Results Note

MISC

MISC MK
Sector: Transport & Logistics

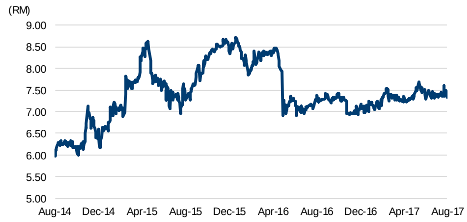
RM7.33 @ 9 August 2017

SELL (maintain)

Downside: 11%

Price Target: RM6.50

Previous Target: RM6.50



Price Performance

	1M	3M	12M
Absolute	+0.1%	-0.3%	-3.8%
Rel to KLCI	-0.9%	-0.9%	-9.5%

Stock Data

Issued shares (m)	4,463.8
Mkt cap (RMm)/(US$m)	32,719.6/7,628.7
Avg daily vol - 6mth (m)	1.9
52-wk range (RM)	7.03-7.90
Est free float	19.0%
BV per share (RM)	8.37
P/BV (x)	0.88
Net cash/ (debt) (RMm)	(6,043)
ROE (2017E)	5.0%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Petroliam Nasional	62.7%
EPF	6.3%
PNB	4.4%

Source: Affin Hwang, Bloomberg

Koh Sin Yee
(603) 2146 7536
sinyee.koh@affinhwang.com

Lower earnings from petroleum segment

MISC reported 2Q17 results with its revenue down 3.8% yoy to RM2.3bn, underpinned by lower revenue from petroleum and heavy engineering segments. 2Q17's core net profit increased by 28.9% yoy, after excluding losses from impairment and disposal of PPE. 1H17 net profit comprised 63% and 58% of our and consensus 2017 estimates, but we remain cautious on earnings in the coming quarters due to lower charter rates on the back of oversupply of tonnage for the petroleum and LNG segments as well as lower order book for the heavy engineering segment. Maintain SELL call with TP of RM6.50.

Revenue and net profit decrease by 3.8% yoy and 59.1% yoy

Despite recording higher revenue from the LNG segment (+15.8% yoy) and offshore segment (+31.3% yoy), MISC's total revenue in 2Q17 decreased by 3.8% yoy to RM2.3bn, primarily underpinned by: (i) lower revenue from the petroleum segment due to lower charter rates; (ii) lower revenue from the heavy engineering segment as most on-going projects are nearing completion; and (iii) lower construction revenue recognised for FSO Benchamas 2. Net profit in 2Q17 was 59.1% lower compared to 2Q16 due to net gain on acquisition of subsidiary in 2Q16, amounting to RM847.3m.

Net profit down 18.5% qoq

MISC booked a net profit of RM551.1m in 2Q17, which declined 18.5% qoq. While petroleum and heavy engineering segments reported operating loss of RM20.1m and RM10.3m respectively this quarter, operating profit of LNG increased significantly by 69% qoq to RM557.7m due to compensation for early termination of contract and lower operating costs. Core net profit increased by 29.1% qoq as we exclude: (i) impairment loss of RM133.6m on ships and PPE; (ii) RM17.2m net loss on liquidation of subsidiary, MISA Japan; and (iii) loss of RM2.4m on disposal of PPE.

Maintain SELL rating with TP of RM6.50

We believe earnings momentum may be not sustained into 3Q-4Q17, as overall freight rates could be weaker due to new build supply, which would impact the LNG and petroleum segments. LNG's revenue in 2Q17 was partly bolstered by the recognition of compensation for early termination of Tenaga Lima, which may not be recurring in nature. We maintain our **SELL** call with TP of RM6.50. Risk to our call includes rebound in shipping charter rates.

Earnings & Valuation Summary

FYE 31 December	2015A	2016A	2017E	2018E	2019E
Revenue (RMm)	10,908.4	9,597.2	10,121.6	9,387.4	9,344.8
EBITDA (RMm)	3,749.9	4,458.0	4,556.2	4,457.7	4,499.4
Pretax profit (RMm)	2,566.9	2,813.9	2,005.5	1,864.7	1,864.4
Net profit (RMm)	2,467.8	2,581.5	1,957.9	1,812.3	1,796.7
EPS (sen)	55.3	57.8	43.9	40.6	40.3
PER (x)	13.3	12.7	16.7	18.1	18.2
Core net profit (RMm)	2,564.6	2,107.6	1,957.9	1,812.3	1,796.7
Core EPS (sen)	57.5	47.2	43.9	40.6	40.3
Core EPS growth (%)	45.6	(17.8)	(7.1)	(7.4)	(0.9)
Core PER (x)	12.8	15.5	16.7	18.1	18.2
Net DPS (sen)	30.0	30.0	30.0	30.0	30.0
Dividend Yield (%)	4.1	4.1	4.1	4.1	4.1
EV/EBITDA (x)	8.9	8.7	8.4	8.3	8.0
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			0.9	0.8	0.8

Source: Company, Affin Hwang forecasts, Bloomberg

Fig 1: Results Comparison

FYE Dec (RMm)	2QFY17	QoQ % chg	YoY % chg	1H17	YoY % chg	Comments
Revenue	2,302.5	(22.9)	(3.8)	5,287.4	10.5	2Q revenue decreased by 3.8% yoy and 22.9% qoq. In terms of segmental breakdown, 2Q17 revenue from LNG and offshore segments increased by 15.8% yoy and 31.3% yoy. However, overall revenue is dragged down by lower revenue from the petroleum (-12.0% yoy) and heavy engineering (-13.5% yoy) segments.
Op costs	(1,095.0)	(41.0)	(21.8)	(2,952.2)	7.9	
EBITDA	1,207.5	7.1	21.6	2,335.2	13.9	
EBITDA margin (%)	*52.4*	*14.7ppts*	*10.9ppts*	*44.2*	*1.3ppts*	
Depn and amort	(490.1)	(10.3)	(0.5)	(1,036.5)	3.9	
EBIT	717.4	23.4	43.4	1,298.7	23.4	Operating profit for the LNG segment increased significantly by 69% qoq to RM557.7m, resulting in higher EBIT. The improvement in earnings for the LNG segment is due to (i) compensation for early termination of Tenaga Lima and (ii) lower voyage as well as other costs.
EBIT margin (%)	*31.2*	*11.7ppts*	*10.2ppts*	*24.6*	*2.6ppts*	
Int expense	(65.1)	(1.1)	2.1	(130.9)	17.4	
Int and other inc	-	na	na	-	na	
Inc from associates	59.6	18.5	(34.9)	109.9	(49.7)	
EI	(153.2)	(217.1)	(119.2)	(22.4)	(102.4)	Exceptional items include impairment loss on ships and PPE (RM133.6m), net loss on liquidation of subsidiary (RM17.2m) and loss on disposal of PPE (RM2.4m).
Pretax profit	558.7	(19.8)	(59.3)	1,255.3	(41.7)	Pretax profit down 59.3% yoy in 2Q17.
Tax	(4.9)	81.5	(74.7)	(7.6)	62.8	
Tax rate (%)	*0.9*	*0.5ppts*	*(0.5)ppts*	*0.6*	*0.4ppts*	
MI	(2.7)	(84.7)	(67.2)	(20.4)	(91.2)	
Net profit	551.1	(18.5)	(59.1)	1,227.3	(36.0)	Net profit came in above our and consensus estimates, but we remain cautious on earnings on the back of oversupply of new builds and losses from heavy engineering segment.
EPS (sen)	12.3	(18.5)	(59.1)	27.5	(36.0)	
Core net profit	704.3	29.1	28.5	1,249.7	28.9	

Source: Affin Hwang, Company

Equation 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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Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com