MISC Berhad

(3816 | MISC MK) Main | Transportation & Logistics

Maintain NEUTRAL

Unchanged Target Price: RM8.35

Temporary freight rates surge to lend some support in 4QFY19

- **9MFY19 results broadly within expectations**
- **Lower dry docking days maintained LNG's profitability.**
- **Better tanker spot and time charter rates as refineries resume purchases**
- **Offshore contract extensions cushion impact of provision for demobilization cost of FSO Angsi**
- **Heavy engineering stuck in losses albeit at a lower level**
- **Earnings estimates unchanged**
- **Maintain NEUTRAL with unchanged TP of RM8.35 per share**

Broadly within expectations. In 3QFY19, normalised earnings MISC Berhad (MISC) rose by +3.9%yoy to RM326.4m. This brings MISC's 9MFY19 normalised earnings to RM1,263.4m (+24.3%yoy) which broadly met ours and consensus' full year estimates at 70.0%. Nevertheless, we opine that it will be a strong 4QFY19 due to; (i) temporary surge in freight rates; and (ii) winter season.

Higher number of operating vessels maintained LNG's profitability. The revenue and PBT of the LNG segment in 9MFY19 both increased by +4.5%yoy and +13.7%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 nine 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 125 days in the period under review compared to 200 days a year ago.

Improved performance for petroleum segment. Losses before tax for the petroleum segment in 9MFY19 declined by -95%yoy. The decline in losses was supported by lower depreciation and bunker costs following lower number of operating vessels in addition to better spot and time charter rates especially for the VLCC class, translating to better vessel utilisation, with refineries appear to have resumed purchases after a longer than usual shutdown period. Meanwhile, the term to spot ratio for petroleum segment as of 30 September 2019 stood at 60:40 compared to 65:35 in the previous quarter. This enabled MISC to capture the benefits from the surge in spot tanker rates seen in late September 2019 due to geopolitical factors. Notwithstanding this, spot tanker rates have declined from USD300,000 per day in mid-October to reach November 2018 levels of circa USD55,000 per day. Therefore benefits from MISC's increased exposure in the spot market will be limited in 4QFY19.

Reducing reliance on chemical business. MISC has delivered one A-class chemical vessels to Maersk Tankers in 3QFY19 with six more remaining to be transferred by 1QFY20. The move to dispose its chemical tankers signifies MISC's preparedness to venture into other non-conventional businesses. That said, the net gain on disposal for the seven chemical vessels only amounts to approximately RM21m, immaterial to MISC's overall earnings.

Offshore contract extensions cushioned impact of provision for demobilisation cost. Revenue and PBT of the offshore segment in 9MFY19 was lower by -17.4%yoy and -20.1%yoy respectively due to the recognition of the demobilisation cost for FSO Angsi in the period. 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.

RETURN STATISTICS	
Price @ 13th Nov 2019 (RM)	8.30
Expected share price return (%)	+0.60
Expected dividend yield (%)	+3.60
Expected total return (%)	**+4.20**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.1	6.0
3 months	3.1	20.3
12 months	38.9	55.3

KEY STATISTICS	
FBM KLCI	1,597.22
Syariah compliant	Yes
Issue shares (m)	4463.75
Estimated free float (%)	15.75
Market Capitalisation (RM'm)	37,049.09
52-wk price range	RM5.93 - RM8.63
Beta vs FBM KLCI (x)	0.91
Monthly velocity (%)	37.6
Monthly volatility (%)	7.77
3-mth average daily volume (m)	4.46
3-mth average daily value (RM'm)	35.69
Top Shareholders (%)	
Petroliam Nasional Bhd	62.67
Employees Provident Fund Board	5.51
AMANAH SAHAM BUMIPUTERA	4.77

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Losses narrowed down for heavy engineering segment. The heavy engineering segment remained in the red for 9MFY19, marking its seventh consecutive quarter of losses, albeit at a lower level. This corresponds to the higher revenue incurred from: (i) dry docking services on LNG carriers during the period; and (ii) higher progress of ongoing projects. Moving forward, the progress from the recently awarded Kasawari Gas Development will provide support to its earnings in FY20.

Earnings estimates. We make no changes to our earnings estimates as normalised earnings were broadly within expectations. Meanwhile, we note that our forecasts at this juncture have not incorporated the potential job wins related to FPSO segment by MISC pending announcements which are expected.

Target price. We are maintaining our target price at **RM8.35 per share**. Our TP is derived by pegging our FY20 book value per share to a 1.05x price-to-book value, which is +1.5 standard deviation above its five-year average, reflecting slew of contract awards for the LNG segment as of late in addition to the large job bids which MISC has entered into.

Maintain NEUTRAL. We reiterate that growth in will be driven by the LNG segment that is supported by new liquefaction projects (i.e. Cameron LNG and Prelude FLNG) and reduced reliance on coal in China and Korea. This in turn would provide growth for the remaining months and later on spill over to FY20. As for the petroleum tanker business, the decision to remain with delaying retrofitting of scrubbers and demolishing activities to capitalise on the temporary surge in spot rates will eventually exert downward pressure on tanker rates until the year end. Even if demolition levels were to increase following the IMO2020 in January 2020, positive impacts of lower number of tankers to freight rates would be partially offset the extension of OPEC cuts and lower expected oil demand growth. U.S Energy Information Administration revised lower projected oil demand in FY20 to 1.3m barrels per day. 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 much of the positive factors being moderated by potential headwinds, we are maintaining our **NEUTRAL** stance on MISC. The only major catalyst for MISC is the potential job wins for the offshore segment in FY20 worth close to USD6b which includes FPSO Mero 3 and FPSO Limbayong.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	2017A	2018A	2019E	2020F	2021F
Revenue	**10,068.2**	**8,780.3**	**9,671.2**	**10,071.4**	**10,495.6**
EBIT	2,172.1	1,605.8	2,154.4	2,177.0	2,299.2
PBT	2,003.6	1,344.1	1,904.9	1,949.0	2,051.2
PATANCI	1,990.7	1,284.3	1,821.1	1,863.3	1,961.0
Normalised PATANCI	**2,788.9**	**1,495.6**	**1,821.1**	**1,863.3**	**1,961.0**
Normalised EPS (sen)	62.5	28.8	40.8	41.7	43.9
Normalised EPS Growth (%)	48.1	-35.5	41.8	2.3	5.2
PER (x)	13.4	29.0	20.5	20.0	19.0
Dividend Per Share (sen)	30.0	30.0	30.0	30.0	30.0
Dividend Yield (%)	3.6	3.6	3.6	3.6	3.6

Source: Company, MIDFR

MISC: 3QFY19 RESULTS SUMMARY

Financial year ending 31st December (in RM'm, unless otherwise stated)	Quarterly			Cumulative		
	3Q19	YoY (%)	QoQ (%)	9M19	9M18	YoY (%)
Revenue	2,147.8	-3.7	-0.6	6,587.2	6,391.8	3.1
COGS	-1,579.0	-6.3	4.5	-4,608.1	-4,765.7	-3.3
Gross profit	568.8	4.7	-12.5	1,979.1	1,626.1	21.7
Other income	62.4	20.2	8.5	207.1	168.9	22.6
SG&A	-254.8	5.8	14.0	-733.6	-710.1	3.3
Operating profit	376.4	6.2	-22.3	1,452.6	1,084.9	33.9
Finance Cost	-116.1	5.6	0.4	-365.9	-285.1	28.3
Asso. & JV Contribution	82.4	107.0	-18.8	227.0	122.4	85.5
Exceptional gain/(loss)	-55.2	-182.8	8.0	-65.1	66.6	-197.7
Profit before tax	287.5	-18.1	-31.4	1,248.6	988.8	26.3
Tax expense	-16.6	39.5	-3.5	-59.8	-31.4	90.4
PATAMI	266.1	-22.0	-33.4	1,176.4	972.8	20.9
Core PATAMI	326.4	3.9	-28.6	1,263.4	1,016.1	24.3

OPERATING SUMMARY (USD'm)

Segmental Revenue	3Q19	YoY (%)	QoQ (%)	9M19	9M18	YoY (%)
LNG	156.2	5.8	-1.6	467.7	447.4	4.5
Petroleum	235.1	-8.5	-1.6	761	761.1	0.0
Offshore	62.5	-24.4	0.2	190.9	231	-17.4
Heavy Engineering	61.1	-14.4	-8.7	177.6	176.1	0.9
Total	514.9	-7.8	-2.3	1597.2	1615.6	-1.1
Segmental PBT	**3Q19**	**YoY (%)**	**QoQ (%)**	**9M19**	**9M18**	**YoY (%)**
LNG	57.5	11.7	-7.6	199.6	175.6	13.7
Petroleum	-20.5	13.9	>100	-3.7	-60.5	93.9
Offshore	34.4	-30.2	-2.8	102.5	128.3	-20.1
Heavy Engineering	-1.0	-81.8	-52.4	-10.3	-23.9	-56.9
Total	70.4	-8.9	-25.3	288.1	219.5	31.3

Source: Company, MIDFR

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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.