03 November 2016 | 3QFY16 Results Review

MISC Berhad

Seasonal uptick seen in 4Q

***Maintain* NEUTRAL**

***Revised* Target Price (TP): RM7.96**
(From: RM8.05)

INVESTMENT HIGHLIGHTS

- **9MFY16 core PATAMI below estimates**
- **Firmer LNG rates were recorded since August**
- **Petroleum tanker PBT slipped into the red in 3QFY16**
- **Offshore segment dented by a reversal gain**
- **Maintain NEUTRAL with reduced TP of RM7.96**

9MFY16 core PATAMI below estimates. MISC reported 9MFY16 core PATAMI of RM1.4bm (-27%yoy) which fell short of estimates representing 60% of both our and consensus full year FY16 forecasts. The deviation is attributed to lower charter days and weaker than expected spot LNG and Petroleum tanker rates which were, on average, down -20%yoy and -42%yoy respectively in 9MFY16.

LNG segment PBT declined -39%yoy in 9MFY16 amid lower utilisation rate and a change in depreciation method (reduction in useful life of vessels). Recall that several vessels were idled after seeing their contracts either terminated or temporarily halted including Aman Hakata (4Q15), Aman Bintulu (1Q16), Seri Balquis and Seri Balhaf (early-2016). Meanwhile, Tenaga Dua and Tiga were disposed.

Firmer LNG rates were recorded since August as demand for LNG cargo picked up in Japan, China, Argentina and Egypt leading to a +9% rise in imports. We believe that charters rates should hold their ground going into 4QFY16 as a colder winter is expected in the northern hemisphere. This could help offset a delay in the delivery of MISC's second Seri C Class newbuild from 4QFY16 to 1QFY17 after taking delivery of its first Seri C Class newbuild at the end of September which is on 15+5 year contract with Petronas.

Petroleum tanker PBT slipped into the red in 3QFY16 causing 9MFY16 PBT to fall -71%yoy. Similar to 2QFY16, the segment suffered from lower time charter equivalent (TCE) rates due to high stockpile of petroleum by-products and net fleet growth of close to +6%. Looking ahead though, charter rates in 4QFY16 could improve predicated on expectations of a colder winter and increased refinery activity. MISC could be well positioned to secure higher term charter rates in 4QFY16 as its term to spot mix has fallen to 50:50 (from 60:40).

RETURN STATS	
Price (2 Nov 2016)	RM7.50
Target Price	RM7.96
Expected Share Price Return	+6.1%
Expected Dividend Yield	+2.7%
Expected Total Return	**+8.8%**

STOCK INFO	
KLCI	1,659.60
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	0.96
52-wk price Range	RM6.88 - RM9.41
Beta (against KLCI)	0.88
3-mth Avg Daily Vol	2.39m
3-mth Avg Daily Value	RM18.0m
Major Shareholders	
Petronas	62.67%
EPF	6.60%
PNB	5.60%

Offshore segment dented by a reversal gain from FPSO Cendor. The segment's PBT declined -6%yoy as MISC recorded a US$20m reversal gain on FPSO Cendor, offsetting contributions from the full consolidated of Gumusut-Kakap. Looking ahead, the segment's earnings should normalise to US$50m per quarter aided by the deployment of its marginal mobile production unit (MAMPU1) at the Ophir RSC in 4QFY16.

Impact on earnings. We revise downward our earnings forecast for FY16 and FY17 by -20% and -27% respectively as we factor in lower vessel utilisation rate and TCE rates. Hence, our SOP-based TP is also adjusted from RM8.05 to RM7.96 reflecting the slight weakness in LNG and petroleum segments.

Maintain NEUTRAL with TP of RM7.96. Our NEUTRAL call is predicated on sturbbornly high newbuild market with tonnage supply forecasted to outpace demand growth in FY17 but offset by: i) new LNG and petroleum vessel deliveries in FY17; ii) effective petroleum tonnage addition of +3% from the acquisition of the remaining 50% stake in Paramount tankers; 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)

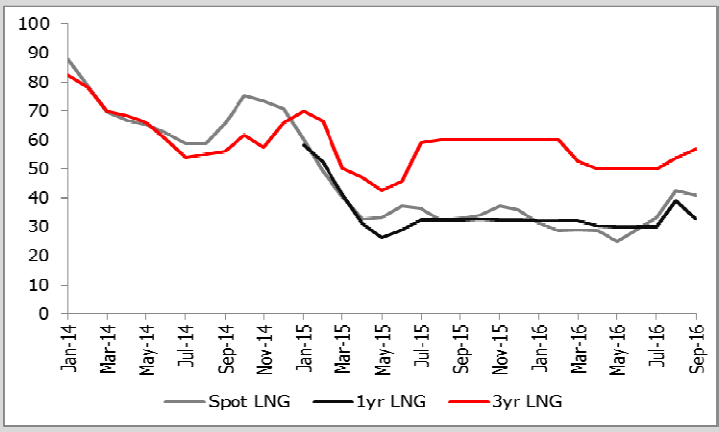
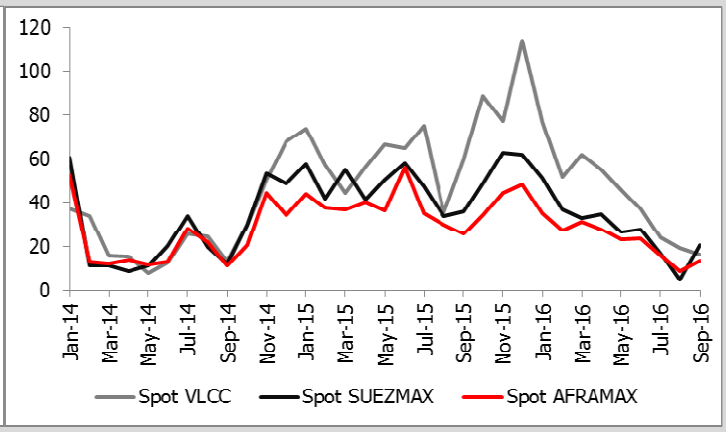


Figure 2: Spot Petroleum tanker rates (US$'000/day)



Source: MISC, Ship Brokers' Reports, MIDFR

Segments	Value (US$'m)	Value/share (RM)	Valuation method
LNG	4,350.0	3.90	DCF (WACC: 6.5%)
Offshore	1,650.0	1.48	DCF (WACC: 7%)
Petroleum	2,353.0	2.11	2nd hand value of vessels
Chemical	114.1	0.10	2nd hand value of vessels
Heavy Engineering	215.5	0.19	Based on MIDF TP of RM0.81
Other fixed assets	572.01	0.51	1.0x FY16F P/BV
Equity stakes in JV and asso.	826.79	0.74	1.0x FY16F P/BV
Less: Net debt	-1,202.4	-1.08	Estimated end-FY16
Total (US$'m)	**8,879.0**		
USD/MYR exchange rate	4.0		
Number of shares o/s	4,463.8		
Target Price (RM)	7.96	7.96	

Source: Company, MIDFR

INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15	FY16F	FY17F
Revenue (RM' m)	8,971.8	9,296.3	10,908.4	9,713.0	9,553.0
EBIT (RM' m)	1,782.7	2,644.2	2,746.9	2,218.6	2,346.6
Pretax Profit (RM' m)	2,227.7	2,410.3	2,566.9	1,977.6	2,105.6
Net Profit (RM' m)	1,612.8	1,765.5	3,097.0	1,918.3	2,042.5
EPS (sen)	36.1	39.6	69.4	43.0	45.8
EPS growth (%)	92.2	9.6	75.4	-38.1	6.5
PER (x)	20.8	19.0	10.8	17.5	16.4
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: 9MFY16 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results			Cumulative	
FYE Dec	***3Q16***	***%YoY***	***%QoQ***	***9MFY16***	***%YoY***
Revenue	2,292.8	-8.5%	-4.2%	7,079.7	-6.8%
COGS	(1,780.9)	-11.4%	-7.5%	(5,036.9)	2.8%
Gross profit	512.0	-43.6%	-30.5%	2,042.8	-15.3%
Other income	35.9	1.7%	-47.0%	883.2	557.4%
SG&A	(237.1)	26.7%	21.9%	(1,340.2)	-70.0%
Operating profit	310.8	-49.8%	-37.9%	1,585.9	-9.8%
Finance Cost	(68.1)	-69.0%	-6.8%	(179.6)	-25.1%
Asso. & JV Contribution	62.7	-63.6%	-31.5%	281.3	-32.6%
Exceptional gain/(loss)	(150.8)	34.9%	-117.8%	621.8	376.8%
Profit before tax	154.6	-70.2%	-88.7%	2,309.5	27.7%
Tax expense	(11.2)	25.9%	42.0%	(15.9)	24.1%
Net profit	134.2	-73.4%	-90.0%	2,051.7	16.5%
Core net profit	266.9	-63.7%	-50.0%	1,420.3	-26.8%

OPERATING SUMMARY (USD'm)

Segmental PBT	***3Q16***	***%YoY***	***%QoQ***	***9MFY16***	***%YoY***
LNG	56.2	-34.6%	-4.4%	175.3	-39.1%
Petroleum	(27.7)	-169.1%	-10.3%	28.2	-70.8%
Offshore	24.4	-6.2%	9.2%	116.8	-5.8%
Heavy Engineering	(0.6)	-112.8%	11.1%	(2.3)	-112.0%
Total	52.3	-72.4%	-100.0%	318.0	-42.5%

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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.