10 May 2016 | Corporate Update

MISC Berhad

Maintain BUY

Disposal of logistics arm

***Unchanged* Target Price (TP): RM9.53**

INVESTMENT HIGHLIGHTS

- **Buyer found for the logistics arm**
- **Not surprised by the disposal**
- **Exiting its non-core businesses**
- **Maintain BUY with target price of RM9.53**

Buyer found for the logistics arm. MISC announced that they have entered into a sales and purchase agreement with Swift Logistics (Swift) to dispose its logistics arm, MISC Integrated Logistics Sdn Bhd (MILS) for RM257.2m. In addition, Swift will also repay an outstanding loan and other receivables owed by MILS to MISC totalling RM100.8m. All in, the deal is estimated to net add RM358m into MISC's coffers, turning the company into a slight net cash position for a short while before it completes the acquisitions of the remaining 50% stakes it does not own in Gumusut-Kakap and Paramount Tankers.

Not surprised by the disposal. MISC's intention to dispose of the segment which it views as non-core is well known. The deal does not come as a surprise to us as MISC had previously planned to dispose the unit to Golden Age Logistics SB (GAL) for RM250m in early 2014 which did not materialise due to failure to meet certain conditions.

Exiting its non-core businesses. The logistics arm which is involved in haulage, trucking and warehousing services had in FY15 made a slight loss of US$0.2m and in FY14 made a paltry profit of US0.7m. We view the disposal price as fair, given that it is a premium over the previous agreed upon price in 2014. In addition, the sale price translates into roughly 1x net book value of the company. We make no changes to earnings as MILS had mostly broken even in previous years.

Maintain BUY with target price of RM9.53. We maintain our BUY call on MISC based on SOP valuation premised on: i) Petroleum tanker rates holding up with addition of 50% stake in Paramount tankers adding its effective tonnage by +3%; ii) acquisition of 50% stake in Gumusut-Kakap SFPS to see additional US$14m contribution to the offshore segment offsetting loss of PBT from the lay-off of 2 MOPU units which reduced quarterly PBT by US$6m; iii) LNG segment seeing delivery of 2 new LNG carriers in 2HFY16 on long-term charters with Petronas.

RETURN STATS	
Price (9 May 2015)	RM7.25
Target Price	RM9.53
Expected Share Price Return	+31.4%
Expected Dividend Yield	+2.5%
Expected Total Return	**+33.9%**

STOCK INFO	
KLCI	1,632.19
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)	32,362.50
Price over NA	0.99
52-wk price Range	RM7.25 - RM9.41
Beta (against KLCI)	0.81
3-mth Avg Daily Vol	3.22m
3-mth Avg Daily Value	RM28.0m
Major Shareholders	
Petronas	62.67%
EPF	6.87%
PNB	5.60%

Segments	Value (US$'m)	Value/share (RM)	Valuation method
LNG	4,800.0	4.30	DCF (WACC: 6.5%)
Offshore	2,000.0	1.79	DCF (WACC: 7%)
Petroleum	2,403.0	2.15	2nd hand value of vessels
Chemical	114.1	0.10	2nd hand value of vessels
Heavy Engineering	215.5	0.19	Based on MIDF TP of RM0.81
Other fixed assets	572.01	0.51	1.0x FY16F P/BV
Equity stakes in JV and asso.	1183.99	1.06	1.0x FY16F P/BV
Less: Net debt	-648.9	-0.58	Imputed cash reduction of $445m for 50% remaining stake in Gumusut-Kakap
Total (US$'m)	**10,639.7**		
USD/MYR exchange rate	4.0		
Number of shares o/s	4,463.8		
Target Price (RM)	9.53	9.53	

Source: Company, MIDFR

INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16F	FY17F
Revenue (RM' m)	9,296.3	10,908.4	8,799.9	9,383.9
EBIT (RM' m)	2,644.2	2,746.9	2,948.8	3,127.7
Pretax Profit (RM' m)	2,410.3	2,566.9	2,707.8	2,886.7
Net Profit (RM' m)	1,765.5	3,097.0	2,626.5	2,800.1
EPS (sen)	39.6	69.4	58.8	62.7
EPS growth (%)	9.6	75.4	-15.2	6.6
PER (x)	21.1	12.0	14.2	13.3
Net Dividend (sen)	10.0	18.0	18.0	18.0
Net Dividend Yield (%)	1.2	2.2	2.2	2.2

Source: MIDFR, Company

DAILY PRICE CHART



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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.