Equity Beat

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24 February 2015 | Corporate Update

MISC Bhd

LNG Unit Receives A Boost

***Maintain* NEUTRAL**

***Unchanged* Target Price (TP): RM6.80**

INVESTMENT HIGHLIGHTS

- **LNG unit boosted by transfer of ownership from Petronas for four LNG vessels ordered in 2013 with long term charter of 15+5 years agreed upon delivery.**
- **Extension for MISC's 5 Puteri Class LNG vessels granted for 10 years upon completion of refurbishment works with delivery over 2 years commencing from 4Q15.**
- **Outlook for MISC's LNG unit have improved but new charter rates are expected to be lower amidst increasing supply of new LNG vessels in the market. Our NEUTRAL call and RM6.80 TP for MISC is under review pending management updates.**

LNG tankers to be transferred. MISC announced that Petronas and Hyundai Heavy Industries Co. Ltd. ("HHI") have agreed to transfer shipbuilding contracts to MISC which would incur CAPEX of c.US$1.1b. Assuming a building cost of US$250m per vessel, we estimate that the transfer consists of 4 vessels which were ordered in 2013.

Delivery over Sep 2016 to Dec 2017. Along with the transfer, Petronas has also agreed to charter these vessels on time charter basis for 15+5 years upon delivery which is expected to take place over Sep 2016 to Dec 2017. However, MISC did not disclose the charter rates.

Time charter extension for Puteri Class LNG carriers. Petronas also extended the charter of five refurbished Puteri Class LNG Carriers for another 10 years which would commence from the delivery date of each vessel, expected to take place over 2 years from Sep 2015.

Newbuilds to drive earnings starting 4Q16. We believe the delivery of the newbuilds starting 4Q16 would be positive for earnings. With a ready off-taker in Petronas and long term charter agreed, we believe that MISC will be shielded from fluctuating spot rates and risks of idle fleet. Meanwhile, the newbuilds will bring down average age of MISC's LNG fleet which at 14.1 years, is above the industry average of 11.5 years.

Puteri Class vessel extensions positive for MISC. We believe that the extension of time charter for its Puteri Class vessels which spans over 10 years is positive for MISC. Recall that in 4Q14, the charter contract for one of its vessels had lapsed, leading to higher dry-docking days and an impairment charges. Management has also guided that two more Puteri Class LNG vessels would see its charter rates expiring in FY15. Nonetheless, downtime of about a year is expected for refurbishment works to take place before delivery commence in 4Q15.

TP of RM6.80 under review. While we view the news positively as it abates uncertainties pertaining to its LNG division, we believe the new charter rates could be lower due to new LNG vessels entering the market as indicated by management in the recent results briefing conference call. Our RM6.80 TP and recommendation is under review pending management updates.

RETURN STATS	
Price (23 Feb 2015)	RM7.64
Target Price	RM6.80
Share Price Return	-11.0%
Expected Dividend Yield	+2.3%
Expected Total Return	**-8.7%**

STOCK INFO	
KLCI	1,809.39
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)	34,103.4
Price over NA	1.23x
52-wk price Range	RM6.01 – RM7.99
Beta (against KLCI)	0.93
3-mth Avg Daily Vol	2.4m
3-mth Avg Daily Value	RM17.9m
Major Shareholders	
Petronas	62.67%
EPF	7.37%
PNB	5.74%

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

INVESTMENT STATISTICS

FYE Dec-	FY13	FY14	FY15F	FY16F
Revenue (RM'm)	8,971.8	9,296.3	7,982.7	8,089.7
EBIT (RM'm)	1,782.7	1,771.0	1,379.0	1,471.6
Pretax Profit (RM'm)	2,227.7	2,410.3	1,872.0	1,981.6
Core Profit (RM'm)	1,612.8	1,943.1	1,822.0	1,901.6
Core EPS (sen)	36.1	43.5	40.8	42.6
Core EPS growth (%)	92.2	20.6	6.2	4.4
Core PER(x)	21.4	17.8	19.0	18.2
Net Dividend (sen)	5.0	10.0	18.0	21.0
Net Dividend Yield (%)	0.7	1.3	2.3	2.7

Source: Company, Forecasts by 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.