14 February 2014 | 4QFY13 Results Review

MISC Bhd

Buoyed by one-off disposal gain of Gumusut FPS

***Maintain* NEUTRAL**

***Revised* Target Price (TP): RM5.90**
(previously RM5.35)

INVESTMENT HIGHLIGHTS

- **Earnings above expectations; improvements driven by the narrowing losses in Petroleum and Chemical tanker segments and higher contribution by offshore segment.**
- **The strong surge in Petroleum tanker rate in 4Q13 may suggest the bottoming out in FY13.**
- **First 5.0sen interim dividend declared after two years of turbulence.**
- **Recommend NEUTRAL stance with revised TP of RM5.90, premised on Sum-of-Parts method.**

Result above expectations. 4Q13 net profit came in at RM1.1b (+53%yoy, +169%qoq), lifting FY13 earnings to RM2.1b (+44%yoy). Excluding non-recurring gain from the realization of finance lease on Gumusut FPS, 4Q13 core profit was RM501.6m (+15%yoy, +26%qoq). Full year core profit was above ours and consensus forecasts by +14.1% and +11.2% respectively. The key reasons to the improvement in the result were reduced losses at the Petroleum and Chemical tankers segments and offshore operation, but partially offset by lower contribution from the LNG segment.

Reduced topline amid smaller operating fleet. For 4Q13, as the group continues to push for asset rationalization to retire the older fleet, one VLCC and three chemical tankers were taken out for sale together with another re-delivered three Aframax tanker. Meanwhile, projects undertaken by MMHE were already at the tail-end of the construction phase. These two factors resulted in a reduction of the topline by -10.9%yoy to RM2.14b.

LNG segment. LNG remains the largest contributor for MISC, but recorded smaller quarterly PBT at USD110m (-12%yoy) due to the downward adjustment of previous recognized gain on FSU Lekas and other accounting changes. MISC is still actively seeking to secure the operation management of the eight new LNG vessels, which are directly owned by Petronas.

Petroleum and Chemical tankers. Driven by seasonal demand, and the absence of Libyan supply and winter disruption, the spot VLCC and Suezmax rate surged by 52%yoy and 23%yoy respectively. The pretax losses for petroleum tanker sector narrowed by 8.4%qoq to -USD26.9m. Meanwhile the Chemical freight rate may increase further due to a more balanced supply-demand gap.

Offshore and tank terminal. The offshore segment is expected to contribute further in 2014 with the full year earning recognition of Gumusut-Kakap FPS but the commencement of FPSO Cendor has been extended until October 2014. The quarterly PBT of tank terminal expanded by +33%yoy to USD14.5m, mainly due to the surge in terminal throughput.

RETURN STATS	
Price (13 Feb 2014)	RM6.50
Target Price	RM5.90
Expected Share Price Return	-9.2%
Expected Dividend Yield	+2.8%
Expected Total Return	**-6.4%**

STOCK INFO	
KLCI	1,817.15
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)	29,014.7
Price over NA	1.17x
52-wk price Range	RM4.19 – RM6.51
Beta (against KLCI)	1.09
3-mth Avg Daily Vol	1.83m
3-mth Avg Daily Value	RM10.2m
Major Shareholders	
Petronas	62.67%
EPF	8.81%
PNB	5.81%

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

INVESTMENT STATISTICS

FYE Dec	FY12	FY13F	FY14F	FY15F
Revenue (RM'm)	9,484.0	8,971.8	9,002.5	9,230.0
EBIT (RM'm)	873.6	1,819.3	1,287.1	1,788.1
Pretax Profit (RM'm)	1,599.3	2,227.7	1,708.9	2,220.2
Net Profit (RM'm)	1,625.7	2,225.2	1,623.4	1,998.2
EPS (sen)	36.4	49.9	36.4	44.8
EPS growth (%)	209.7	36.9	-27.0	23.1
PER(x)	13.8	10.1	13.8	11.2
Net Dividend (sen)	0.0	5.0	18.0	20.0
Net Dividend Yield (%)	0.0	1.0	3.6	4.0

Source: Company, Forecasts by MIDFR

Reaffirm NEUTRAL with revised TP of RM5.35. We believe that the recent rally in tanker rate is unlikely to be sustainable because the supply-demand gap of ships is still sizeable. However the improving freight rate should accord some relief to the vessel operators. With the improving asset value of tanker vessels, we reduce the discount that we have applied on Petroleum and Chemical assets from 0.7x to 0.9x. In addition, we upgrade our FY14-15 earnings forecasts by +3.4% and +6.3% respectively, taking into account the higher contribution from offshore sector and reduced losses from Petroleum and Chemical shipping. Meanwhile, we have already imputed the slowdown in MMHE contribution.

The better result during this quarter is primarily driven by the realization of USD182m finance lease on Gumusut Kakap FPS which is one-off nature. The overcapacity issue in the tanker market is still prevalent but it is recovery, albeit slowly. Hence, we reiterate our NEUTRAL stance on MISC. Our revised TP of RM5.90 is derived from Sum-of-Parts method. We believe the positive newsflow is tapering.

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	1.13	0.9x FY14 P/BV
Chemical	0.30	0.27	0.9x FY14 P/BV
	RM 'm		
Less: Net debt	5,471.1	1.23	
TOTAL		5.90	

Source: Company, MIDFR

MISC: 4QFY13 RESULTS SUMMARY

*All in **RM'm** unless stated otherwise*	Quarterly Results			Cumulative		Comments
FYE Dec	***4Q13***	***%YoY***	***%QoQ***	***FY13***	***%YoY***	
Revenue	2,141.9	-10.9%	-1.1%	8,971.8	>100%	
Operating expenses	(1,594.9)	7.0%	2.5%	(6,918.1)	-32.4%	
Gross Profit	547.0	-20.6%	3.2%	2,053.7	-21.2%	
Other operating income	90.5	>100%	92.9%	336.0	>100%	
SG&A	(232.8)	-6.7%	-38.2%	(837.1)	<-100%	
Operating Profit	404.7	-21.4%	-0.9%	1,552.6	22.2%	
Finance cost	(104.5)	-5.9%	0.2%	(408.4)	<-100%	
Assoc.& JV Contribution	187.4	>100%	37.1%	466.7	61.9%	
Exceptional gain/(loss)	581.4	>100%	>100%	597.9	-63.5%	Contributed by the realization of disposal in Gumusut Kakap FPS via finance lease amounting USD182m.
Pre-tax profit	1,069.0	45.8%	>100%	2,208.8	39.4%	
tax	37.2	-39.3%	>100%	(2.5)	<-100%	
Net Profit	1,083.0	52.8%	>100%	2,086.4	44.0%	
Core Net Profit	501.6	15.2%	26.4%	1,488.5	>100%	Narrowing losses in Petroleum and Chemical segments as well as stronger performance in Offshore segement.
Segmental PBT, USD'm						
LNG	110.2	-12.0%	-8.4%	446.4	2.5%	
Petroleum	(26.9)	40.6%	31.2%	(152.4)	4.4%	
Chemical	(7.3)	54.9%	44.7%	(44.8)	42.7%	
Offshore	222.9	>100%	>100%	319.3	>100%	
Heavy engineering	15.4	-21.8%	31.6%	62.7	-10.9%	
Tank Terminal	14.5	33.0%	57.6%	41.1	5.1%	
Liner Logistics	1.8	-14.3%	-8.4%	4.9	-19.7%	

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.