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15 August 2019 | 2QFY19 Results Review

MISC Berhad

Maintain NEUTRAL

Improved performance but wary of looming external risks

***Unchanged* Target Price (TP): RM6.81**

INVESTMENT HIGHLIGHTS

- **1HFY19 earnings within expectations**
- **Lower dry docking days maintained profitability of LNG segment**
- **Petroleum segment sustained by better freight rates**
- **Heavy engineering underperformed due to unabsorbed overheads**
- **Earnings estimates unchanged**
- **Maintain NEUTRAL with unchanged TP of RM6.81 per share**

1HFY19 results within expectations. MISC Berhad (MISC) reported a normalised PATAMI of RM937.0m (+33.5%yoy) in 1HFY19 which was within ours and consensus' expectations, accounting for 54.7% and 53.9% of full year forecasts, respectively. The +42.6%yoy jump in finance costs due to the MFRS 16 adoption was offset by better revenue from its energy shipping business (i.e. LNG and petroleum shipping).

Higher number of operating vessels maintained LNG's profitability. The revenue and PBT of the LNG segment in 1HFY19 both increased by +3.9%yoy and +14.5%yoy respectively. The growth in revenue and PBT was mainly attributable to the higher number of operating vessels following: (i) the acquisition and leaseback of LNG Lerici and LNG Portovenere on time charter contracts in December 2018 and January 2019 respectively; and (ii) full six months contribution from Seri C class vessels, Seri Camar and Seri Cemara delivered in March 2018 and May 2018 respectively. Moreover, we gathered that number of dry docking days averaged around 50 days in the period under review compared to 200 days a year ago.

Improved performance for petroleum segment. The petroleum segment rebounded in 1HFY19, cancelling out losses seen during the same period last year. The segment was supported by lower depreciation and bunker costs following lower number of operating vessels in addition to better freight rates especially for Aframax class.

Offshore contract extensions cushioned impact of absence of construction revenue. Revenue and PBT of the offshore segment was lower by -13.4%yoy and -13.8%yoy respectively due to the absence of the construction revenue from FSO Benchamas 2. Nevertheless, the charter commencement of the FSO Mekar Bergading in August 2018 and the contract extension for FPSO Ruby 2 and FPSO Bunga Kertas to early FY20 cushioned the segment's losses.

Heavy engineering segment stuck in losses. The heavy engineering segment remained in the red for 1HFY19. This marks its sixth consecutive quarter of losses, albeit at a lower level. The overall drag on the segment was mainly attributable to the underperformance of its heavy engineering segment due to higher unabsorbed overheads and lesser close-out of a significant project; Tembikai NAG Offshore Wellhead facilities in the period under review.

RETURN STATS	
Price (14 August 2019)	RM7.25
Target Price	RM6.81
Expected Share Price Return	-6.1%
Expected Dividend Yield	+4.1%
Expected Total Return	**-2.0%**

STOCK INFO	
KLCI	1,600.31
Bursa / Bloomberg	3816 / MISC MK
Board / Sector	Main / Transportation & Logistics
Syariah Compliant	Yes
Issued shares (mil)	4,463.8
Market cap. (RM'm)	32,362.2
Price over NA	0.92
52-wk price Range	RM5.48 - RM7.50
Beta (against KLCI)	0.96
3-mth Avg Daily Vol	2.22m
3-mth Avg Daily Value	RM15.8m
Major Shareholders (%)	
Petronas	62.67
PNB	9.01
EPF	6.01

Earnings impact. We make no changes to our earnings estimates as normalised earnings were within expectations.

Target price. With no adjustments made to our earnings forecast, we are maintaining our **target price** at **RM6.81 per share**. Our TP is derived by pegging our FY20 book value per share to a 0.85x price-to-book value, which is -0.5 standard deviation below its five-year average. Our premise for the discount is due to the impending risks from the IMO2020 regulation and the geopolitical situation especially in the Middle East which may affect the petroleum segment.

Maintain NEUTRAL. We believe that growth in FY19 will come from new liquefaction projects (i.e. Cameron LNG and Prelude FLNG) and also the reduced reliance on coal in China and Korea which will propel growth in the LNG segment. Any downturn in LNG will be mitigated by its major existing portfolio of long term contracts. The offshore segment too will be buoyed by the full year contribution of its two new assets; FSO Mekar Bergading and FSO Benchamas 2. Meanwhile, the positive impact on better freight rates coming from reduced active petroleum fleet due to the downtime for scrubber retrofits leading up to the IMO 2020 implementation will be outweighed by lesser scrapping activities. This is because scrapping activities have yet to match the order book for deliveries that we expect to be sizeable up to end 2019 before tapering in 2020. In addition, pressure on the recovery in tanker shipping demand will also be increased due to sanctions on Venezuela and Iran, combined with production cut extensions by the OPEC until March 2020. As for heavy engineering, even if the segment becomes profitable due to: (i) marine repair activities amidst impending compliance of the IMO 2020 sulphur cap; and (ii) contribution from Kasawari Gas Development project, impact to MISC's bottom line will still be below 5.0%. With the much of the positive factors being moderated by potential headwinds, we are maintaining our **NEUTRAL** stance on MISC Berhad.

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

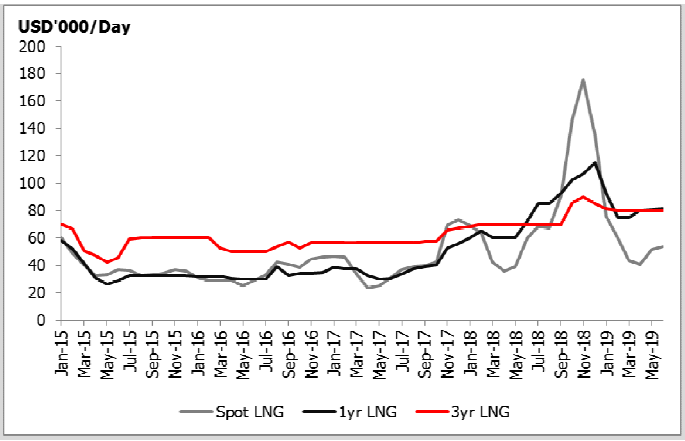
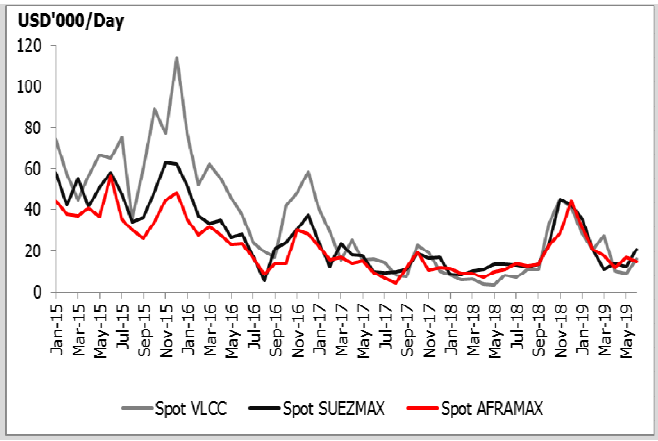


Figure 2: Spot Petroleum tanker rates (US$'000/day)



Source: Company, Ship Brokers' Reports, MIDFR

INVESTMENT STATISTICS

FYE Dec	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM' m)	9,597.2	10,068.2	8,780.3	9,558.5	9,963.7
EBIT (RM' m)	3,011.6	2,172.1	1,605.8	2,041.6	2,069.3
Pretax Profit (RM' m)	2,814.0	2,003.6	1,344.1	1,792.1	1,881.3
Net Profit (RM' m)	2,793.3	1,990.7	1,284.3	1,713.3	1,798.5
Normalised Profit (RM'm)	1,883.0	2,788.9	1,495.6	1,713.3	1,798.5
EPS (sen)	42.2	62.5	28.8	38.4	40.3
EPS growth (%)	-39.2	48.1	-35.5	33.4	5.0
PER (x)	17.2	11.6	25.2	18.9	18.0
Net Dividend (sen)	30.0	30.0	30.0	30.0	30.0
Net Dividend Yield (%)	4.1	4.1	4.1	4.1	4.1

Source: MIDFR, Company

DAILY PRICE CHART



Source: Bloomberg

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MISC: 1HFY19 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results			Cumulative		
FYE Dec	***2QFY19***	***%YoY***	***%QoQ***	***1HFY19***	***1HFY18***	***%YoY***
Revenue	2,161.7	0.9	-5.1	4,439.4	4,162.6	6.6
COGS	-1,511.3	-6.9	-0.4	-3,029.1	-3,080.0	-1.7
Gross profit	650.4	25.5	-14.4	1,410.3	1,082.6	30.3
Other income	57.5	12.3	-34.1	144.7	117.0	23.7
SG&A	-223.6	0.4	-12.4	-478.8	-469.2	2.0
Operating profit	484.3	39.6	-18.2	1,076.2	730.4	47.3
Finance Cost	-115.6	16.2	-13.9	-249.8	-175.2	42.6
Asso. & JV Contribution	101.5	45.0	>100	144.6	82.6	75.1
Exceptional gain/(loss)	-51.1	>-100	>-100	-9.9	-0.1	>-100
Profit before tax	419.1	31.6	-22.7	961.1	637.7	50.7
Tax expense	-17.2	84.9	-33.8	-43.2	-19.5	>100
PATAMI	399.8	24.5	-21.7	910.3	631.8	44.1
Core PATAMI	457.3	21.0	-4.7	937.0	702.0	33.5

OPERATING SUMMARY (USD'm)

Segmental Revenue	***2QFY19***	***%YoY***	***%QoQ***	***1HFY19***	***1HFY18***	***%YoY***
LNG	158.7	5.2	3.9	311.5	299.8	3.9
Petroleum	239.0	-6.4	-16.7	525.9	504.1	4.3
Offshore	62.4	-14.8	-5.5	128.4	148.3	-13.4
Heavy Engineering	66.9	13.6	34.9	116.5	104.7	11.3
Total	527	-2.1	-5.1	1082.3	1056.9	2.4%
Segmental PBT	***2QFY19***	***%YoY***	***%QoQ***	***1HFY19***	***1HFY18***	***%YoY***
LNG	62.2	5.8	-22.2	142.1	124.1	14.5
Petroleum	-1.2	-95.0	>-100	16.8	-42.5	>100
Offshore	35.4	-24.0	8.3	68.1	79	-13.8
Heavy Engineering	-2.1	-82.2	-70.8	-9.3	-18.4	-49.5
Total	94.3	35.7	-23.6	217.7	142.2	-13.2

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% 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.