 5-year average price/net book value



Source: Bloomberg, MIDFR

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17F	FY18F	FY19F
Revenue (RM' m)	10,908.4	9,597.2	10,252.0	10,559.6	10,876.3
EBIT (RM' m)	2,746.9	3,011.6	2,346.6	2,417.0	2,489.5
Pretax Profit (RM' m)	2,566.9	2,814.0	2,105.6	2,168.8	2,233.9
Net Profit (RM' m)	3,097.0	1,883.0	2,105.6	2,168.8	2,233.9
EPS (sen)	69.4	42.2	45.8	48.6	50.0
EPS growth (%)	75.4	-39.2	8.5	3.0	3.0
PER (x)	10.6	17.4	16.0	15.1	14.6
Net Dividend (sen)	30.0	30.0	28.0	30.0	30.0
Net Dividend Yield (%)	4.1	4.1	3.8	4.1	4.1

Source: MIDFR, Company

DAILY PRICE CHART



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Source: Bloomberg

MISC: 6MFY17 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results			Cumulative	
FYE Dec	***2Q17***	***%YoY***	***%QoQ***	***6MFY17***	***%YoY***
Revenue	2,302.5	-3.8%	-22.9%	5,287.4	10.5%
COGS	(1,609.5)	2.8%	14.6%	(3,493.3)	-7.3%
Gross profit	693.0	-5.9%	-37.1%	1,794.1	17.2%
Other income	240.4	254.7%	287.7%	302.4	-64.3%
SG&A	(216.0)	28.9%	55.2%	(697.8)	36.7%
Operating profit	717.4	43.4%	5.3%	1,398.7	9.7%
Finance Cost	(65.1)	-2.1%	1.1%	(130.9)	-17.4%
Asso. & JV Contribution	59.6	-34.9%	18.5%	109.9	-49.7%
Exceptional gain/(loss)	(153.2)	-118.1%	-597.4%	(122.4)	-115.8%
Profit before tax	558.7	-59.3%	-19.8%	1,255.3	-41.7%
Tax expense	(4.9)	74.7%	-81.5%	(7.6)	-61.5%
PATAMI	556.5	-58.7%	-17.7%	1,232.7	-35.7%
Core PATAMI	529.9	-0.7%	-17.9%	1,175.3	1.9%

OPERATING SUMMARY (USD'm)

Segmental Revenue	***2Q17***	***%YoY***	***%QoQ***	***6MFY17***	***%YoY***
LNG	168.4	6.9%	0.3%	336.3	4.9%
Petroleum	237.4	-18.5%	-17.9%	526.4	-11.1%
Offshore	73.9	24.0%	-55.3%	239.1	137.2%
Heavy Engineering	59.3	-19.9%	11.9%	112.3	4.0%
Total	539.0	-7.5%	-20.2%	1,214.1	8.3%
Segmental PBT	***2Q17***	***%YoY***	***%QoQ***	***6MFY17***	***%YoY***
LNG	87.1	39.8%	23.5%	157.6	32.3%
Petroleum	(10.0)	-168.0%	-179.4%	2.6	-95.3%
Offshore	44.1	-14.9%	-39.8%	117.3	26.9%
Heavy Engineering	(3.1)	-1450.0%	22.5%	(7.1)	-317.6%
Total	118.1	-8.2%	-22.5%	270.4	1.8%

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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.