Equity Beat

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24 March 2014 | Corporate Update

MISC Bhd

Disposal of liner logistics business

***Maintain* NEUTRAL**

***Revised* Target Price (TP): RM6.21**
(previously RM5.90)

INVESTMENT HIGHLIGHTS

- **Disposal of entire interest in integrated logistics business for a cash consideration of RM250m**
- **Earnings cessation of liner logistics business will be netted off by annual interest savings from reduced debt position.**
- **Better prospects for crude tanker market.**
- **Reiterate NEUTRAL stance with revised TP of RM6.21, premised on Sum-of-Parts method.**

Disposal of MILS. MISC had announced the disposal of entire interest in MISC Integrated Logistics (MILS) to Utusan Printcorp S/B for a cash consideration of RM250m.The news came as no surprise to us, as MISC has indicated its plans to dispose its non-core assets to focus on energy and petroleum shipping-related business. We believe that the proceeds of disposal will be utilized to pare down its current debt level and enhance its financial position. The net gearing of MISC is expected to improve from 0.22x to 0.21x upon the asset disposal.

Earnings cessation netted off by interest savings. MILS's principal businesses are project logistics and supply chain management, which includes freight management, forwarding, transportation, dry and cold warehousing. For FY12-13 period, the logistics company contributed pretax gain of USD6.1m and USD4.9m respectively to the MISC group. We expect the earnings cessation of logistics business will be largely netted off by RM12.5m of annual interest savings from its reduced debt position.

Unattractive disposal valuation. Based on its net assets value of RM246.5m, the price tag of MILS disposal has effectively put the valuation of the logistics arms at 1.0x P/B. When compared against its domestic peers, the valuation is deemed slightly low as the market range of P/B multiples are between 1.19-1.95x. We expect minimal disposal gain will be recognized in the book as the sale price is close to the net value of its liner logistics asset.

Expecting narrower losses in petroleum tanker. The crude tanker market is on the recovery path. The exceptional cold weather in Northern Hemisphere and crude import spree by the China's refineries had largely pushed up the tanker rate in the beginning of the year. Although the surge momentum of freight rate is losing stream due to seasonal factor, the YTD average of VLCC and Aframax rates (as of March, 14, *source: Platou*) are still higher than in previous year at USD35.7k/day (+467%yoy) and USD30k/day (+210%yoy) respectively. This may reignite hope that MISC's crude tanker business will achieve breakeven this year.

Reaffirm NEUTRAL call with higher TP of RM6.21. We upgrade our FY14-15 earnings forecasts by +7.0% and +5.5% respectively on the back of narrower operating losses in Petroleum tanker segment. We reiterate our NEUTRAL stance with revised TP of RM6.21 due to improving assets value in the Petroleum and Chemical tanker segments.

RETURN STATS	
Price (21 March 2014)	RM7.01
Target Price	RM6.21
Expected Share Price Return	-11.4%
Expected Dividend Yield	+2.6%
Expected Total Return	**-8.8%**

STOCK INFO	
KLCI	1,820.48
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)	31,291.2
Price over NA	1.27x
52-wk price Range	RM4.19 – RM7.10
Beta (against KLCI)	1.00
3-mth Avg Daily Vol	3.78m
3-mth Avg Daily Value	RM23.1m
Major Shareholders	
Petronas	62.67%
EPF	8.56%
PNB	5.81%

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

INVESTMENT STATISTICS

FYE Dec	FY12	FY13	FY14F	FY15F
Revenue (RM'm)	9,484.0	8,971.8	9,002.5	9,230.0
EBIT (RM'm)	873.6	1,819.3	1,407.3	1,910.0
Pretax Profit (RM'm)	1,599.3	2,227.7	1,829.1	2,342.1
Net Profit (RM'm)	1,625.7	2,225.2	1,737.6	2,107.9
EPS (sen)	36.4	49.9	38.9	47.2
EPS growth (%)	209.7	36.9	-21.9	21.3
PER(x)	19.2	14.1	18.0	14.8
Net Dividend (sen)	0.0	5.0	18.0	20.0
Net Dividend Yield (%)	0.0	0.7	2.6	2.9

Source: Company, Forecasts by MIDFR

SUM-OF-PARTS VALUATION

Segments	FY14 Earnings (RM 'm)	Value/share (RM)	Valuation method
LNG	1,375.7	4.01	13x FY14 PER
Offshore	292.5	0.98	15x FY14 PER
Heavy Engineering	195.0	0.44	10x FY14 PER
Tank Terminal	146.3	0.29	9x FY4 PER
	Book Value/share		
Petroleum	1.26	1.39	1.1x FY14 P/BV
Chemical	0.30	0.33	1.1x FY14 P/BV
	RM 'm		
Less: Net debt	5,471.1	1.23	
TOTAL		6.21	

Source: Company, MIDFR

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	*Negative* 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.