Equity Beat

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10 November 2014 | 3QFY14 Results Review

MISC Bhd

Petroleum rate on the rise

***Maintain* NEUTRAL**

***Revised* Target Price (TP): RM6.80**
(previously RM6.53)

INVESTMENT HIGHLIGHTS

- **Earnings within expectations; rise in profit driven by higher earnings in LNG, offshore and lower losses in Petroleum division but moderated by losses in tank terminal.**
- **Lower crude price lifted higher oil transport demand which resulted in higher average Petroleum freight rate.**
- **Tank terminal loss was due to MLP related expenses.**
- **Reiterate NEUTRAL with revised TP of RM6.80, premised on rolled-forward Sum-of-Parts valuation.**

Earnings within expectations. MISC's 3Q14 core profit grew +15%yoy to RM457m as operational losses in the petroleum and chemical divisions narrowed while the LNG segment earnings improved. These were partially offset by the tank terminal which swung into losses. The 9M14 core earnings grew +30% to RM1.28b, accounting 71% and 72% of ours and consensus full year estimates. Nevertheless, earnings are in line with our expectations as we expect stronger 4Q14 due to seasonally higher freight rates and higher contribution from Cendor FPS asset.

Flattish topline with shrinking fleet. The flattish revenue growth was in tandem with the smaller fleet size of chemical and Aframax tankers. MISC sold 4 chemical vessels sold in 3Q14, in line with its strategy to reduce exposure in the sector. Consequently, revenue for the chemical division dropped -44%yoy while pretax losses reduced to USD9.3m (-30%yoy). YTD, seven chemical vessels has been sold.

LNG division gained higher. The LNG segment achieved higher PBT of USD138m (+14.5%yoy) following higher chartering days despite the LNG shipping spot market rate dropped -43%yoy to USD61k/day in 3Q14. Notwithstanding, MISC continues to benefit from the long term LNG contracts which provides earnings stability.

Higher freight demand driven by lower crude price. The petroleum tanker division's 3Q14 pretax loss narrowed to -USD9.1m against last quarter's -USD31m. The average spot VLCC rate spiked +120%yoy to USD21.4k/day. This was due to the lower crude oil price which lifted the import demand for AG-East routes and we expect this momentum to pick up as winter approaches.

Lower projects secured in heavy engineering. MMHE's 3Q14 net profit rose slightly by +7%yoy due to payments for delivered projects including Tapis, Cendor and Kebabangan as well as higher tax allowance. Despite the challenging bidding environment, MMHE is targeting RM3-4b worth of projects in light of its depleting orderbook of only RM1.6b.

Tank terminal losses due to MLP related expenses. We regard the segmental pre-tax loss of -USD10.4m for the tank terminal business to be transient in nature. Its associate, VTTI Energy Partners, underwent a restructuring exercise which adopts a master limited partnership (MLP) structure. The benefit of the MLP structure is that profits would only be taxed upon the income distribution while the company continues to enjoy liquidity as per a public listed entity.

RETURN STATS	
Price (7 Nov 2014)	RM7.38
Target Price	RM6.80
Expected Share Price Return	-7.9%
Expected Dividend Yield	+2.4%
Expected Total Return	**-5.5%**

STOCK INFO	
KLCI	1,824.19
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)	32,943
Price over NA	1.27x
52-wk price Range	RM4.96 – RM7.42
Beta (against KLCI)	0.90
3-mth Avg Daily Vol	2..27m
3-mth Avg Daily Value	RM15.54m
Major Shareholders	
Petronas	62.67%
EPF	7.36%
PNB	6.04%

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

INVESTMENT STATISTICS

FYE Dec-	FY13	FY14F	FY15F	FY16F
Revenue (RM'm)	8,971.8	8,212.1	7,982.7	8,089.7
EBIT (RM'm)	1,782.7	1,274.6	1,379.0	1,471.6
Pretax Profit (RM'm)	2,227.7	1,740.6	1,872.0	1,981.6
Core Profit (RM'm)	1,612.8	1,715.6	1,822.0	1,901.6
Core EPS (sen)	36.1	38.4	40.8	42.6
Core EPS growth (%)	92.2	6.4	6.2	4.4
Core PER(x)	20.4	19.2	18.1	17.3
Net Dividend (sen)	5.0	15.0	18.0	21.0
Net Dividend Yield (%)	0.7	2.0	2.4	2.8

Source: Company, Forecasts by MIDFR

Reiterate NEUTRAL with revised TP of RM6.80. At this juncture, we maintain our earnings forecasts as the results were within expectations. Should its parent, Petronas, transfer ownership of eight LNG vessels which were ordered in 2013 to MISC, we believe this would reduce the downside risk to earnings ahead of the looming LNG contracts' expiration. With improved freight rate for the petroleum tanker division, we expect segmental losses to narrow. This prompted us to raise our valuation for this segment which led to higher TP for MISC. We reiterate our NEUTRAL stance on MISC with revised TP of RM6.80 (from RM6.53) based on SOP method.

SUM-OF-PARTS VALUATION

Segments	FY15 Earnings (RM 'm)	Value/share (RM)	Valuation method
LNG	1,362.6	3.97	13x FY15 PER
Offshore	550.5	1.85	15x FY15 PER
Heavy Engineering	111.9	0.25	10x FY15 PER
Tank Terminal	119.3	0.40	15x FY15 PER
	Book Value/share		
Petroleum	1.26	1.39	1.1x FY15 P/BV
Chemical	0.25	0.23	0.9x FY15 P/BV
	RM 'm		
Less: Net debt	5,724.0	1.28	
TOTAL		6.80	

Source: Company, MIDFR

MISC: 3QFY14 RESULTS SUMMARY

*All in **RM'm** unless stated otherwise*	Quarterly Results			Cumulative		Comments
FYE Dec	***3Q14***	***%YoY***	***%QoQ***	***FY14***	***%YoY***	
Revenue	2,180.3	0.6%	-14.1%	7,009.5	2.6%	Flattish growth in line with shrinking fleet
COGS	(1,522.6)	7.0%	21.3%	(5,032.9)	5.5%	
Gross Profit	657.7	24.1%	9.0%	1,976.6	31.2%	
Other operating income	52.8	12.4%	134.6%	118.9	-51.6%	
SG&A	(223.6)	-32.7%	8.1%	(722.1)	-19.5%	

Operating Profit	486.8	19.2%	27.3%	1,373.4	19.6%	
Finance cost	(56.3)	46.2%	41.0%	(247.5)	18.6%	
Assoc.& JV Contribution	66.5	-51.3%	-37.0%	291.4	4.3%	Dragged down by losses in tank terminal
Exceptional gain/(loss)	13.5	156.6%	128.2%	(34.4)	-308.0%	
Pre-tax profit	510.5	14.6%	48.2%	1,383.0	21.3%	
tax	(13.0)	7.6%	49.3%	(54.5)	-37.4%	
Net Profit	470.8	17.1%	63.4%	1,245.3	24.1%	
Core Net Profit	457.3	15.2%	36.1%	1,279.7	29.7%	Higher profit as driven by LNG, offshore and lower loss in Petroleum shipping.
Segmental PBT, USD'm						
LNG	137.8	14.5%	8.8%	385.4	14.6%	Higher earnings days
Petroleum	(9.1)	76.7%	70.6%	(29.1)	76.8%	Higher average freight rate
Chemical	(9.3)	29.5%	36.7%	(36.7)	2.1%	Lower fleet number in chemical vessels
Offshore	34.9	-17.7%	7.4%	96.8	0.4%	
Heavy engineering	6.2	-47.0%	-19.5%	24.5	-48.2%	Looming contraction in orderbook
Tank Terminal	(10.4)	nm	nm	3.9	-85.3%	Losses due to one-off MLP related expenses
Liner Logistics	0.9	125.0%	200.0%	0.7	-77.4%	

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.