12 May 2014 | 1QFY14 Results Review

MISC Bhd

***Maintain* NEUTRAL**

Petroleum tanker's profit swung back into black

***Unchanged* Target Price (TP): RM6.21**

INVESTMENT HIGHLIGHTS

- **Earnings above expectations.**
- **Improved results contributed by a turnaround in its Petroleum tanker segment's business performance as well higher profits in LNG and its Offshore Division.**
- **Recommend NEUTRAL with unchanged TP of RM6.21, premised on Sum-of-Parts valuation method.**

Results above expectations. MISC reported a 1Q14 core net profit of RM486m (+50.7%yoy, -3.0%qoq). The results exceeded ours and consensus expectations accounting 28.0% and 28.7% of full year forecasts respectively. It was contributed by: (i) a turnaround in its Petroleum tanker business, (ii) rise in LNG profit by 15%yoy and (iii) higher earnings of its Offshore division (+36%yoy). Nevertheless, higher losses of its Chemical tanker segment (-28%yoy) and the underperformance in heavy engineering segment (-41%yoy) partially offset the abovementioned positive contributions to its profit.

Revenue declined due to a smaller fleet size and depleting orders of MMHE. The overall 1Q14 topline dipped 3.7%yoy to RM2.3b as a result of a smaller operating fleet size and the decline in revenue recognized by heavy engineering segment. In comparison to 1Q13, its Petroleum and Chemical tanker segment's fleet size declined by six and seven tankers respectively. MMHE encountered intense competition in replenishing its orderbook.

Renewal of LNG contracts. 1Q14's LNG profit rose 14.7% due to increase in the number of chartering days. Nonetheless, the bulk deliveries of LNG vessels in FY14-15 and possible resumption of Japanese nuclear power reactor are likely to put a dent on the LNG freight rates in the future. Hence, we believe that renewal rates moving forward will be substantially lower than before. Also, we note that its 20-year old LNG vessel will expire in 3Q14 and the Group is still in renewal negotiation talks with Petronas.

Petroleum tanker segment turned into profit after four years of consecutive losses. In this quarter, MISC posted a profit with a PBT of USD11m after four years of consecutive losses. The spot VLCC rate in 1Q14 climbed sharply, hitting USD30-40k/d which is its highest levels since 3Q08. The recent sharp surge in freight rate was mainly boosted by combined factors of the harsh winter in the US and record high of China's crude stockpiling at 6.6mb/d. As the seasonal demand began to subside, we expect the situation of vessel oversupply to reemerge. This was evident by the recent drop of spot VLCC rate to USD15k/d, which was below the breakeven level.

Higher losses for Chemical tankers. MISC sold another two Melati-class Chemical tankers in this quarter. Due to lower earnings days and charter rates, the pretax losses for its Chemical tanker segment were higher at USD12.7m as compared to that in 1Q13 of -USD9.9m.

Offshore and tank terminal. The operation of FPSO Cendor will commence in 2H14. MISC is expected to recognise a one-off finance lease gain with the commencement of FPSO Cendor, which is similar to that achieved in FPSO Gumusut-Kakap.

RETURN STATS	
Price (9 May 2014)	RM6.41
Target Price	RM6.21
Expected Share Price Return	-3.0%
Expected Dividend Yield	+2.3%
Expected Total Return	**-0.2%**

STOCK INFO	
KLCI	1,866.72
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)	28,612.9
Price over NA	1.14x
52-wk price Range	RM4.35 - RM7.10
Beta (against KLCI)	0.95
3-mth Avg Daily Vol	2.75m
3-mth Avg Daily Value	RM15.1m
Major Shareholders	
Petronas	62.67%
EPF	8.28%
PNB	5.81%

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

INVESTMENT STATISTICS

FYE Dec	FY12	FY13	FY14F	FY15F
Revenue (RM'm)	9,484.0	8,971.8	9,002.5	9,230.0
EBIT (RM'm)	1,122.6	1,782.7	1,444.5	1,764.7
Pretax Profit (RM'm)	1,599.3	2,227.7	1,901.3	2,236.8
Core Profit (RM'm)	921.9	1,612.8	1,806.2	2,013.1
Core EPS (sen)	20.7	36.1	40.5	45.1
Core EPS growth (%)	162.2	75.0	12.0	11.5
Core PER(x)	31.0	17.7	15.8	14.2
Net Dividend (sen)	0.0	5.0	15.0	18.0
Net Dividend Yield (%)	0.0	0.8	2.3	2.8

Source: Company, Forecasts by MIDFR

The shared profit in tank terminal was lower with a PBT of USD8.7m (-15%yoy). This was due to a lower tank terminal throughput and maintenance status of several tanks.

Reiterate NEUTRAL call with unchanged TP of RM6.21. The strong rally in Petroleum freight rates during 4Q13-1Q14 had successfully turnaround the prolonged segmental losses. Nonetheless, we remain cautious that the Petroleum segment will turn into losses again in the next few quarters due to weaker tanker rates in 2Q14. We revised our FY14-15 earnings forecasts by +3.9% and -4.5% respectively, taking into consideration of first quarter gain of Petroleum tanker in 1Q14 and the lower anticipated renewal rates for its LNG contracts. Hence, we reiterate our NEUTRAL stance on MISC with an unchanged if TP of RM6.21 derived from Sum-of-Parts valuation method.

SUM-OF-PARTS VALUATION

Segments	FY14 Earnings (RM 'm)	Value/share (RM)	Valuation method
LNG	1,375.7	4.01	13x FY14 PER
Offshore	292.5	0.98	15x FY14 PER
Heavy Engineering	195.0	0.44	10x FY14 PER
Tank Terminal	146.3	0.29	9x FY4 PER
	Book Value/share		
Petroleum	1.26	1.39	1.1x FY14 P/BV
Chemical	0.30	0.33	1.1x FY14 P/BV
	RM 'm		
Less: Net debt	5,471.1	1.23	
TOTAL		6.21	

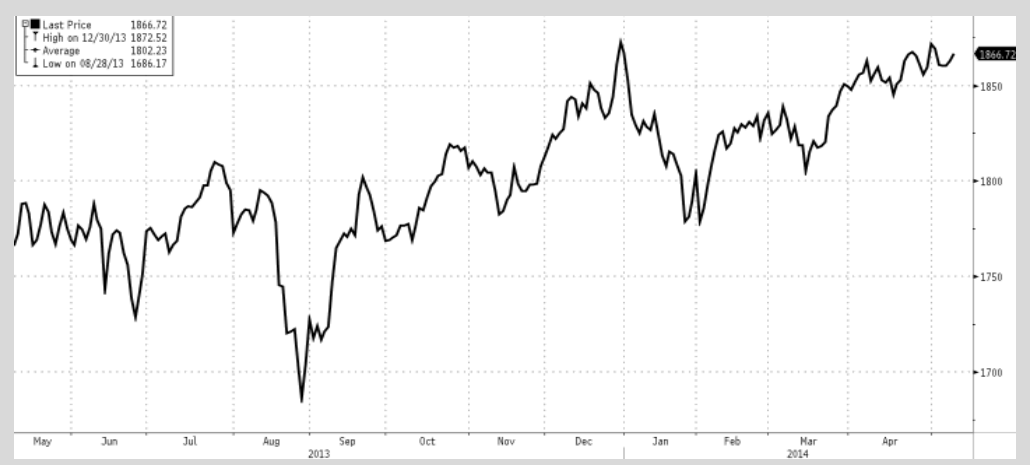
Source: Company, MIDFR

MISC: 1QFY14 RESULTS SUMMARY

*All in **RM'm** unless stated otherwise*	Quarterly Results			Comments
FYE Dec	***1Q14***	***%YoY***	***%QoQ***	
Revenue	2,290.5	-3.7%	6.9%	
COGS	(1,574.8)	15.2%	1.3%	
Gross Profit	715.7	37.1%	30.8%	
Other operating income	43.7	-36.1%	-51.8%	
SG&A	(255.1)	-30.6%	-9.6%	
Operating Profit	504.3	27.7%	24.6%	
Finance cost	(95.7)	-26.6%	8.3%	
Assoc.& JV Contribution	119.3	106.6%	-36.3%	
Exceptional gain/(loss)	0.0	100.0%	-100.0%	
Pre-tax profit	527.9	48.8%	-50.6%	
tax	(16.0)	-23.9%	-143.1%	
Net Profit	486.4	61.9%	-55.1%	
Core Net Profit	486.4	50.7%	-3.0%	
Segmental PBT, USD'm				
LNG	120.9	14.7%	9.7%	QoQ higher due to downward adjustment of up-front gain of FSU Lekas in 4Q13.
Petroleum	11.0	130.6%	140.9%	Exceptional high freight rate driven by harsh winter condition in the US and heavy Asian crude stockpiling program in 1Q14.
Chemical	(12.7)	-28.3%	-74.0%	Higher losses due to lower freight rate and lower charter days.
Offshore	29.4	36.1%	-86.8%	
Heavy engineering	10.6	-41.4%	-31.2%	Nearing completion with lower progress billings remaining with some projects in infancy stages.
Tank Terminal	8.7	-14.7%	-40.0%	Lower throughput as well as due to the tanks at ETT Rotterdam which were under maintenance stage.
Liner Logistics	(0.5)	-129.4%	-127.8%	

Source: Company, MIDFR

DAILY PRICE CHART



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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	*Negative* 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.