Equity Beat

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09 February 2015 | 4QFY14 Results Review

MISC Bhd

Boosted by Chendor and Petroleum freight rates

***Maintain* NEUTRAL**

***Unchanged* Target Price (TP): RM6.80**

INVESTMENT HIGHLIGHTS

- **A strong finish to FY14 with earnings boosted by petroleum division's strong freight rates and delivery of FPSO Cendor in 4Q14.**
- **LNG unit posted weaker revenue and PBT in 4Q14 as one of its charters lapsed. This has resulted in higher dry-docking days and impairment of the Puteri class vessel.**
- **Outlook for LNG unit's earnings is weak poor but this could be mitigated by full year contribution from FPSO Cendor and recovery in the Petroleum unit. Our NEUTRAL call and RM6.80 TP for MISC is under review pending management updates.**

Exceeded expectations. MISC's FY14 core net profit grew by over +30% to RM1.9bn, exceeding our forecast by 13% and was in line with consensus. The strong growth was due to 4Q14 core net profit surging to RM663m (+32%yo) led by petroleum and offshore divisions. In FY14, the petroleum division was in the red but losses narrowed by >80%yoy, benefiting from favourable freight rates. The LNG and Offshore divisions fared better but these were partially offset by poor performance of the Heavy Engineering (MMHE), tank terminal and others.

LNG division ended weaker. Revenue and PBT in 4Q14 softened as charter contract for one of its vessels lapsed in the quarter. Thus, pretax profit (PBT) eased due to higher dry-docking days and impairment of the Puteri class vessel. FY14 revenue and PBT grew +1.7% to US$856m and +4.5% to US$486m respectively, cushioned by existing charters with annual rate increments embedded in its contracts.

Boosted by higher rates. The improvement in petroleum tanker rates sustained in 4Q14 on prolonged winter season which led to US$5.4m in PBT. For FY14, petroleum division was still in the red but pretax losses narrowed significantly from -US$152m to only -US$24m.

Chemicals losses narrowed. Chemical tanker rates softened in 4Q14 but the impact was more than offset by lower bunker fuel costs. As such, losses in 4Q14 narrowed sequentially and on yoy basis. For FY14, the pretax losses declined 13% to -US$45m from -US$52m.

Offshore boosted by Chendor. The delivery of FPSO Cendor in 4Q14 boosted PBT for FY14. The increment was also compounded by higher contribution from FPS Gumusut following a variation order by the client which led to higher receivables. In 4Q14 alone, PBT grew to US$65m while FY14 PBT increased +18% to US$162m.

Tank terminal returned to the black. The absence of the MLP-related expense led to the division returning to the black from loss of -US$10m in 3Q14. Nevertheless, 4Q14 PBT declined -32%yoy to US$10m while FY14 PBT fell -67% to US$14m.

TP of RM6.80 under review. Management was cautiously optimistic on MISC's FY15 prospect although it acknowledged that existing operating dynamics, to some extent, is favourable for MISC. Our RM6.80 TP and recommendation is under review pending management updates.

RETURN STATS	
Price (6 Feb 2015)	RM7.74
Target Price	RM6.80
Share Price Return	-12.1%
Expected Dividend Yield	+2.3%
Expected Total Return	**-9.6%**

STOCK INFO	
KLCI	1,812.15
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)	34,550
Price over NA	1.29x
52-wk price Range	RM5.94 – RM7.99
Beta (against KLCI)	0.95
3-mth Avg Daily Vol	2.6m
3-mth Avg Daily Value	RM19.7m
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	FY14	FY15F	FY16F
Revenue (RM'm)	8,971.8	9,296.3	7,982.7	8,089.7
EBIT (RM'm)	1,782.7	1,771.0	1,379.0	1,471.6
Pretax Profit (RM'm)	2,227.7	2,410.3	1,872.0	1,981.6
Core Profit (RM'm)	1,612.8	1,943.1	1,822.0	1,901.6
Core EPS (sen)	36.1	43.5	40.8	42.6
Core EPS growth (%)	92.2	20.6	6.2	4.4
Core PER(x)	21.4	17.8	19.0	18.2
Net Dividend (sen)	5.0	10.0	18.0	21.0
Net Dividend Yield (%)	0.7	1.3	2.3	2.7

Source: Company, Forecasts by MIDFR

MISC: 3QFY14 RESULTS SUMMARY

*All in **RM'm** unless stated otherwise*	Quarterly Results			Cumulative		Comments
FYE Dec	***4Q14***	***%YoY***	***%QoQ***	***FY14***	***%YoY***	
Revenue	2,286.8	5.3%	4.9%	9,296.3	3.6%	Flattish growth in line with shrinking fleet
COGS	(1,618.6)	1.1%	-6.3%	(6,651.5)	3.9%	
Gross Profit	668.2	20.7%	1.6%	2,644.8	28.8%	
Other operating income	232.0	79.8%	>100%	350.9	4.4%	
SG&A	(431.3)	-60.9%	-92.9%	(1,153.4)	-37.8%	
Operating Profit	468.9	12.9%	-3.7%	1,842.3	18.7%	
Finance cost	(57.0)	83.7%	-1.3%	(304.5)	25.4%	
Assoc.& JV Contribution	319.9	57.3%	>100%	611.3	31.0%	Dragged down by losses in tank terminal
Exceptional gain/(loss)	295.6	98.2%	>100%	261.2	-56.3%	
Pre-tax profit	1,027.4	56.6%	>100%	2,410.4	9.1%	
tax	(35.8)	-60.8%	-176.3%	(90.3)	<-100%	
Net Profit	959.0	58.1%	103.7%	2,204.3	5.6%	
Core Net Profit	663.4	40.2%	45.1%	1,943.1	30.5%	Higher profit as driven by LNG, offshore and lower loss in Petroleum shipping.
Segmental PBT, USD'm						
LNG	98.2	-22.5%	-28.7%	483.6	8.3%	Higher earnings days
Petroleum	5.4	>100%	>100%	(23.7)	84.4%	Higher average freight rate
Chemical	(8.7)	51.7%	6.5%	(45.4)	2.8%	Lower fleet number in chemical vessels
Offshore	65.5	35.3%	87.7%	162.3	-49.2%	
Heavy engineering	13.4	12.7%	>100%	37.9	-39.6%	Looming contraction in orderbook
Tank Terminal	9.8	6.1%	>100%	13.7	-66.7%	Losses due to one-off MLP related expenses
Liner Logistics	2.1	81.0%	>100%	2.8	-42.9%	

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.