05 May 2015 | 1QFY15 Results Review

MISC Berhad

Petroleum and offshore offset weak LNG segment

***Maintain* NEUTRAL**

***Revised* Target Price (TP): RM8.75**
(Previously: RM6.80)

INVESTMENT HIGHLIGHTS

- **1Q15 net profit was within our expectation but slightly below consensus, accounting for 26.7% of ours and 22.0% of consensus' forecast.**
- **LNG segment softened while the tank terminal segment recorded losses.**
- **However, the petroleum and offshore segments offset these weaknesses to record flat overall earnings.**
- **Maintain NEUTRAL with higher TP of RM8.75 as we update our SOP valuation by incorporating FY16 earnings and prevailing market values of MISC's various assets and equity stakes.**

Earnings within our estimate. MISC reported 1Q15 net profit of RM486.3m which was flat year-on-year. The results were within our expectation but slightly below consensus representing 26.7% of our and 22.0% of consensus full year forecast. Earnings were flat as the weaker LNG and tank terminals segments were cushioned by the petroleum and offshore segments which fared better. Also noted was an increase in SG&A by 20.2%yoy due to bonus payments and FX losses.

Drop in PBT before currency translation. However, when we analyse PBT in the functional currency, i.e. the US$, total PBT fell by -4.5%yoy and -33.8%qoq. Had the MYR not depreciated against the USD or remained flat, MISC would have recorded a decline in its bottom line in 1Q15.

LNG dragged down by contract expiries and softer rates. Revenue and PBT in 1Q15 softened due to the dry-docking of LNG tankers, namely Puteri Intan (since Sept 2014), Puteri Delima (since Feb 2015) and Seri Bakti (short-term idle in 1Q15). The Puteri Class vessels will continue to be offline for refurbishment works which last ~100 days before being contracted to Petronas on 10-year charters beginning 3Q15. Meanwhile, Seri Bakti which was on short-term charter will again be deployed on a 1-year charter in Australia. Further dragging down the LNG segment was subdued LNG tanker rates which on average declined -35%yoy as a result of aggressive newbuildings and exacerbated by softer demand.

RETURN STATS	
Price (30 Apr 2015)	RM9.15
Target Price	RM8.75
Expected Share Price Return	-4.4%
Expected Dividend Yield	+2.0%
Expected Total Return	**-2.4%**

STOCK INFO	
KLCI	1,818.27
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)	40,843.7
Price over NA	1.64x
52-wk price Range	RM6.01 –RM9.39
Beta (against KLCI)	1.05
3-mth Avg Daily Vol	3.42m
3-mth Avg Daily Value	RM29.08m
Major Shareholders	
Petronas	62.67%
EPF	6.89%
PNB	5.41%

Petroleum buoyed by higher rates. Petroleum tanker rates for both the charter and spot market held firm, helped by higher refinery runs and favourable capacity versus demand dynamics. However, MISC was not able to fully capitalise on the higher rates as 12 out of 13 of its VLCC's and 60% of its Aframaxes were on time charters expiring in FY16.

Chemical losses narrowed. The chemical segment showed signs of improvement with -39.4%yoy decline in net loss before tax mainly due to operating a smaller fleet and lower bunker cost. In 1Q15, MISC operated a fleet of 15 chemical tankers (FY2013: 22 vessels). In line with the drop in crude oil prices, 380cst bunker prices had also fallen, averaging US$318.6/tonne in 1Q15 from US$612.2/tonne in 1Q14 (-48%yoy decline). However, the segment was still in the red as chemical tanker freight rates remained soft in 1Q due to the CNY holiday which dampened industrial activity in Asia Pacific.

Offshore booking contributions from FPSO Chendor. The offshore segment's PBT improved +60.5%yoy as it recognised contributions from the FPSO Chendor which was delivered in 4Q14. However, the segment's PBT was lower at -27.9%qoq as there were lumpy non-recurring finance lease schedule and variation order adjustments for FPS Gumusut-Kakap.

Tank Terminal suffered a surprise loss. Disappointingly, the tank terminal segment suffered a surprise loss even as oil production surged and crude oil storage was in high demand due to scarcity. The loss was due to a late audit adjustment for its JV unit, VTTI, amounting to -US$11m. Excluding the tax adjustment, the segment would have booked a profit of US$7m (-19.5%yoy).

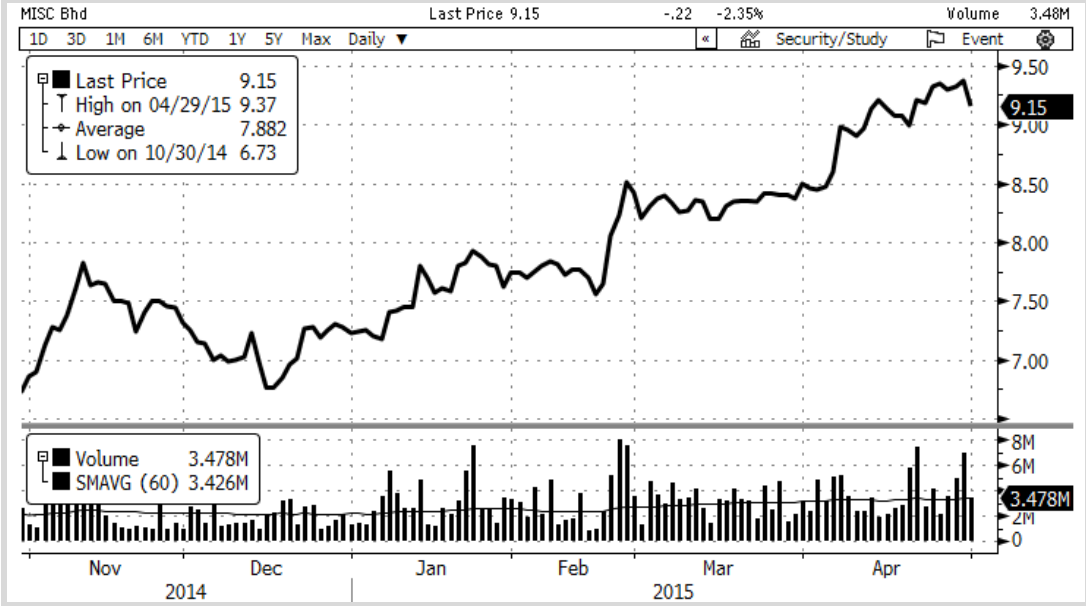
Maintain NEUTRAL with higher TP of RM8.85. We updated our SOP derived TP to incorporate FY16F earnings and performed updates to the prevailing market values of MISC's various assets and equity stakes. Our TP implies a -2.4% downside to the previous day's closing. We suggest that investors take profits on strength as further upside would be capped. We believe that the main driving force behind the share price appreciating +28%ytd was due to the novation of 5 LNG newbuilds (first delivery scheduled for Sept 2016) accompanied with 15 year time-charters as well as the contract extension for 5 Puteri-Class LNG vessels which we believe have been largely priced in.

INVESTMENT STATISTICS

FYE Dec	FY14	FY15F	FY16F	FY17F
Revenue (RM' m)	8,713.8	8,482.5	8,596.3	8,611.1
EBIT (RM' m)	2,189.1	2,314.9	2,419.2	2,425.8
Pretax Profit (RM' m)	1,813.1	1,943.9	2,027.2	2,033.8
Net Profit (RM' m)	1,715.6	1,822.0	1,901.6	1,952.4
EPS (sen)	38.4	40.8	42.6	43.7
EPS growth (%)	6.5	6.2	4.4	2.7
PER (x)	23.8	22.4	21.5	20.9
Net Dividend (sen)	15.0	18.0	21.0	22.0
Net Dividend Yield (%)	1.6	2.0	2.3	2.4

Source: MIDFR, Company

DAILY PRICE CHART



Source: MIDFR, Company

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MISC: 1QFY15 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results			Cumulative		Comments
FYE Dec	***1Q15***	***%YoY***	***%QoQ***	***FY15***	***%YoY***	
Revenue	2,490.3	8.7%	8.9%	2,490.3	8.7%	Better contributions from the Petroleum and Offshore segments
COGS	(1,768.2)	-12.3%	-9.2%	(1,768.2)	-12.3%	
Gross profit	722.1	0.9%	8.1%	722.1	0.9%	
Other income	52.7	20.7%	-77.3%	52.7	20.7%	
SG&A	(306.6)	-20.2%	28.9%	(306.6)	-20.2%	Bonus payments, FX losses due to disposal of NCB and dividend payment
Operating profit	468.2	-7.2%	-0.1%	468.2	-7.2%	
Finance Cost	(55.0)	42.5%	3.5%	(55.0)	42.5%	
Asso. & JV Contribution	98.7	-17.3%	-69.2%	98.7	-17.3%	
Exceptional gain/(loss)	0.0	-	-100.0%	0.0	-	
Profit before tax	511.9	-3.0%	-50.2%	511.9	-3.0%	
Tax expense	0.3	101.8%	100.8%	0.3	101.8%	.
Net profit	486.3	0.0%	-49.3%	486.3	0.0%	
Core net profit	486.3	0.0%	-26.7%	486.3	0.0%	

OPERATING SUMMARY (USD'm)

Segmental PBT						
LNG	94.2	-22.1%	-4.1%	94.2	-22.1%	Higher dry-docking days, weaker freight rates
Petroleum	18.3	66.4%	238.9%	18.3	66.4%	
Chemical	(7.7)	-39.4%	11.5%	(7.7)	-39.4%	
Offshore	47.2	60.5%	-27.9%	47.2	60.5%	
Heavy Engineering	9.7	-8.5%	-27.6%	9.7	-8.5%	
Integrated Logistics	(0.2)	-60.0%	-109.5%	(0.2)	-60.0%	
Others	(3.4)	-53.4%	-107.5%	(3.4)	-53.4%	
Tank Terminal	(5.2)	-159.8%	-153.1%	(5.2)	-159.8%	
Total	152.9	-4.5%	-33.8%	152.9	-4.5%	

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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.