13 February 2017 | 4QFY16 Results Review

MISC Berhad

***Maintain* NEUTRAL**

Overcapacity to continue in 2017

***Revised* Target Price (TP): RM7.90**
(From: RM7.96)

INVESTMENT HIGHLIGHTS

- **12MFY16 core PATAMI within estimates**
- **Idle vessels and higher depreciation plagued LNG segment**
- **Petroleum tanker benefitted from higher winter demand**
- **Offshore segment saw demobilisation of assets**
- **Maintain NEUTRAL with reduced TP of RM7.90**

12MFY16 core PATAMI within estimates. MISC reported 12MFY16 core PATAMI of RM1.9b which slipped -39%yoy. The results met our expectations but fell short of consensus estimates, representing 98% of our but 89% of consensus full year FY16 forecasts. As expected, 4QFY16 core PATAMI of RM463m was stronger quarter-on-quarter due to the winter season but weaker year-on-year due to overcapacity in LNG and petroleum shipping.

LNG segment PBT declined -62%yoy in 4QFY16 as a +6%yoy increase in 1-year LNG charter rates were unable to offset lower hire days and an accelerated depreciation method. Idle vessels consist of the 11k DWT Aman Hakata (since 4Q15) and Aman Bintulu (since 1Q16) vessels. Meanwhile, 83k DWT Seri Anggun and 90k DWT Seri Bakti vessels have just secured short-term charters.

Newbuild deliveries to compensate for potentially weaker rates. MISC has taken delivery of 2 new 73k DWT Seri C Class vessels which are on 15+5 year contracts with Petronas. The Seri Camellia (delivery: Oct 2016) and Seri Cenderawasih (delivery: Jan 2017) translates into an 8% addition to MISC end-2016 LNG capacity. This is significant as it would help shield MISC from softer LNG charter rates expected in 2017 due overcapacity concerns. As it stands, new vessels forecasted to enter the LNG market amounts to 27% of current total fleet. Meanwhile, Seri Balquis and Seri Balhaf which are chartered to Yemen LNG and are receiving laid-up rates could see a resumption of their original rates in 2017 if negotiations are successful.

RETURN STATS	
Price (10 Feb 2017)	RM7.50
Target Price	RM7.90
Expected Share Price Return	+5.3%
Expected Dividend Yield	+2.7%
Expected Total Return	**+8.0%**

STOCK INFO	
KLCI	1,698.94
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)	33,924.83
Price over NA	0.89
52-wk price Range	RM6.88 - RM9.16
Beta (against KLCI)	0.90
3-mth Avg Daily Vol	1.72m
3-mth Avg Daily Value	RM12.6m
Major Shareholders	
Petronas	62.67%
EPF	6.37%
PNB	5.60%

A pickup in rates in 4QFY16 due to winter demand helped the segment record a small profit of US$7m. In addition, an increase in crude demand from China and India ahead of agreed OPEC cuts lent support to charter rates. MISC's term to spot ratio fell to 43:53 from 50:50 in 3QFY16 due to expiry of charters and lower lightering activity. However, MISC is not in a hurry to commit its fleet on longer term charters as spot rates are attractive now. Petroleum tanker capacity is expected to have peaked in 2016 before moderating in 2017 and 2018 with significantly fewer newbuilds amounting to 73 vessels being ordered in 2016 (2015: 485 vessels).

Offshore segment dented by demobilisation assets. During the fourth quarter, both of MISC's mobile offshore production units (MOPU) and one of its floating storage and offloading (FSO) units were demobilised. However, this was partially offset by deployment of its marginal mobile production unit (MAMPU1) at the Ophir RSC in Nov 2016. Looking ahead, MISC is keen on exploring brownfield projects amid a recovery in crude oil prices.

Maintain NEUTRAL with slightly lower TP of RM7.90 (from: RM7.96). Our SOP based TP is adjusted from RM7.96 to RM7.90 to reflect lower value ascribed for MMHE. Our NEUTRAL call is predicated on tonnage supply forecasted to outpace demand growth in FY17, putting pressure on charter rates. This would be partially offset by: i) full year contribution of new Seri C Class vessels; 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)

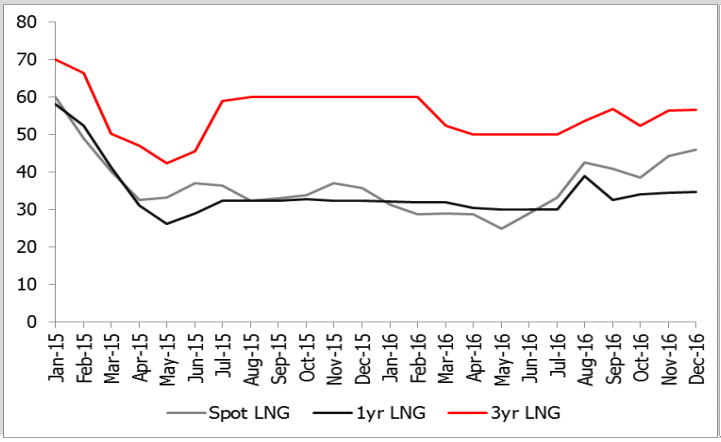
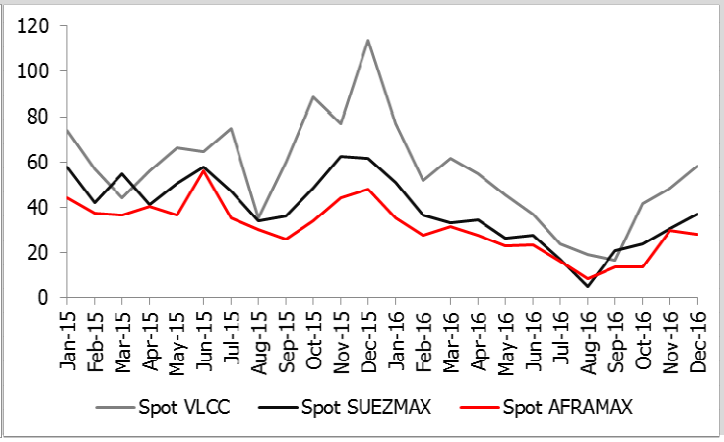


Figure 2: Spot Petroleum tanker rates (US$'000/day)



Source: MISC, Ship Brokers' Reports, MIDFR

Segments	Value (US$'m)	Value/share (RM)	Valuation method
LNG	4,350.0	3.90	DCF (WACC: 6.5%)
Offshore	1,650.0	1.48	DCF (WACC: 7%)
Petroleum	2,353.0	2.11	2nd hand value of vessels
Chemical	114.1	0.10	2nd hand value of vessels
Heavy Engineering	149.0	0.13	Based on MIDF TP of RM0.56
Other fixed assets	572.01	0.51	1.0x FY16F P/BV
Equity stakes in JV and asso.	826.79	0.74	1.0x FY16F P/BV
Less: Net debt	-1,202.4	-1.08	Estimated end-FY16
Total (US$'m)	8,812.5		
USD/MYR exchange rate	4.0		
Number of shares o/s	4,463.8		
Target Price (RM)	7.90	7.90	
Source: Company, MIDFR			

INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16	FY17F	FY18F
Revenue (RM' m)	9,296.3	10,908.4	9,713.0	10,252.0	10,559.6
EBIT (RM' m)	2,644.2	2,746.9	2,218.6	2,346.6	2,417.0
Pretax Profit (RM' m)	2,410.3	2,566.9	1,977.6	2,105.6	2,168.8
Net Profit (RM' m)	1,765.5	3,097.0	1,918.3	2,105.6	2,168.8
EPS (sen)	39.6	69.4	43.0	45.8	48.6
EPS growth (%)	9.6	75.4	-38.1	6.5	3.0
PER (x)	19.0	10.8	17.5	16.4	15.4
Net Dividend (sen)	10.0	18.0	20.0	20.0	20.0
Net Dividend Yield (%)	1.3	2.4	2.7	2.7	2.7

Source: MIDFR, Company

DAILY PRICE CHART



Tay Yow Ken, CFA
tay.yk@midf.com.my
03-2173 8384

Source: Bloomberg

MISC: 12MFY16 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results			Cumulative	
FYE Dec	***4Q16***	***%YoY***	***%QoQ***	***12MFY16***	***%YoY***
Revenue	2,517.5	-24.0%	9.8%	9,597.2	-12.0%
COGS	(1,721.8)	24.5%	3.3%	(6,758.7)	9.4%
Gross profit	795.7	-22.9%	55.4%	2,838.5	-17.6%
Other income	385.7	-29.7%	973.1%	1,268.9	85.8%
SG&A	(514.8)	-3.3%	-117.1%	(1,855.0)	-44.2%
Operating profit	666.6	-38.4%	114.5%	2,252.4	-20.7%
Finance Cost	(68.3)	29.4%	-0.3%	(247.9)	-3.1%
Asso. & JV Contribution	6.7	-96.0%	-89.3%	288.1	-50.9%
Exceptional gain/(loss)	(100.5)	74.3%	33.4%	521.4	184.6%
Profit before tax	504.5	-33.9%	226.3%	2,814.0	9.4%
Tax expense	(4.7)	55.8%	57.8%	(20.7)	34.8%
PATAMI	529.8	-29.6%	294.9%	2,581.6	2.7%
Core PATAMI	462.7	-59.6%	73.3%	1,883.0	-39.0%

OPERATING SUMMARY (USD'm)

Segmental PBT	***4Q16***	***%YoY***	***%QoQ***	***12MFY16***	***%YoY***
LNG	54.4	-62.2%	-3.2%	229.7	-46.8%
Petroleum	7.0	-82.2%	125.3%	35.2	-74.1%
Offshore	25.4	-44.8%	4.1%	142.2	-16.4%
Heavy Engineering	3.4	-68.8%	666.7%	1.1	-96.3%
Total	90.2	-58.6%	72.5%	408.2	-47.1%

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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.