25 February 2016 | Corporate Update

MISC Berhad

Maintain BUY

Taking back full ownership of Gumusut-Kakap SFPS

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

INVESTMENT HIGHLIGHTS

- **Re-acquiring the 50% stake in Gumusut-Kakap SFPS**
- **45% premium from previously disposed price three years ago is justified due to improved stability**
- **Purchase price translates into PER of 7.8x and IRR of 14%**
- **Revising our forecasts higher but TP remains unchanged**
- **Maintain BUY with TP of RM10.27**

Re-acquire 50% of Gumusut-Kakap SFPS. MISC is acquiring the remaining 50% stake it does not own in the Gumusut-Kakap Semi-Floating Production System (Gumusut-Kakap SFPS) for US$445m from a fully-owned subsidiary of MISC's 63% major shareholder, Petronas. The Gumusut-Kakap SFPS produces 150,000 barrels of crude per day from its 1,200m deep wells in offshore Sabah. The deal is expected to be completed by 2QFY16 and will be funded from MISC's cash holding of US$1.3b (net gearing: 2%). Post-acquisition, we expect MISC's net gearing to increase to 15% which is still healthy.

45% premium from previously disposed price not that bad. In Dec 2012, MISC had disposed the same 50% stake to Petronas for US$306m. During that time, MISC was facing headwinds in the shipping industry coupled with the Gumusut-Kakap SFPS was not generating cash flow as operations only commenced in Oct 2014. Moreover, there were risks involved in the project prior to commencement such as delays and contractual risks. Thus, the 45% premium represents 15% annual appreciation annually over 3 years (FY13-FY15) which we think is justified. Currently, Gumusut-Kakap SFPS is a much more stable asset under a 23 years remaining lease with a JV between Sabah Shell, Conoco Phillips, Petronas Carigali and Murphy Oil.

Purchase price is justified by low PER and acceptable IRR. The purchase price of US$445m for the 50% stake translates into a price-to-earnings ratio (PER) of 7.8x based on FY15 earnings of US$114.2m and a price-to-book ratio (PBR) of 0.69x. The acquisition should be earnings accretive to MISC as the PER of the newly acquired asset is lower than MISC's forward FY16 PER of 14.6x. Meanwhile, the purchase price translates into an IRR of 14% which is above our prevailing imputed weighted-average cost of capital of 6%. In other words, the investment makes financial sense.

RETURN STATS	
Price (24 Feb 2015)	RM8.60
Target Price	RM10.27
Expected Share Price Return	+19.4%
Expected Dividend Yield	+2.1%
Expected Total Return	**+21.5%**

STOCK INFO	
KLCI	1,664.17
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)	38,388.6
Price over NA	1.07x
52-wk price Range	RM7.49–RM9.41
Beta (against KLCI)	0.73
3-mth Avg Daily Vol	4.30m
3-mth Avg Daily Value	RM38.4m
Major Shareholders	
Petronas	62.67%
EPF	7.26%
PNB	5.60%

Revising our earnings forecasts upward but TP remains unchanged. MISC's offshore segment contributed 20% to earnings in FY15 with 50% stake in Gumusut-Kakap SFPS contributing 7% of earnings (US$57.1m). With the full acquisition, we are imputing an additional US$57.1m (RM240m) to bottom line, thus we are raising both our FY16 and FY17 earnings forecasts by 9%. However, we make no changes to our TP as we apply a higher discount rate to the offshore segment with a WACC of 7% (from 6%) and a higher net debt after the acquisition. The increase in WACC is to reflect higher risk associated with higher exposure to oil and gas division.

Maintain BUY with unchanged TP of RM10.27. Our BUY call is premised on i) the buoyant Petroleum segment and narrowing losses of the chemical segment will be more than enough to offset potential weakness from the LNG and heavy engineering segments, ii) steady earnings seen from Offshore assets which are on long term contracts, and iii) MISC is a beneficiary from higher USD/MYR rate as USD is its functional currency.

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



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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.