05 August 2015 | 2QFY15 Results Review

MISC Berhad

Buoyant petroleum segment to boost earnings

Upgrade to BUY (from Neutral)

Revised* Target Price (TP): *RM9.45
(Previously: RM8.75)

INVESTMENT HIGHLIGHTS

- **1H15 earnings came in above ours and consensus estimates**
- **Petroleum segment showed marked improvement with higher rates across all tanker sizes**
- **All segments showed improvement except LNG**
- **Upgrade to BUY with higher TP of RM9.45**

Earnings above expectation. MISC reported 1HFY15 core net profit of RM1,205.6m which was +46.6% higher year-on-year. The results were above expectations representing 66% of ours and 56% of consensus full year FY15 forecasts. The Petroleum tanker segment earnings came in better than expected as it registered Profit Before Tax (PBT) of US$56.5m in 1HFY15. We have previously expected US$50.0m for the full year of FY15.

Petroleum segment showed marked improvement. The Petroleum tanker segment was clearly the star performer for MISC, swinging from a loss of US$20m to a profit of US$56.5m in 1HFY15. This was mainly attributed to strong petroleum tanker rates with time charter rates (+40-50%yoy) and spot rates (+200-400%yoy) as crude oil production remains at an all-time high and favourable supply-demand dynamics for vessels. Recall that, on average, 50% of MISC's petroleum tanker fleet are on spot arrangement, thus benefitting from the upsurge in spot rates.

All segments showed improvement except LNG. Revenue and PBT for LNG segment softened in 1H15 due to the dry-docking of LNG tankers, namely Puteri Intan (since Sept 2014) and Puteri Delima (since Feb 2015). Management guided that 2 Tenaga Class vessels which are >35 years in life, i.e. Tenaga Dua and Tenaga Tiga contracted lower rates as the client (Petronas) did not utilise these vessels due to low efficiency. Both MISC and Petronas are looking to settle the remaining term of the long-term contract amicably through disposing the vessel and compensating MISC with a termination fee.

Chemical losses narrowed. The chemical segment continued to improve with a smaller fleet size and lower bunker fuel prices. In 2Q15, the segment almost broke even with a marginal loss of US$1.4m. The drop in bunker prices of -40%yoy bodes well for the chemical segment as there is no cost pass-through mechanism embedded in contracts.

RETURN STATS	
Price (4 Aug 2015)	RM8.20
Target Price	RM9.45
Expected Share Price Return	+15.2%
Expected Dividend Yield	+2.2%
Expected Total Return	**+17.4%**

STOCK INFO	
KLCI	1,723.73
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)	36,603.1
Price over NA	1.23x
52-wk price Range	RM6.47–RM9.39
Beta (against KLCI)	1.03
3-mth Avg Daily Vol	3.19m
3-mth Avg Daily Value	RM26.30m
Major Shareholders	
Petronas	62.67%
EPF	6.81%
PNB	5.60%

Revising our forecast upward for the Petroleum segment. We have increased our FY15 core net profit forecast to RM2.2b (from RM1.8b). As for FY16, it has been increased to RM2.3b (from RM1.9b). The revisions are due to higher PBT forecast for Petroleum tanker segment at USD115m (from USD50m) as we now expect higher petroleum tanker rates. We believe the higher petroleum tanker rates are justified due to: i) high levels of crude oil production to be sustained which will increase the need for transportation, ii) favourable supply/demand dynamics of vessels as tanker operators refrain from overexpansion of fleet, and iii) better mix of spot and time-charter rates. Note that spot rates are on average 40% higher than time-charter rates currently. We understand that MISC will have more vessels operating on spot rates. Note that 15% (2 vessels) of MISC's VLCC and 33% of MISC's Aframax and Suezmax fleet will be coming off time-charters in FY15-FY16.

Upgrade to BUY (from NEUTRAL) with TP of RM9.45. Our TP of RM9.45 is based on Sum-Of-Parts (SOP) valuation. In our SOP valuation, the value of Petroleum segment has been increased in line with its better earnings prospect. We have upgraded MISC to BUY as we now believe that: i) the buoyant Petroleum segment and narrowing losses of the chemical segment will be more than enough to offset potential weakness from the LNG and heavy engineering segments, ii) steady earnings seen from Offshore segment, and iii) MISC is poised to benefit from higher USD/MYR rate as all charter rate are quoted in US Dollar.

SOP VALUATION

Segments	FY16 Earnings (RM'm)	Value/share	Valuation method
LNG	1,574.6	4.94	14x FY16F PER
Petroleum	422.50	1.24	20x FY16F PER
Offshore	625.6	1.82	13x FY16F PER
Heavy Engineering	163.8	0.33	9x FY16F PER
	Book Value/share		
Chemical	0.24	0.22	0.9x FY15F P/BV
Other fixed assets	0.45	0.45	1.0x FY15F P/BV
Equity stakes in JV and asso.	1.42	1.42	1.0x FY15F P/BV
	RM 'm		
Less: Net debt	4,328.2	0.97	
TOTAL		9.45	

Source: Company, MIDFR

INVESTMENT STATISTICS

FYE Dec	FY14	FY15F	FY16F
Revenue (RM' m)	9,296.3	9,230.0	10,026.3
EBIT (RM' m)	2,644.2	2,507.0	2,698.3
Pretax Profit (RM' m)	2,410.3	2,318.0	2,457.3
Net Profit (RM' m)	1,765.5	2,248.5	2,383.6
EPS (sen)	39.6	50.4	53.4
EPS growth (%)	9.6	27.4	6.0
PER (x)	20.7	16.3	15.4
Net Dividend (sen)	10.0	18.0	21.0
Net Dividend Yield (%)	1.2	2.2	2.6

Source: MIDFR, Company

DAILY PRICE CHART



Source: Bloomberg

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MISC: 1HFY15 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results			Cumulative		Comments
FYE Dec	***2Q15***	***%YoY***	***%QoQ***	***1HFY15***	***%YoY***	
Revenue	2,600.5	2.4%	4.4%	5,090.7	5.4%	Better contributions from the Petroleum and Offshore segments
COGS	(1,816.7)	6.1%	-2.7%	(3,584.9)	-2.1%	
Gross profit	783.7	29.9%	8.5%	1,505.8	14.2%	
Other income	46.3	106.0%	-12.1%	99.0	49.7%	
SG&A	(158.0)	35.1%	48.5%	(464.6)	6.8%	Bonus payments, FX losses due to disposal of NCB and dividend payment
Operating profit	**672.1**	**75.8%**	**43.5%**	**1,140.3**	**28.6%**	
Finance Cost	(48.2)	49.5%	12.4%	(103.3)	46.0%	
Asso. & JV Contribution	146.6	38.9%	48.6%	245.3	9.1%	
Exceptional gain/(loss)	2.1	104.4%	-54.0%	6.8	114.1%	
Profit before tax	**772.6**	**124.2%**	**49.6%**	**1,289.1**	**47.8%**	
Tax expense	(6.1)	76.0%	-2181.4%	(5.8)	85.9%	.
Net profit	**766.4**	**166.0%**	**56.1%**	**1,257.4**	**62.4%**	
Core net profit	**719.3**	**114.1%**	**47.9%**	**1,205.6**	**46.6%**	

OPERATING SUMMARY (USD'm)

Segmental PBT	***2Q15***	***%YoY***	***%QoQ***	***1HFY15***	***%YoY***	
LNG	107.7	-15.0%	14.3%	201.9	-18.5%	Higher dry-docking days, weaker freight rates
Petroleum	38.2	223.2%	108.7%	56.5	382.5%	
Chemical	(1.4)	81.8%	81.8%	(9.1)	55.4%	
Offshore	50.8	56.3%	7.6%	98.0	58.3%	
Heavy Engineering	4.8	-37.7%	-50.5%	14.4	21.3%	
Integrated Logistics	1.7	466.7%	950.0%	1.9	1050.0%	
Others	2.8	122.4%	182.4%	(1.9)	90.4%	
Tank Terminal	6.3	12.5%	221.2%	1.1	92.3%	
Total	**210.9**	**73.4%**	**37.9%**	**362.8**	**28.8%**	

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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.