

# Equity Beat

12 March 2010

## Corporate Update

### MISC Bhd

*The Indian & Thai connections*

**Upgrade to NEUTRAL**

**Revised Target Price (TP): RM7.81 (from RM7.50)**

- MISC Bhd announced yesterday a joint-venture deal with two India-based companies, and the JV will act as the sole and exclusive shipping agent for MISC in India.
- This follows recent news on MISC's introduction of a direct weekly liner shipping service, between the ports of Bangkok and Singapore.
- We view this as MISC's continuing efforts to improve and expand on its liner and logistics business after pulling out of the loss making Asia-Euro route.
- We expect the JV and the new liner shipping service to contribute positively to its integrated logistics business and we are revising our FY11 net profit forecast upwards by 9.1%. We upgrade our recommendation to NEUTRAL for MISC with a revised Target Price of RM7.81, derived from SOP valuation.

#### STOCK INFO

Price (11 March 2010)	RM8.01	KLCI	1,321.43
Issued shares (mil)	4463.8	Bursa / Bloomberg	3816 / MISC MK
Par Value (RM)	1.00	Board / Sector	Main/ Trading/Services
Market cap. (RM'm)	35,710	Syariah Compliant	Yes
Price over NA	1.45		
52-wk price Range	RM7.77–RM9.159	Major Shareholders	
Beta (against KLCI)	0.77	Petronas	52.2%
3-mth Avg Daily Vol	0.42m	EPF	9.1%
3-mth Avg Daily Value	RM3.43m		

**Information on the JV.** MISC announced yesterday that its unit MISC Agencies Sdn Bhd has signed a joint venture agreement with two India-based companies, Crescent Shipping Agency (India) Ltd (Crescent) and Sivaswamy Holdings Pvt Ltd, with a stake of 60:25:15 respectively. The JV would be called MISC Agencies India Pte Ltd, with a paid-up and issued capital of 40m rupees (RM3.1m), and will act as the sole and exclusive shipping agent for MISC in India. According to the Bursa announcement, the investment in the JV company would be funded internally.

**Strengthening relationship in India** The relationship with Crescent is not new as it is already providing exclusive service to MISC in India. It is part of the Transworld Group, which is a major shipping company in India with interest in ship owning, feeder services, logistics, ship management and shipping agency. Other services that Crescent is providing are support for transportation of LNG and crude oil into India and land based support to the integrated logistics business. We view the JV as the next logical step as Crescent is already a close partner to MISC. This will further strengthen MISC's reach in India with Crescent's network in 8 major cities and 8 major ports. We expect with the JV, MISC would be able to improve upon its margins by 20% to the integrated logistics business.

FYE 31 Mar	FY08	FY09	FY10E	FY11F
Revenue (RM'm)	12,947.4	15,783.5	13,803.94	15,225.28
EBIT (RM'm)	2,944.7	1,997.7	2,017.93	2,457.64
Pretax Profit (RM'm)	2,599.4	1,594.8	1,517.93	1,957.64
Net Profit (RM'm)	2,420.3	1,404.5	1,391.22	1,779.24
EPS (sen)	65.0	37.8	37.4	47.8
EPS growth (%)	-15.6	-41.8	-1.1	27.9
PER(x)	13.1	22.5	21.4	16.7
Net Dividend (sen)	35.0	35.0	15	20
Net Dividend Yield (%)	4.1	4.1	1.9	2.5

Source: Company, Forecasts by MIDFR

## Crescents network of offices in India




Source : Company

**Efforts at improving its liner shipping business.** The JV announcement mentioned above followed another positive news that MISC is introducing a direct weekly liner shipping service, Siam Singapore Shuttle Service, between Bangkok port and Singapore port. Singapore's exports to Thailand contributes to 3.7% (RM34.6b) from its total FY09 exports, while Thailand's exports to Singapore contributes to 5.0% (RM26.2b) of its total FY09 exports. With Singapore forecasting that trade is to increase between 9% to 11%, we expect the liner service would be able take advantage from the expected growth in trading activities especially on the back of a global economy recovery. Also, we view this as MISC's continuing efforts to improve on its liner shipping business after pulling out of the loss making Asia-Europe route. Therefore, we are revising our FY11 revenue forecast upwards by 10% to reflect the increased revenue for its integrated liner logistics business.

Export Direction	2008			2009		
	Export (RM million)	Contribution	YoY Growth	Export (RM million)	Contribution	YoY Growth
<b>For Malaysia</b>						
Singapore	97,784	14.7%	10.5%	77,195	11.6%	-21.1%
Thailand	31,735	4.8%	5.8%	29,853	4.5%	-5.9%
India	24,732	3.7%	22.4%	16,998	2.6%	-31.3%
Others	509,243	76.8%	9.4%	429,250	77.6%	-15.7%
<b>TOTAL</b>	<b>663,494</b>	<b>14.7%</b>	<b>10.5%</b>	<b>77,195</b>	<b>11.6%</b>	<b>-21.1%</b>
<b>For Singapore</b>						
Malaysia	136,678.18	12.1%	-0.8%	106,254.40	11.5%	-22.3%
Thailand	44,135.58	3.9%	-0.2%	34,651.81	3.7%	-21.5%
Others	949,732.21	84.0%	7.1%	786,552.15	84.8%	-17.2%
<b>TOTAL</b>	<b>1,130,545.97</b>	<b>100.0%</b>	<b>5.8%</b>	<b>927,458.35</b>	<b>100.0%</b>	<b>-18.0%</b>
<b>For Thailand</b>						
Malaysia	32,983	5.6%	20.7%	26,452	5.0%	-19.8%
Singapore	33,710	5.7%	0.5%	26,159	5.0%	-22.4%
Others	526,636	88.8%	10.5%	474,377	90.0%	-9.9%
<b>TOTAL</b>	<b>593,329</b>	<b>100.0%</b>	<b>10.4%</b>	<b>526,988</b>	<b>100.0%</b>	<b>-11.2%</b>

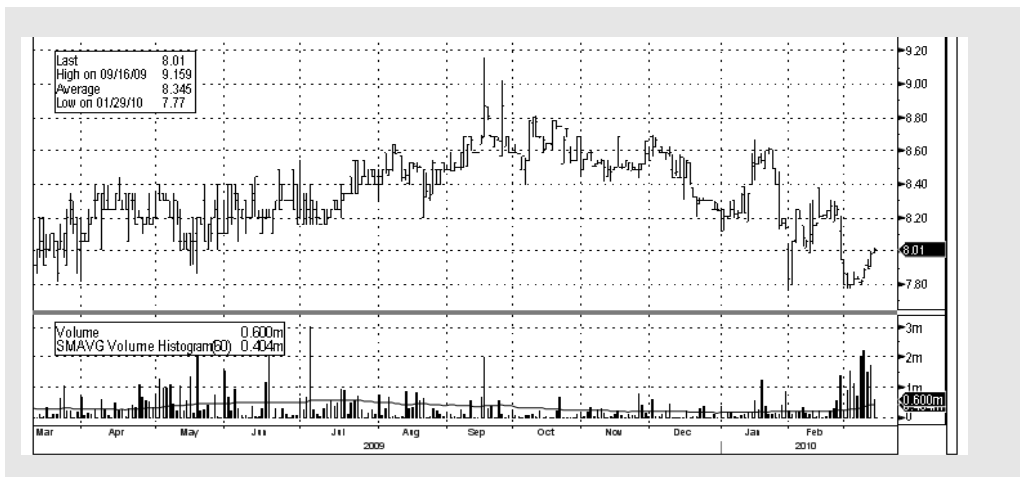
source: BNM, Statistics Singapore, BOT

**Valuations.** We are revising our overall forecast for FY11 net profit upwards by 9.1% to reflect the improvement of margins in India and increased revenue with the new liner service. The revision is also to better reflect the expectations that liner rates are to increase due to higher global demand and supply side adjustments in the industry with more ship scrapping, cancellation of new orders and stagnating build order for new ships. We are upgrading our recommendation to **NEUTRAL** with a target price of **RM7.81** derived from Sum-of-Parts valuation. 

## Sum-of-Parts

	FY11 EPS (sen)	Value/share (RM)	Valuation method
Energy related Shipping	0.40	5.68	Pegged to 14.2X PER, consistent with peer average
Other Energy Business	0.14	1.43	Pegged to 10.0X PER, consistent with peer average
Non Shipping	0.01	0.08	Pegged to 12X PER, consistent with peer average
	<b>Book Value/share</b>		
Intergrated Liner Logistics	0.51	0.61	Pegged at 1.2 P/Book Value, consistent with peer average. The business is loss making, therefore we use the book value of the business assets.
<b>TOTAL</b>		<b>7.81</b>	

## DAILY PRICE CHART



Zulkifli Hamzah  
 Imran Yusof  
 Imran.yassin@midf.com.my  
 03-2173 8395

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
 (Bank Pelaburan)  
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### 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 <i>rise</i> 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	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

OVERWEIGHT	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.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.