**05 November 2015 | 3QFY15 Results Review**

# MISC Berhad

**Riding on strong petroleum tanker rates**

***Maintain BUY***

***Increased* Target Price (TP): *RM10.27***
***(Previously: RM9.45)***

## INVESTMENT HIGHLIGHTS

- **9MFY15 earnings came in above ours estimates**
- **Petroleum segment's strong run continued with higher rates across all tanker sizes**
- **LNG segment softer with higher dry-docking and lower rates**
- **Revising our forecast upward with higher US$/MYR assumption**
- **Maintain BUY with higher TP of RM10.27**

**Earnings above our estimates.** MISC reported 9MFY15 core net profit of RM1,941m which was +52% higher year-on-year. The results were above our expectations and slightly outpaced consensus estimates representing 86% of our and 79% of consensus full year FY15 forecast respectively. Note that the average US$/MYR of 4.05 in 3QFY15 is higher than our estimate of 3.80.

**Petroleum continued its strong run.** The Petroleum tanker segment's marked turnaround continued with PBT of US$97m in 3MFY15 from a loss of US$30m in 3MFY14 representing a swing of ~US$130m. This was mainly attributed to strong petroleum tanker rates with average FY15 time charter and spot rates up 50%yoy and 83%yoy respectively. Currently, MISC's petroleum tanker fleet are on 60%:40% time charters to spot arrangement and thus are able to benefit from the significantly higher spot rates. The strong rates are due to high crude oil production and favourable capacity vs. demand ratio for vessels.

**LNG segment softer with higher dry-docking and lower rates.** LNG PBT in 9MFY15 softened by only -11%yoy mainly due to the dry-docking of 3 Puteri Class vessels and cold layups of 2 Aman Class vessels. Meanwhile, contributions were also lower in line with lower average LNG charter rates (down -14%yoy) due to oversupply in capacity. However, we expect weakness to taper down moving forward as the remaining 2 Puteri vessels will see their contracts ending in July 2016 and June 2017 respectively.

**Revising our forecasts upwards with higher US$/MYR assumption.** We are revising our US$/MYR assumption from 3.80 to 4.20 in line with our house call. Correspondingly, our FY15 and FY16 earnings are revised upward by 10%. We also make changes to our SOP methodology to better capture the values of each segment, thus arriving at our new TP of RM10.27.

| **RETURN STATS** | |
|---|---|
| Price (4 Nov 2015) | RM9.09 |
| Target Price | RM10.27 |
| Expected Share Price Return | +13.0% |
| Expected Dividend Yield | +2.0% |
| **Expected Total Return** | **+15.0%** |

| **STOCK INFO** | |
|---|---|
| KLCI | 1,685.62 |
| 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) | 40,575.9 |
| Price over NA | 1.36x |
| 52-wk price Range | RM6.51–RM9.39 |
| Beta (against KLCI) | 0.69 |
| 3-mth Avg Daily Vol | 5.37m |
| 3-mth Avg Daily Value | RM45.89m |
| **Major Shareholders** | |
| Petronas | 62.67% |
| EPF | 6.52% |
| PNB | 5.60% |

**Maintain BUY with higher TP of RM10.27.** Our BUY call is premised on 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 USDMYR rate as all charter rates are quoted in USD.

| Segments | Value (US$'m) | Value/share (RM) | Valuation method |
|---|---|---|---|
| LNG | 5,132.4 | 4.80 | DCF (WACC: 6%) from PER previously |
| Offshore | 1,555.0 | 1.46 | DCF (WACC: 6%) from PER previously |
| Petroleum | 2,403.0 | 2.26 | 2nd hand value of vessels from PER previously |
| Chemical | 114.1 | 0.11 | 2nd hand value of vessels |
| Heavy Engineering | 255.9 | 0.24 | Based on MIDF TP of RM1.01 |
| Other fixed assets | 630.01 | 0.59 | 1.0x FY16F P/BV |
| Equity stakes in JV and asso. | 1127.61 | 1.06 | 1.0x FY16F P/BV |
| Less: Net debt | -302.9 | -0.28 | Net debt after receipt of proceeds from disposal of VTTI amounting to US$830m |
| **Total (US$'m)** | **10,915.1** | | |
| USD/MYR exchange rate | 4.2 | | |
| Number of shares o/s | 4,463.8 | | |
| **Target Price (RM)** | 10.27 | 10.27 | |

*Source: Company, MIDFR*

## INVESTMENT STATISTICS

| FYE Dec | FY14 | FY15F | FY16F | FY17F |
|---|---|---|---|---|
| Revenue (RM' m) | 9,296.3 | 10,120.0 | 10,329.5 | 10,913.5 |
| EBIT (RM' m) | 2,644.2 | 2,734.3 | 2,948.8 | 3,127.7 |
| Pretax Profit (RM' m) | 2,410.3 | 2,545.3 | 2,707.8 | 2,886.7 |
| Net Profit (RM' m) | 1,765.5 | 2,469.0 | 2,626.5 | 2,800.1 |
| EPS (sen) | 39.6 | 55.3 | 58.8 | 62.7 |
| EPS growth (%) | 9.6 | 39.8 | 6.4 | 6.6 |
| PER (x) | 23.0 | 16.4 | 15.4 | 14.5 |
| Net Dividend (sen) | 10.0 | 18.0 | 18.0 | 18.0 |
| Net Dividend Yield (%) | 1.1 | 2.0 | 2.0 | 2.0 |

*Source: MIDFR, Company*

## DAILY PRICE CHART




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*Source: Bloomberg*

## MISC: 9MFY15 RESULTS SUMMARY

| *All in RM'm unless stated otherwise* | Quarterly Results | | | Cumulative | |
|---|---|---|---|---|---|
| **FYE Dec** | ***3Q15*** | ***%YoY*** | ***%QoQ*** | ***9MFY15*** | ***%YoY*** |
| **Revenue** | 2,505.6 | 14.9% | -3.6% | 7,596.3 | 8.4% |
| COGS | (1,598.4) | -5.0% | 12.0% | (5,183.4) | -3.0% |
| **Gross profit** | 907.2 | 37.9% | 15.7% | 2,413.0 | 22.1% |
| Other income | 35.3 | -33.0% | -23.7% | 134.4 | 13.0% |
| SG&A | (323.6) | -44.7% | -104.8% | (788.2) | -9.2% |
| **Operating profit** | 618.9 | 27.1% | -7.9% | 1,759.1 | 28.1% |
| Finance Cost | (40.3) | 28.4% | 16.5% | (143.5) | 42.0% |
| Asso. & JV Contribution | 172.2 | 158.9% | 17.4% | 417.5 | 43.2% |
| Exceptional gain/(loss) | (231.4) | ->100% | ->100% | (224.7) | ->100% |
| **Profit before tax** | 519.3 | 1.7% | -32.8% | 1,808.4 | 30.8% |
| Tax expense | (15.2) | -17.0% | -146.9% | (21.0) | 61.5% |
| **Net profit** | 504.1 | 7.1% | -34.2% | 1,761.5 | 41.5% |
| **Core net profit** | 735.6 | 60.9% | 2.3% | 1,941.2 | 51.7% |

## OPERATING SUMMARY (USD'm)

| **Segmental PBT** | ***3Q15*** | ***%YoY*** | ***%QoQ*** | ***9MFY15*** | ***%YoY*** |
|---|---|---|---|---|---|
| LNG | 85.9 | -37.7% | -20.2% | 287.8 | -25.3% |
| Petroleum | 40.1 | 540.7% | 5.0% | 96.6 | 432.0% |
| Chemical | 1.9 | 120.4% | 235.7% | (7.2) | 75.8% |
| Offshore | 26.0 | -25.5% | -48.8% | 124.0 | 28.1% |
| Heavy Engineering | 4.7 | -24.2% | -2.1% | 19.2 | 21.6% |
| Integrated Logistics | (1.4) | -255.6% | -182.4% | 0.1 | 85.7% |
| Others | 23.7 | 464.3% | 746.4% | 23.1 | 248.1% |
| Tank Terminal | 8.3 | 179.8% | 31.7% | 9.4 | 141.0% |
| **Total** | **189.2** | **21.9%** | **-10.3%** | **553.0** | **26.6%** |

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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. |