24 August 2015 | Corporate Update

MISC Berhad

Disposing its tank terminal business

Maintain BUY

Unchanged* Target Price (TP): *RM9.45

INVESTMENT HIGHLIGHTS

- **Cashing in on the tank terminal business**
- **Disposal price attractive from valuation standpoint**
- **Proceeds will be used to make opportunistic investments**
- **Maintain BUY with TP of RM9.45**

Cashing in on the tank terminal business. MISC announced that it is disposing its 50% stake in tank terminal operator VTTI B.V. (VTTI) for US$830m in cash. Recall that MISC had in Sept 2010 invested US$882m for the 50% stake. However, MISC is estimated to make a gain on disposal of approximately USD9m due to the lower carrying value of the investment in MISC's books. The final gain in MYR could be higher as the functional currency terms has yet to include any potential foreign exchange gains when translated back to MYR (purchased: USDMYR: 3.13 vs. disposal: USDMYR: 4.17).

Disposal price attractive from valuation standpoint. The disposal price translates into a trailing price to earnings ratio (PER) of 40x based on VTTI's FYT14 earnings of US$42m which we believe is attractive given that global oil storage players currently trade at 17-18x PER.

Proceeds will be used to make opportunistic investments. MISC will utilise part of the proceeds to repay borrowings and fund its committed CAPEX while also building up its war chest to make investments when the right opportunity arises. We believe that MISC could be presented with some attractive opportunities in the current energy industry slump as well as a recovery in the energy shipping industry. In addition, the disposal is in line with MISC's objective of focusing on its core business in energy and petroleum related transportation.

Maintain BUY with TP of RM9.45. We make no changes to our TP as we had valued VTTI based on book value of assets and the disposal gain is minimal at ~USD9m. We maintain our Buy call with unchanged TP of RM9.45 is based on Sum-Of-Parts (SOP) valuation. Our BUY call is premised on: i) the buoyant Petroleum segment to offset volatility in LNG segment, ii) steady earnings seen from Offshore segment and iii) MISC is poised to benefit from higher USDMYR rate as all charter rate are quoted in USD.

RETURN STATS	
Price (21 Aug 2015)	RM8.00
Target Price	RM9.45
Expected Share Price Return	+18.1%
Expected Dividend Yield	+2.3%
Expected Total Return	**+20.4%**

STOCK INFO	
KLCI	1,574.67
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)	35,665.7
Price over NA	1.20x
52-wk price Range	RM6.48–RM9.39
Beta (against KLCI)	0.8
3-mth Avg Daily Vol	3.38m
3-mth Avg Daily Value	RM27.47m
Major Shareholders	
Petronas	62.67%
EPF	6.77%
PNB	5.60%

SOP VALUATION

Segments	FY16 Earnings (RM'm)	Value/share	Valuation method
LNG	1,574.6	4.94	14x FY16F PER
Petroleum	422.50	1.24	20x FY16F PER
Offshore	625.6	1.82	13x FY16F PER
Heavy Engineering	163.8	0.33	9x FY16F PER
	Book Value/share		
Chemical	0.24	0.22	0.9x FY15F P/BV
Other fixed assets	0.45	0.45	1.0x FY15F P/BV
Equity stakes in JV and asso.	1.42	1.42	1.0x FY15F P/BV
	RM 'm		
Less: Net debt	4,328.2	0.97	
TOTAL		9.45	

Source: Company, MIDFR

INVESTMENT STATISTICS

FYE Dec	FY14	FY15F	FY16F
Revenue (RM' m)	9,296.3	9,230.0	10,026.3
EBIT (RM' m)	2,644.2	2,507.0	2,698.3
Pretax Profit (RM' m)	2,410.3	2,318.0	2,457.3
Net Profit (RM' m)	1,765.5	2,248.5	2,383.6
EPS (sen)	39.6	50.4	53.4
EPS growth (%)	9.6	27.4	6.0
PER (x)	20.2	15.9	15.0
Net Dividend (sen)	10.0	18.0	21.0
Net Dividend Yield (%)	1.3	2.3	2.6

Source: MIDFR, Company

DAILY PRICE CHART



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Source: Bloomberg

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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.