25 February 2019 | 4QFY18 Results Review

MISC Berhad

Stronger demand to drive LNG segment moving forward

Maintain NEUTRAL

Revised Target Price (TP): RM6.93

(Previously: RM6.33)

INVESTMENT HIGHLIGHTS

- **Higher finance cost led to lower FY18 earnings of RM1.5b (-44.4%yoy), in-line with our expectation**
- **Better demand of seaborne LNG in 2019 to propel LNG shipping rates**
- **Expecting a recovery in the offshore segment with the charter of FSO Mekar Bergading and FSO Benchamas 2**
- **However, near-term outlook for the heavy engineering segment remains challenging**
- **Maintain NEUTRAL with revised TP of RM6.93 per share**

4QFY18 impacted by higher finance costs. MISC's 4QFY18 normalised earnings came in at RM492.3m, a decrease of -12.9%yoy. The decline was mainly due to finance costs which rose by +60.0%yoy following the interest recognised from the drawdown of the three Seri C class vessels received this year.

....but full year FY18 financial performance still exceeded expectations. Due to weaker 4QFY18 results, full year FY18 normalised earnings amounted to RM1.51b. This translates into a contraction of -44.4%yoy. Nonetheless, MISC's FY18 financial performance exceeded both ours and consensus expectations with a variance of >5%.

LNG segment's PBT supported by lower dry docking days. Despite LNG rates surging in 4QFY18 amidst winter demand, revenue of the LNG segment declined by -16.7%yoy due to the negotiation with Yemen LNG to suspend charter contracts for Seri Balhaf and Seri Balqis. As such, no deferred income was realised in 4QFY18 but MISC will be allowed to trade these two vessels at the spot market after receiving it back from Yemen LNG in July 2019. On the PBT level, the segment reversed out its losses before tax recorded in 4QFY17 mainly due to dry-docking days.

Freight rates brings petroleum segment into the black. The petroleum segment recorded its PBT after six quarter of losses before tax as spot rates surged to levels not seen since 4QFY16. Freight rates were buttressed by accelerated scrapping activity which reached a 10-year high in FY18.

RETURN STATS	
Price (22 February 2019)	RM6.91
Target Price	RM6.93
Expected Share Price Return	+0.3%
Expected Dividend Yield	+4.3%
Expected Total Return	**+4.6%**

STOCK INFO	
KLCI	1,721.42
Bursa / Bloomberg	3816 / MISC MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	4,463.8
Market cap. (RM'm)	30,844.48
Price over NA	0.88
52-wk price Range	RM5.03 - RM7.38
Beta (against KLCI)	0.88
3-mth Avg Daily Vol	1.96m
3-mth Avg Daily Value	RM12.8m
Major Shareholders (%)	
Petronas	62.67
PNB	4.20
EPF	6.28

PBT decline in offshore segment cushioned by contract renewal. The offshore segment recorded a -29.2%yoy decline in PBT in 4QFY18 due to the absence of: (i) construction revenue from FSO Benchamas 2 and; (ii) the gain from the GKL adjudication seen in August 2017. This was partially offset by the extension of FPSO Ruby 2 contract.

Heavy engineering remains weak. The heavy engineering segment posted its fourth consecutive quarter of losses in 4QFY18. Weakness in the quarter-under-review mainly came from lower dry docking activities which were insufficient to absorb fixed overheads under its marine segments.

Dividend. The company declared 4QFY18 dividend of 9sen per share. This brings the full year FY18 dividend of 30sen share, in-line with our expectation.

Earnings estimates. We incorporated FY18 unaudited figures and introduce FY20F earnings forecast. In addition, other changes include; (i) higher charter rates for the LNG segment; and (ii) our revised forecasts for MMHE. As a result, our FY19 estimates are increased to RM1.7b.

Target Price. Post-earnings revision, we are revising our target price **RM6.93 per share** (previously RM6.33 per share) with our FY19 book value per share pegged to 0.87x price-to-book value representing a discount of -0.5 (previously -1.5) standard deviation below its five-year average to reflect the buoyant market condition moving forward especially for the LNG segment.

Maintain NEUTRAL. Growth in FY19 will come from new liquefaction projects and China's reduced reliance on coal which will propel LNG growth. Any downturn in the segment and non-recognition of deferred income from Yemen LNG will be mitigated by its 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, growth in tanker rates for FY19 will be capped by scrapping activities has yet to match the order book for deliveries that are still sizeable up to end 2019 before tapering in 2020. Moreover, sanctions on Venezuela and Iran combined with deeper output cuts could further pressure on the recovery in tanker shipping demand. As for heavy engineering, even if the segment becomes profitable due to marine repair activities amidst impending compliance of the IMO 2020 sulphur cap, contribution to MISC's bottom line will still be below 5.0%. All factors considered, we are maintaining our **NEUTRAL** stance on MISC Berhad.

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	1,738.7	1,971.7	1,999.3
Pretax Profit (RM' m)	2,814.0	2,003.6	1,344.1	1,723.7	1,809.3
Net Profit (RM' m)	2,793.3	1,990.7	1,511.4	1,713.3	1,798.5
Normalised Profit (RM'm)	1,883.0	2,788.9	1,511.4	1,713.3	1,798.5
EPS (sen)	42.2	62.5	33.9	38.4	40.3
EPS growth (%)	-39.2	48.1	-24.1	13.4	5.0
PER (x)	16.4	11.1	20.4	18.0	17.2
Net Dividend (sen)	30.0	30.0	30.0	30.0	30.0
Net Dividend Yield (%)	4.3	4.3	4.3	4.3	4.3

Source: MIDFR, Company

DAILY PRICE CHART



Adam Mohamed Rahim
adam.mrahim@midf.com.my
03-2772 1686

Source: Bloomberg

MISC BHD: 12MFY18 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results			Cumulative		Comments
FYE Dec	***4QFY18***	***%YoY***	***%QoQ***	***12MFY18***	***%YoY***	
Revenue	2,388.5	-1.9	7.1	8,780.3	-12.5	
COGS	(1,681.8)	-1.8	-0.2	(6,447.5)	-4.7	
Gross profit	706.7	-2.1	30.0	2,332.8	-28.7	
Other income	92.5	-39.1	78.2	261.4	-53.1	
SG&A	(417.8)	69.6	73.4	(1,127.9)	0.3	
Operating profit	381.4	-39.2	7.6	1,466.3	-45.8	
Finance Cost	(109.5)	59.6	-0.4	(394.6)	48.9	
Asso. & JV Contribution	160.9	348.2	304.3	283.3	45.4	
Exceptional gain/(loss)	(77.5)	-86.0	-216.2	(10.9)	-98.3	
Profit before tax	355.3	746.0	1.2	1,344.1	-32.9	
Tax expense	(28.4)	-656.9	138.7	(59.8)	363.6	
PATAMI	338.7	396.6	-0.7	1,311.5	-33.7	
Normalised PATAMI	492.3	-12.9	56.7	1,511.4	-44.4	Add back impairment loss on receivables

OPERATING SUMMARY (USD'm)

Segmental Revenue	*4QFY18*	*%YoY*	*%QoQ*	*12MFY18*	*%YoY*	*Comments*
LNG	134.1	-16.7	-9.1	581.5	-11.5	
Petroleum	307.9	9.4	19.8	1069	1.9	
Offshore	65.4	-39.1	-20.9	296.4	-32.8	Absence of GKL djudication
Heavy Engineering	65.4	9.0	-8.4	241.5	8.3	
Total	572.8	-6.1	2.5	2,188.40	-7.7	
Segmental PBT	*4QFY18*	*%YoY*	*%QoQ*	*12MFY18*	*%YoY*	*Comments*
LNG	28.8	242.6	-44.1	204.4	-21.1	Contract suspension with Yemen LNG
Petroleum	0.9	101.3	-105.0	-59.6	-31.1	
Offshore	59	-29.3	19.7	187.3	-32.4	Absence of GKL adjudication
Heavy Engineering	-6.2	-136.0	12.7	-30.1	-319.7	Timing differences in profit recognition
Total	82.5	n.m.	6.7	302	-34.8	

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.