25 April 2016 | Corporate Update

MISC Berhad

Acquisition spree continues

Maintain BUY

Unchanged* Target Price (TP): *RM10.27

INVESTMENT HIGHLIGHTS

- **MISC's acquisition spree continues utilising its cash pile**
- **We estimate MISC's net gearing to remain healthy**
- **Deal should bode well for MISC's petroleum tanker division**
- **We leave our earnings forecasts unchanged and maintain our BUY call with TP of RM10.27**

Acquisition spree continues. Hot on the heels of purchasing the 50% stake it does not own in the Gumusut-Kakap semi-submersible floating production system in Feb 2016, MISC is now acquiring the remaining 50% stake it does not own in Paramount Tankers Corp (PTC) from Golden Energy Tankers Holdings Corp (GET) for US$56.5m which includes net liabilities and assignment of debt from PTC. PTC owns and operates 6 Aframax Petroleum tanker vessels with a total tonnage of 685,230 and average vessel age of 6 years.

Net gearing remains healthy post acquisition. The deal does not require shareholder approval and is expected to complete by September 2016. Post-acquisition of both the Gumusut-Kakap asset and PTC, we estimate that MISC's net gearing will rise from its current level of 0.02x to 0.08x which is still very healthy. The acquisition should be internally funded with MISC's cash hoard of RM5.7b.

Deal should bode well for MISC's petroleum tanker division. We are unable to ascertain the attractiveness of the deal as the remaining debt MISC has to take up following the acquisition is not disclosed. However, we believe that the deal should bode well for MISC's petroleum division seeing that the 1-year and 3-year time charter rates for Aframax tankers in 1QFY16 remain robust at +29% and +26% higher compared to the similar period in FY15. In addition, prices of second hand 5-year old Aframaxes have fallen from its peak US$46m at the start of the year to hover around the US$38m now. Meanwhile, we share management's view that petroleum tanker rates should be able to maintain at current attractive levels for the remainder of the year due to sustained high crude oil output despite delivery of new vessels expected in 2HFY16.

RETURN STATS	
Price (22 Apr 2016)	RM8.86
Target Price	RM10.27
Expected Share Price Return	+15.9%
Expected Dividend Yield	+2.1%
Expected Total Return	**+18.0%**

STOCK INFO	
KLCI	1,717.96
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)	39,549.21
Price over NA	1.12
52-wk price Range	RM7.49 - RM9.41
Beta (against KLCI)	0.78
3-mth Avg Daily Vol	3.47m
3-mth Avg Daily Value	RM30.4m
Major Shareholders	
Petronas	62.67%
EPF	6.89%
PNB	5.60%

Maintain BUY with unchanged TP of RM10.27. We are leaving our earnings forecasts for FY16 and FY17 unchanged at this juncture as the effective tonnage of the 50% stake in PTC would add only ~3% to MISC's total petroleum tanker tonnage. In addition, the relatively younger vessels (average age of 6 years) are still under financing and thus would likely deliver slightly lower margins. Hence, we leave our target price unchanged as well. Our BUY call on MISC is premised on the buoyant petroleum segment and narrowing losses of the chemical segment, offsetting potential weakness from the LNG. Meanwhile, steady earnings are seen from offshore assets which are on long-term contracts.

Segments	Value (US$'m)	Value/share (RM)	Valuation method
LNG	5,100.0	4.80	DCF (WACC: 6%)
Offshore	2,000.0	1.88	DCF (WACC: 7%)
Petroleum	2,403.0	2.26	2nd hand value of vessels
Chemical	114.1	0.11	2nd hand value of vessels
Heavy Engineering	255.9	0.24	Based on MIDF TP of RM1.01
Other fixed assets	630.01	0.59	1.0x FY16F P/BV
Equity stakes in JV and asso.	1127.61	1.06	1.0x FY16F P/BV
Less: Net debt	-747.9	-0.70	Imputed cash reduction of $445m for 50% remaining stake in Gumusut-Kakap
Total (US$'m)	**10,882.7**		
USD/MYR exchange rate	4.2		
Number of shares o/s	4,463.8		
Target Price (RM)	10.27	10.27	

Source: Company, MIDFR

INVESTMENT STATISTICS

FYE Dec	FY14	FY15F	FY16F	FY17F
Revenue (RM' m)	9,296.3	10,120.0	10,329.5	10,913.5
EBIT (RM' m)	2,644.2	2,734.3	2,948.8	3,127.7
Pretax Profit (RM' m)	2,410.3	2,545.3	2,707.8	2,886.7
Net Profit (RM' m)	1,765.5	2,469.0	2,626.5	2,800.1
EPS (sen)	39.6	55.3	58.8	62.7
EPS growth (%)	9.6	39.8	6.4	6.6
PER (x)	21.7	15.5	14.6	13.7
Net Dividend (sen)	10.0	18.0	18.0	18.0
Net Dividend Yield (%)	1.2	2.1	2.1	2.1

Source: MIDFR, Company

DAILY PRICE CHART



Source: Bloomberg

Tay Yow Ken, CFA
tay.yk@midf.com.my
03-2173 8384

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 *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	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.