Subdued outlook

2Q16 headline net profit was bolstered by one-off recognition from GKL consolidation but excluding many exceptions, core net profit fell on lower contribution across all segments, dragged down by overall lower charter rates, slowing O&G activities and diminishing US$ catalyst. Earnings visibility for MISC remains subdued on expected charter rate correction in 2H16 and low orderbook replenishment for its Offshore and Heavy Engineering segments. Maintain SELL.

As weak as expected

2Q16 revenue fell to RM2,392m (-0.1% qoq; -8% yoy) on the back of: (i) lower LNG freight rates and fleet size; (ii) lower petroleum charter rates; and (iii) slowing engineering projects, but mitigated by higher contribution from Offshore division due to the consolidation of Gumusut-Kakap semi-FPS (GKL). Headline net profit surged a strong 81% yoy to RM1.3bn but after stripping off RM847m net gain on GKL acquisition and many other one-off items, core net profit fell to RM534m (-9% qoq; -28% yoy). Overall, the weaker 2Q results were in line with our expectations (51%) but missed street forecasts (42%).

Weaknesses in all segments

Segmental -wise, LNG revenue fell 3% qoq on smaller fleet size after two charter terminations in 1Q, and lower charter rates on renewed vessels. Petroleum segment further disappointed with weaker freight rates on supply worries, and dragged down by ongoing losses in the Chemical division. Offshore fell into losses in the absence of engineering, procurement and construction (EPC) projects but negated by higher revenue from the GKL consolidation. Heavy Engineering remained in the red due to fewer and lower value of fabrication projects and high overheads.

Maintain SELL with an unchanged TP at RM6.70

We are negative on the group outlook given ongoing weaknesses across segments. LNG shipping demand is expected to stay flat, and the oversupply woes will be exacerbated by ongoing projects disruptions of LNG terminals (Gorgon LNG & Angola Terminal) that will add project vessels to spot market and drive down charter rates. Higher oil stock levels are expected to reduce petroleum shipping demand while chemical charter rates could stay weak on lower petrochemicals throughputs. Subdued O&G activities are also expected to affect its Offshore and Heavy Engineering segments with low replenishment rate for its orderbook. Maintain **SELL** with unchanged TP at RM6.70, which translates into an implied 14x PER FY16E.

Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	9,296.3	10,908.4	9,144.8	9,018.5	9,346.7
EBITDA (RMm)	2,827.5	3,749.9	4,198.1	4,200.5	4,277.6
Pretax profit (RMm)	2,410.4	2,566.9	2,485.3	2,290.0	2,359.8
Net profit (RMm)	2,204.4	2,467.8	2,405.5	2,208.9	2,272.0
EPS (sen)	49.4	55.3	53.9	49.5	50.9
PER (x)	15.2	13.6	13.9	15.2	14.7
Core net profit (RMm)	1,761.8	2,564.6	2,213.5	2,208.9	2,272.0
Core EPS (sen)	39.5	57.5	49.6	49.5	50.9
Core EPS growth (%)	(13.4)	45.6	(13.7)	(0.2)	2.9
Core PER (x)	19.0	13.1	15.1	15.2	14.7
Net DPS (sen)	9.0	13.5	10.8	9.9	10.2
Dividend Yield (%)	1.2	1.8	1.4	1.3	1.4
EV/EBITDA (x)	13.2	9.2	8.0	7.7	7.1
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			0.9	0.8	0.8

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

MISC

MISC MK
Sector: Transport & Logistics

RM7.50 @ 4 August 2016

SELL (maintain)

Upside: 11.9%

Price Target: RM6.70

Previous Target: RM6.70

Price Performance

	1M	3M	12M
Absolute	+1.2%	-10.3%	-8.5%
Rel to KLCI	+1.2%	-10.2%	-4.8%

Stock Data

Issued shares (m)	4,463.8
Mkt cap (RMm)/(US$m)	3,478/8,260
Avg daily vol - 6mth (m)	3.7
52-wk range (RM)	6.88-9.41
Est free float	17%
BV per share (RM)	7.66
P/BV (x)	0.98
Net cash/ (debt) (RMm)	(6,266)
ROE (2016E)	8.3%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Petroliam Nasional	62.7%
EPF	6.9%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	2Q16	QoQ % chg	YoY % chg	1H16	YoY % chg	Comments
Revenue	2,392.4	(0.1)	(8.0)	4,786.9	(6.0)	Lower freight rates and small fleet size but negated by higher contribution from Offshore due to GKL consolidation
Op costs	1,374.1	(4.2)	(13.9)	2,808.1	(15.0)	
EBITDA	1,018.3	6.0	1.4	1,978.8	10.6	
EBITDA margin (%)	*42.6*	*+2.5ppts*	*+4.0ppts*	*41.3*	*+6.2ppts*	
Depn and amort	(494.5)	(2.4)	49.0	(1,001.2)	54.5	
EBIT	523.8	15.4	(22.1)	977.6	(14.3)	
EBIT margin (%)	*21.9*	*+2.9ppts*	*-3.9ppts*	*20.4*	*-2.0ppts*	Lower margins on higher bunker fuels and high fixed overheads in the Heavy Engineering segments
Int expense	(63.8)	32.8	32.3	(111.8)	8.3	
Int and other inc	11.5	(95.6)	Na	274.6	Na	RM847m net gain on GKL acquisition
Income from affiliates	91.5	(28.0)	(37.6)	218.6	(10.9)	
EI	811.1	nm	nm	795.8	Nm	
Pretax profit	**1,374.1**	76.0	77.9	2,154.8	67.8	
Core pretax	563.1	(29.3)	(26.9)	1,359.1	6.0	
Tax	(19.4)	nm	>100	(4.7)	(19.5)	
Tax rate (%)	*1.4*	*+3.3ppts*	*+0.6ppts*	*0.2*	*-0.2ppts*	
MI	(8.2)	(96.3)	(61.2)	(232.6)	>(100)	
Net profit	**1,346.6**	>100	80.7	1,917.6	55.7	Bolstered by one-off gain from GKL consolidation
EPS (sen)	30.2	>100	80.7	43.0	55.7	
Core net profit	**533.6**	(9.0)	(28.2)	1,119.9	(8.9)	In line with our expectations but missed consensus estimates

Source: Affin Hwang, Company

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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