6 November 2017| 3QFY17 Results Review

MISC Berhad

Pickup in the third quarter

Maintain Buy

Adjusted Target Price (TP): RM7.68

(From: RM7.43)

INVESTMENT HIGHLIGHTS

- **9MFY17 earnings above expectations**
- **LNG PBT improved with new-builds coming on stream**
- **Losses recorded at the petroleum tanker segment due to seasonality factors**
- **Rebound in offshore segment**
- **Maintain Buy with adjusted TP of RM7.68 per share**

9MFY17 earnings above expectations. MISC reported 3QFY17 core PATAMI RM549.9m representing an increase of +106%yoy. 9MFY17 core earnings of RM1,725.2m accounted for 82% and 80% of ours and consensus's full year FY17 estimates respectively. We opine that the commendable earnings were driven by robust net fleet growth.

LNG segment 3Q17 PBT increased +55.9%yoy mainly attributable to the commissioning of the third Seri C Class vessel, Seri Cempaka (delivery: end-July 2017) in addition to the other 2 Seri C Class vessels; Seri Camellia (delivery: Oct 2016) and Seri Cenderawasih (delivery: Jan 2017). The commencement of the new Seri C Class vessels helped offset the non-extension of Puteri Intan Satu's option period. Puteri Intan Satu will instead replace Puteri Firus in a charter swap agreement with Petronas LNG. Meanwhile, Puteri Firus will be used for new redeployment opportunities.

Firmer LNG rates recorded since July as there was a +5%qoq increase in LNG demand due to higher imports from Japan, South Korea and Turkey combined with the shortage of vessels especially in the Atlantic region. We believe that charter rates should hold their ground going into 4Q17 with the onset of the peak winter demand.

Petroleum tanker stuck in the red for 3QFY17 declining by -33%yoy as the boost provided by the U.S hurricanes was not sufficient to lift the overall charter rates for the quarter. Moving forward, a seasonal pickup in 4Q17 is likely underpinned by colder weather and recovery in refinery activity. MISC is also in a better position to secure higher term charter rates in 4QFY17 as its term to spot mix has fallen to 47:53 from 50:50 a year ago.

RETURN STATS	
Price (3 Nov 2017)	RM7.11
Target Price	RM7.68
Expected Share Price Return	+8.0%
Expected Dividend Yield	+3.9%
Expected Total Return	**+11.9%**

STOCK INFO	
KLCI	1,740.93
Bursa / Bloomberg	3816 / MISC MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	4,463.8
Market cap. (RM'm)	31,737.57
Price over NA	0.87
52-wk price Range	RM6.91 - RM7.90
Beta (against KLCI)	1.05
3-mth Avg Daily Vol	1.05m
3-mth Avg Daily Value	RM7.65m
Major Shareholders	
Petronas	62.67%
EPF	6.18%
Skim ASB	4.41%

Net growth in its Petroleum tanker fleet. MISC delivered 2 modern VLCCs and 2 LR2 tankers on long-term charters with oil major customers, offsetting the demolition of an Aframax tanker (Eagle Columbus). In view of the net addition to its fleet size, MISC is well positioned to cushion a prolonged low charter rate environment.

Rebound in Offshore segment. The segment's PBT increased by a staggering +212%yoy underpinned by 3 main factors: (i) second adjudication outcome favouring Gemusut Kakap SFPS Ltd (GKL), (ii) higher progress billings for construction works of FSO Benchamas 2 which will be completed in April 2018 and (iii) commencement of its Marginal Mobile Production Unit (MaMPu). Regarding the reversal of provision of doubtful debts in relation to the GKL adjudication, management noted that there will be none in the coming 4QFY17.

Earnings impact. We revise upward our earnings forecast for FY17, FY18 and FY19 by +9.2%, +10.8% and +8.2% respectively, premised on better-than-expected performance of the offshore segment and incoming vessels.

Maintain BUY with increased TP RM7.68. We are maintaining our **Buy** recommendation with an increased TP of **RM7.68** pegged to 0.96x price-to-net tangible assets which is -1.0 standard deviations. Our call is predicated on: (i)contribution of the 3 Seri C Class vessels; (ii) removal of older tonnages from trade for demolition and iii) FSO Benchamas 2 project progressing ahead of plan.

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

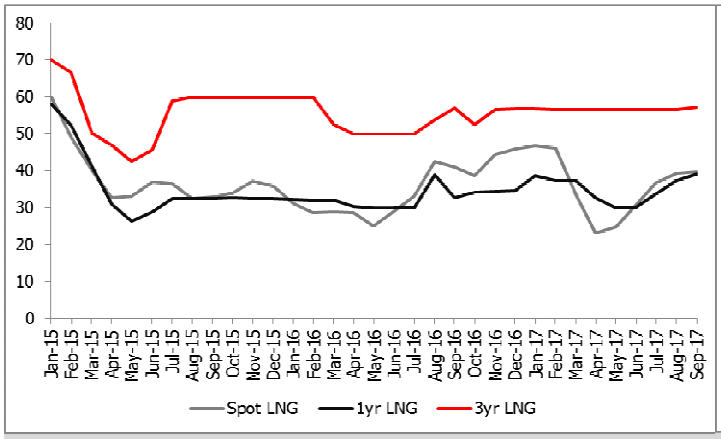
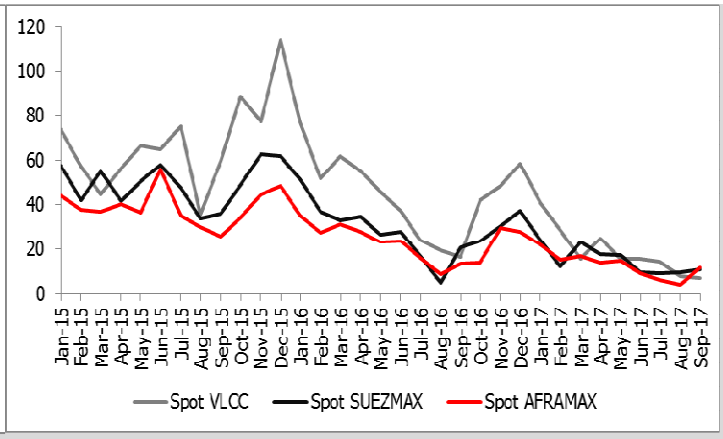
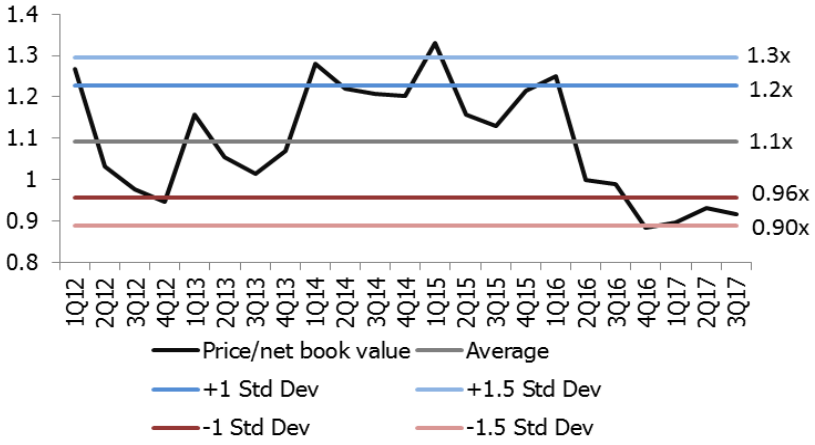


Figure 2: Spot Petroleum tanker rates (US$'000/day)



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	10,457.0	10,666.2
EBIT (RM' m)	2,746.9	3,011.6	2,541.2	2,592.0	2,643.9
Pretax Profit (RM' m)	2,566.9	2,814.0	2,300.2	2,346.2	2,416.6
Net Profit (RM' m)	3,097.0	1,883.0	2,300.2	2,346.2	2,416.6
EPS (sen)	69.4	42.2	50.0	52.6	54.1
EPS growth (%)	75.4	-39.2	18.5	2.0	3.0
PER (x)	10.6	17.4	14.2	13.5	13.1
Net Dividend (sen)	30.0	30.0	28.0	30.0	30.0
Net Dividend Yield (%)	4.1	4.1	3.9	4.2	4.2

Source: MIDFR, Company

DAILY PRICE CHART



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Source: Bloomberg

MISC: 9MFY17 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results			Cumulative	
FYE Dec	***3Q17***	***%YoY***	***%QoQ***	***9MFY17***	***%YoY***
Revenue	2,315.8	1.0%	0.6%	7,603.2	7.4%
COGS	-1,560.2	12.4%	-3.1%	-5,053.5	-0.3%
Gross profit	755.6	47.6%	9.0%	2,549.7	24.8%
Other income	103.4	187.7%	-57.0%	405.8	-54.1%
SG&A	-180.9	23.7%	-16.3%	-878.7	34.4%
Operating profit	678.1	118.2%	-5.5%	2,076.8	31.0%
Finance Cost	-65.5	3.8%	0.6%	-196.4	-9.4%
Asso. & JV Contribution	49.0	-21.9%	-17.8%	158.9	-43.5%
Exceptional gain/(loss)	44.6	129.6%	-129.1%	-77.8	-112.5%
Profit before tax	706.2	356.8%	26.4%	1,961.5	-15.1%
Tax expense	-10.4	7.5%	112.2%	-18.0	-12.9%
PATAMI	680.5	407.2%	22.3%	1,913.2	-6.8%
Core PATAMI	549.9	106.0%	3.8%	1,725.2	21.5%

OPERATING SUMMARY (USD'm)

Segmental Revenue	***3Q17***	***%YoY***	***%QoQ***	***9MFY17***	***%YoY***
LNG	159.9	6.1%	-5.0%	496.2	5.3%
Petroleum	241.1	-7.7%	1.6%	767.5	-10.0%
Offshore	94.3	44.9%	27.6%	333.4	101.0%
Heavy Engineering	50.6	-38.4%	-14.7%	162.9	-14.4%
Total	545.9	-2.4%	1.3%	1,760.0	4.7%
Segmental PBT	***3Q17***	***%YoY***	***%QoQ***	***9MFY17***	***%YoY***
LNG	87.6	55.9%	-27.7%	279.2	59.3%
Petroleum	-18.7	-32.5%	-87.0%	-16.1	-157.1%
Offshore	76.2	212.3%	72.8%	193.5	65.7%
Heavy Engineering	3.6	700.0%	216.1%	-10.5	-356.5%
Total	148.7	184.3%	25.9%	446.1	42.5%

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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.