24 August 2016 | Corporate Update

MISC Berhad

Clinched its maiden Thai offshore project

***Maintain* NEUTRAL**

***Unchanged* Target Price (TP): RM8.05**

INVESTMENT HIGHLIGHTS

- **MISC marks its entry into the Thai offshore market**
- **Conversion works to begin in 3QFY16**
- **Expecting minimal increase in earnings**
- **6MFY16 Maintain NEUTRAL with unchanged TP of RM8.05**

Seizing brownfield offshore opportunities. MISC announced a contract win involving the lease and operations of a Floating, Storage and Offloading Vessel (FSO) for the FSO Benchamas 2 Project by Chevron Offshore (Thailand) Limited located in the Gulf of Thailand. The contract amounting to US$230m (RM930m) marks MISC's maiden entry into neighbouring Thailand's offshore market. Although mildly positive, we are not entirely surprised by the win as management had earlier indicated that they have identified opportunities within the brownfield offshore segment.

Conversion works to begin in 3QFY16. We understand from management that EPCC works will begin in 3QFY16 involving the conversion of one of its older Aframax tanker for a duration of 18 months. This will be followed by deployment to the field and leased for 10 years beginning 2QFY18. The Aframax size FSO is expected to possess storage capacity of 650k barrels and serve Block B8/32, Gulf of Thailand with daily production of 30,000 barrels of oil per day.

Expecting minimal increase in earnings. Being a brownfield project which is less complex, we expect margins to be thinner. Thus, we are conservatively assuming profit margin of 5% or equates to additional profit contribution of ~US$1m per year (RM4m) which is marginal compared to our FY16 earnings forecast.

Maintain NEUTRAL with unchanged TP of RM8.05. Our NEUTRAL call is predicated on: i) new vessel deliveries in 3Q and 4QFY16 for the LNG segment could cushion a further decline in segmental profits; ii) weaker Petroleum tanker rates could be offset by the addition of 50% stake in Paramount tankers adding its effective tonnage by +3%; and iii) acquisition of 50% stake in Gumusut-Kakap SFPS to see an additional US$14m contribution from the offshore segment.

RETURN STATS	
Price (24 Aug 2016)	RM7.53
Target Price	RM8.05
Expected Share Price Return	+6.9%
Expected Dividend Yield	+2.7%
Expected Total Return	**+9.6%**

STOCK INFO	
KLCI	1,655.29
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	0.98
52-wk price Range	RM6.88 - RM9.41
Beta (against KLCI)	0.83
3-mth Avg Daily Vol	4.08m
3-mth Avg Daily Value	RM30.7m
Major Shareholders	
Petronas	62.67%
EPF	6.69%
PNB	5.60%

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

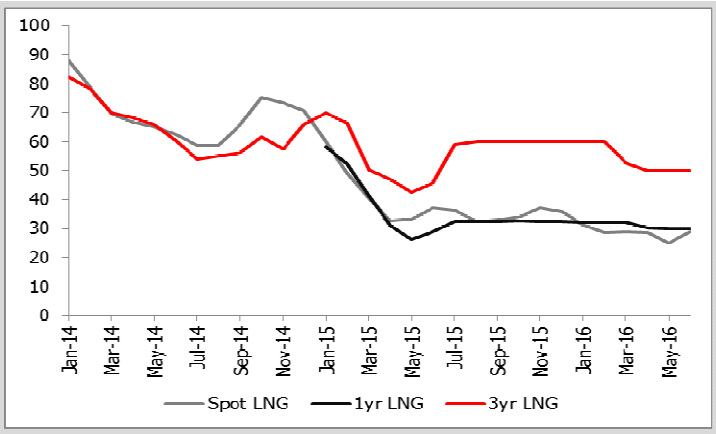
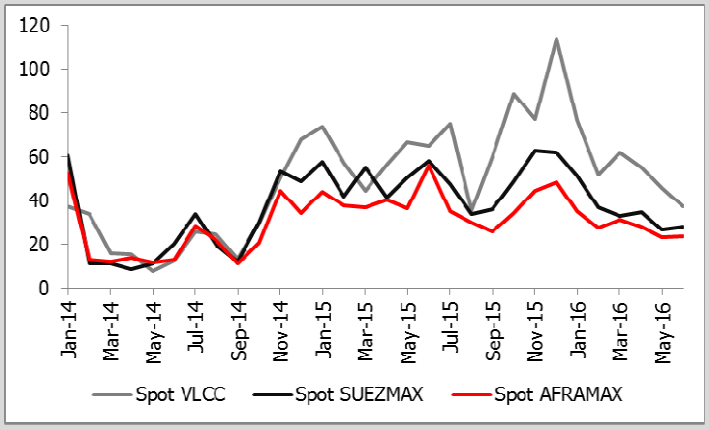


Figure 2: Spot Petroleum tanker rates (US$'000/day)



Source: MISC, Ship Brokers' Reports, MIDFR

Segments	Value (US$'m)	Value/share (RM)	Valuation method
LNG	4,400.0	3.94	DCF (WACC: 6.5%)
Offshore	1,650.0	1.48	DCF (WACC: 7%)
Petroleum	2,403.0	2.15	2nd hand value of vessels
Chemical	114.1	0.10	2nd hand value of vessels
Heavy Engineering	215.5	0.19	Based on MIDF TP of RM0.81
Other fixed assets	572.01	0.51	1.0x FY16F P/BV
Equity stakes in JV and asso.	826.79	0.74	1.0x FY16F P/BV
Less: Net debt	-1,202.4	-1.08	Estimated end-FY16
Total (US$'m)	**8,979.0**		
USD/MYR exchange rate	4.0		
Number of shares o/s	4,463.8		
Target Price (RM)	8.05	8.05	

Source: Company, MIDFR

INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15	FY16F	FY17F
Revenue (RM' m)	8,971.8	9,296.3	10,908.4	8,069.9	9,383.9
EBIT (RM' m)	1,782.7	2,644.2	2,746.9	2,707.9	3,127.7
Pretax Profit (RM' m)	2,227.7	2,410.3	2,566.9	2,466.9	2,886.7
Net Profit (RM' m)	1,612.8	1,765.5	3,097.0	2,392.9	2,800.1
EPS (sen)	36.1	39.6	69.4	53.6	62.7
EPS growth (%)	92.2	9.6	75.4	-22.7	17.0
PER (x)	20.8	19.0	10.8	14.0	12.0
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



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

Source: Bloomberg

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
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.