

15 August 2019

MISC Berhad

1H19 Improved on Better Charter Rates

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Stronger 1H19 core earnings (+46% YoY) beat our expectation slightly, due to improved spot rates. Moving forward, we believe the group is likely to post better earnings, given last year's low-base, underpinned by better spot rates coupled with an improved outlook for MHB. We also see limited risk to its consistent dividend pay-outs (~4% yield) as operating cash flow remains stable. Maintain MARKET PERFORM with TP of RM7.60.

Slightly above our expectation. MISC recorded 1H19 core net profit of RM920m (arrived after stripping-off non-core items, e.g. impairments), coming in slightly above our expectations at 57% of full-year forecast, helped by its better-than-expected petroleum shipping segment. However, the results are deemed to be within consensus' expectations at 53%. Dividend of 7.0 sen per share is well within expectation.

Improved results YoY. For the 1H19, core net profit jumped 46% YoY, largely attributed to: (i) turnaround in its petroleum segment on improved charter rates, and (ii) narrowed losses in MHB (66.5% subsidiary) from increased dry-docking activities and greater project progression for its heavy engineering division.

Meanwhile, 2Q19 core net profit similarly leapt 41% YoY, driven by: (i) improved performance in petroleum shipping due to improved charter rates, (ii) narrowed losses in MHB from higher dry-docking activities, and (iii) higher contributions from LNG shipping following the delivery of two Seri C vessels in March 2018 and May 2018. Sequentially, 2Q19 core net profit marginally dipped 4% QoQ, largely due to seasonally weaker spot charter rates post-winter, dragging its petroleum shipping segment.

Earnings growth expected for the year. The group seems likely to see some earnings recovery for the next 1-2 years, after suffering from a low earnings base last year. Spot tanker rates during this year's winter had been noticeably much stronger, rebalancing after high levels of scrapping in 2018, although OPEC-led oil production cuts may hamper shipping volumes in the shorter term. Nonetheless, implementation of IMO2020 could provide a slight ripple in vessel supply for 2H19. Meanwhile, the FPSO market (both globally and locally) is also another key growth area identified by the company in which it has increased efforts to tap into. MHB's outlook is also expected to improve after its recent Kasawari project EPCIC win, boosting its order-book to a multi-year high of ~RM3b.

Maintain MARKET PERFORM. Post-results, we raised our FY19-20E earnings forecasts by 7-3%, after (i) factoring in stronger petroleum shipping, and (ii) raising our MYR/USD assumption to RM4.10, from RM4.00 previously. As such, given the better-than-expected set of results (two consecutive quarters of beating expectations), we raised our TP to RM7.60 (from RM6.65 previously), pegging it to 0.95x PBV on FY20E – roughly in-line with its 5-year mean valuations (from 0.85x PBV at -0.5SD previously).

Our call is further backed by its stable dividends, implying yield of ~4%, which is one of the better ones among FBMKLCI constituent stocks (behind banks). Overall, we believe the consistent dividend would help limit the share's downside risks over the longer run.

Risks to our call include: (i) weaker-than-forecasted charter rates, (ii) stronger-than-expected MYR/USD exchange rates, (iii) lower-than-expected number of operating vessels, and (iv) slowdown of global economy.

MARKET PERFORM ↔

Price : **RM7.25**
Target Price : **RM7.60** ↑

Share Price Performance



KLCI 1,600.31
YTD KLCI chg -5.3%
YTD stock price chg 8.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MISC MK Equity
Market Cap (RM m)	32,362.2
Shares outstanding	4,463.7
52-week range (H)	7.50
52-week range (L)	5.48
3-mth avg daily vol:	2,207,015
Free Float	27%
Beta	1.0

Major Shareholders

Petroleum Nasional Bhd	62.7%
Employees Provident Fund	6.0%
Amanah Saham Bumiputera	4.8%

Summary Earnings Table

FY Dec (RM' mil)	2018A	2019E	2020E
Revenue	8,780	9,051	8,791
EBIT	1,739	2,101	2,236
PBT	1,344	1,739	1,830
Net Profit (NP)	1,312	1,721	1,812
Core NP (CNP)	1,322	1,721	1,812
Consensus (CNP)		1,736	1,841
Earnings Revision (%)		7.4	2.6
Core EPS (sen)	29.6	38.6	40.6
CNP growth (%)	-49.4	30.2	5.2
DPS (sen)	30.0	30.0	30.0
BVPS (RM)	7.9	7.9	8.0
Core PER (x)	24.5	18.8	17.9
Price/BV (x)	0.9	0.9	0.9
Net Gearing (x)	0.2	0.3	0.3
Div. Yield (%)	4.1	4.1	4.1

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Result Highlights								
Y/E : Dec (RM'm)	2Q FY19	1Q FY19	Q-o-Q Chg	2Q FY18	Y-o-Y Chg	1H FY19	1H FY18	Y-o-Y Chg
Revenue	2,161.7	2,277.7	-5.1%	2,141.8	0.9%	4,439.4	4,162.6	6.6%
Cost of sales	(1,511.3)	(1,517.8)	-0.4%	(1,623.4)	-6.9%	(3,029.1)	(3,080.0)	-1.7%
Gross profit	650.4	759.9	-14.4%	518.4	25.5%	1,410.3	1,082.6	30.3%
Other operating income	57.5	87.2	-34.1%	51.2	12.3%	144.7	117.0	23.7%
General and administrative expenses	(223.6)	(255.2)	-12.4%	(222.6)	0.4%	(478.8)	(469.2)	2.0%
Operating profit	484.3	591.9	-18.2%	347.0	39.6%	1,076.2	730.4	47.3%
Impairments	(51.1)	0.0	N.A.	0.0	N.A.	(51.1)	(1.1)	4545.5%
Gain on acquisition of business	0.0	23.7	N.A.	0.0	N.A.	23.7	0.0	N.A.
Gain of disposal of ships and PPE	0.0	17.5	N.A.	1.0	N.A.	17.5	1.0	1650.0%
Finance cost	(115.6)	(134.2)	-13.9%	(99.5)	16.2%	(249.8)	(175.2)	42.6%
Share of profit of joint ventures	101.5	43.1	135.5%	70.0	45.0%	144.6	82.6	75.1%
Profit before tax	419.1	542.0	-22.7%	318.5	31.6%	961.1	637.7	50.7%
Taxation	(17.2)	(26.0)	-33.8%	(9.3)	84.9%	(43.2)	(19.5)	121.5%
Non-controlling interests	(2.1)	(5.5)	-61.8%	12.0	-117.5%	(7.6)	13.6	-155.9%
Net profit	399.8	510.5	-21.7%	321.2	24.5%	910.3	631.8	44.1%
Core Net profit	450.9	469.3	-3.9%	320.2	40.8%	920.2	631.9	45.6%
Operating margin	22.4%	26.0%		16.2%		24.2%	17.5%	
PBT margin	19.4%	23.8%		14.9%		21.6%	15.3%	
Net margin	18.5%	22.4%		15.0%		20.5%	15.2%	
Core net margin	20.9%	20.6%		15.0%		20.7%	15.2%	
Effective tax rate	4.1%	4.8%		2.9%		4.5%	3.1%	

Source: Company, Kenanga Research

Segment Breakdown (USD)								
Segment Results Y/E : Dec (USD'm)	2Q FY19	1Q FY19	Q-o-Q Chg	2Q FY18	Y-o-Y Chg	1H FY19	1H FY18	Y-o-Y Chg
Revenue								
LNG shipping	158.7	152.8	3.9%	150.9	5.2%	311.5	299.8	3.9%
Petroleum shipping	239.0	286.9	-16.7%	255.4	-6.4%	525.9	504.1	4.3%
Offshore	62.4	66.0	-5.5%	73.2	-14.8%	128.4	148.3	-13.4%
Heavy Engineering	66.9	49.6	34.9%	58.9	13.6%	472.3	104.7	351.1%
Core PBT								
LNG shipping	67.6	69.8	-3.2%	58.8	15.0%	137.4	124.1	10.7%
Petroleum shipping	(1.2)	18.0	N.M.	(24.5)	-95.1%	16.8	(93.6)	N.M.
Offshore	42.4	32.7	29.7%	46.6	-9.0%	75.1	79.0	-4.9%
Heavy Engineering	(2.1)	(7.2)	-70.8%	(11.8)	-82.2%	(37.7)	(71.5)	-47.3%
Core PBT Margin								
LNG shipping	42.6%	45.7%		39.0%		44.1%	41.4%	
Petroleum shipping	-0.5%	6.3%		-9.6%		3.2%	-18.6%	
Offshore	67.9%	49.5%		63.7%		58.5%	53.3%	
Heavy Engineering	-3.1%	-14.5%		-20.0%		-8.0%	-68.3%	

Source: Company, Kenanga Research

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Segment Breakdown (MYR)								
Segment Results Y/E : Dec (RM'm)	2Q FY19	1Q FY19	Q-o-Q Chg	2Q FY18	Y-o-Y Chg	1H FY19	1H FY18	Y-o-Y Chg
Revenue								
LNG	657.9	625.4	5.2%	595.9	10.4%	1,283.3	1,180.5	8.7%
Petroleum	992.5	1,173.7	-15.4%	1,008.2	-1.6%	2,166.2	1,984.5	9.2%
Offshore	258.8	269.9	-4.1%	289.1	-10.5%	528.7	584.0	-9.5%
Heavy Engineering	277.0	202.8	36.6%	232.4	19.2%	479.8	412.3	16.4%
Others, Eliminations and Adjustments	(24.5)	5.9	N.M.	16.2	-251.2%	(18.6)	1.3	N.M.
Operating Profit								
LNG	318.9	324.2	-1.6%	274.6	16.1%	643.1	549.8	17.0%
Petroleum	33.1	134.9	-75.5%	(54.4)	N.M.	168.0	(93.6)	N.M.
Offshore	139.6	142.3	-1.9%	146.6	-4.8%	281.9	296.5	-4.9%
Heavy Engineering	(8.6)	(29.1)	-70.4%	(46.0)	-81.3%	(37.7)	(71.5)	-47.3%
Others, Eliminations and Adjustments	1.3	19.6	-93.4%	26.2	-95.0%	20.9	49.2	-57.5%
Operating Margin								
LNG	48.5%	51.8%		46.1%		50.1%	46.6%	
Petroleum	3.3%	11.5%		-5.4%		7.8%	-4.7%	
Offshore	53.9%	52.7%		50.7%		53.3%	50.8%	
Heavy Engineering	-3.1%	-14.3%		-19.8%		-7.9%	-17.3%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
BUMI ARMADA BERHAD	0.225	1,322.2	N	12/2019	14.3%	-19.8%	38.4%	2.2%	5.9	4.2	4.1	0.4	0.4	9.3%	0.0%	0.180	UP
DAYANG ENTERPRISE HLDGS BHD	1.40	1,350.7	Y	12/2019	22.2%	4.4%	-33.9%	9.1%	8.2	12.4	11.4	1.2	1.2	9.5%	0.0%	1.35	MP
DIALOG GROUP BHD	3.53	19,903.2	Y	06/2019	-22.9%	14.8%	10.1%	13.5%	46.4	42.2	37.2	5.7	5.5	13.2%	0.9%	3.80	OP
MALAYSIA MARINE AND HEAVY EN	0.800	1,280.0	Y	12/2019	-10.1%	43.0%	845.5%	139.3%	N.A.	88.3	36.9	0.5	0.5	0.6%	0.0%	1.05	OP
MISC BHD	7.25	32,362.2	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	24.5	18.8	17.9	0.9	0.9	4.9%	4.1%	7.60	MP
PANTECH GROUP HOLDINGS BHD	0.500	375.0	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.6	8.4	7.9	0.7	0.6	7.6%	3.2%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	7.31	58,480.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	11.7	16.8	14.7	1.9	1.8	11.1%	3.0%	7.70	MP
PETRONAS DAGANGAN BHD	22.88	22,730.2	Y	12/2019	-5.6%	2.0%	33.0%	2.2%	27.2	20.4	20.0	3.9	3.6	18.4%	3.4%	24.95	MP
SAPURA ENERGY BHD	0.275	4,383.3	Y	01/2020	5.9%	20.7%	1875.6%	258.5%	N.A.	90.8	25.3	0.3	0.3	0.4%	0.0%	0.430	OP
SERBA DINAMIK HOLDINGS	4.14	6,079.6	Y	12/2019	23.2%	14.3%	17.2%	13.3%	15.8	13.5	11.9	2.9	2.5	20.2%	2.2%	5.25	OP
UZMA BHD	0.625	200.0	Y	06/2019	-24.3%	-0.1%	-86.0%	193.1%	3.9	27.8	9.5	0.4	0.4	1.5%	0.0%	0.760	MP
WAH SEONG CORP BHD	0.665	512.4	Y	12/2019	-47.7%	-7.7%	-18.8%	-18.1%	8.1	10.0	12.2	0.5	0.5	5.4%	0.0%	0.620	UP
YINSON HOLDINGS BHD	6.78	7,325.7	Y	01/2020	0.1%	70.2%	-7.1%	55.9%	27.9	30.0	19.2	4.2	3.8	13.5%	0.9%	7.75	OP

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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