

22 April 2013 | Takeover update

MISC Bhd

Unsuccessful privatisation offer

Downgrade to SELL

Reduced Target Price (TP): RM4.76

INVESTMENT HIGHLIGHTS

- At 86.07%, PETRONAS offer failed to reach the minimum 90% threshold level.
- Consequently, MISC's share price may retreat towards pre-buyout levels.
- Downgrade to SELL with reduced TP of RM4.76, or 15% discount to its SOPV, due to foreseen selling pressure.

Failed to meet 90% acceptance level. PETRONAS failed to meet the required 90% acceptance threshold to take MISC private despite its revised offer of +3.8% to RM5.50 per share on 5 April 2013. As of market closed last Friday, PETRONAS received 23.4% of minority acceptance which raised its total shareholding to 86.07%, but still short 3.93% to make the offer unconditional.

Deal is not attractive to smaller minority shareholders. On 11 April 2013, EPF, the largest minority shareholder (which owns 9.5% shares), had agreed to the offer following the revised bid to RM5.50 per share. We believe the second largest minority, PNB (which holds 6.35% stakes), had followed suit to accept the offer. This would have significantly reduced the hurdle for PETRONAS to privatise MISC as the former would only need another 11.5% of outstanding shares to make the offer unconditional. Nonetheless, we reckon that the offer price of RM5.50 was not attractive enough to excite enough minority shareholders to give up their shares.

Expect share price to retreat towards pre-buyout levels. We view that the unsuccessful transaction would have a negative short term impact on MISC's share price. During month of January 2013, before the announcement of privatisation offer, its share price was trading within the range of RM4.06 to RM4.53. Subsequent to the privatisation announcement, the share price was instantly buoyed to between RM5.00 and 5.50. With the deal called off, we can expect price to revert towards the pre-offer levels.

Downgrade to SELL with reduced TP of RM4.76. The earnings of tanker shipping are likely to continue to be depressed due to the unresolved capacity gluts coupled with elevated bunker costs. Moreover, the TCE rate of LNG shipping recently subsided to below USD100k/day from its historical high of USD130-150k/day. The fundamentals of MISC however still largely remained status quo following the cancelled buyout offer. Hence our sum-of-parts fair value (SOPV) is kept at RM5.60. Nonetheless we apply a discount of 15% to its value due to the foreseen downward pressure on price from the terminated deal. We thereby downgrade our recommendation to SELL with a reduced target price (TP) of RM4.76.

RETURN STATS

Price (19 April 2013)	RM5.30
Target Price	RM4.76
Expected Share Price Return	-10.2%
Expected Dividend Yield	+2.3%
Expected Total Return	-7.9%

STOCK INFO

KLCI	1,706.28
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)	23,658.1
Price over NA	1.06x
52-wk price Range	RM3.86 –RM5.56
Beta (against KLCI)	1.17
3-mth Avg Daily Vol	3.56
3-mth Avg Daily Value	RM18.5m
Major Shareholders	
Petronas	62.67%
EPF	9.54%
PNB	6.35%

Poser on Monday: An interesting situation will unravel when the market open on Monday. The 14% minorities who have DECLINED the offer can technically offload their shares immediately. However, those who have ACCEPTED the offer still have their shares lodged with Petronas, which need only return the shares within 14 calendar days from last Friday. Trading will therefore be heavily weighed on the side of sellers. SELL.



INVESTMENT STATISTICS

FYE Dec	Apr- Dec 11	FY12F	FY13F	FY14F
Revenue (RM'm)	8,505.9	10,063.5	10,939.2	11,630.5
EBIT (RM'm)	641.4	979.8	1,627.8	2,276.2
Pretax Profit (RM'm)	-1,222.0	453.8	1,330.6	2,169.0
Net Profit (RM'm)	-1,481.5	444.7	1,304.0	2,125.6
EPS (sen)	-33.2	10.0	29.2	47.6
EPS growth (%)	-179.2	130.0	193.2	63.0
PER(x)	-16.0	53.2	18.1	11.1
Net Dividend (sen)	0.0	4.0	12.0	20.0
Net Dividend Yield (%)	0.0	0.8	2.3	3.8

Source: Company, Forecasts by MIDFR

SUM-OF-PARTS VALUATION

Segments	FY13 Earnings (RM 'm)	Value/share (RM)	Valuation method
LNG	1,334.9	3.89	13x FY13F PE
Offshore	390.0	1.14	13x FY13F PE
Heavy Engineering	456.0	1.02	10x FY13F PE
	Book Value/share		
Petroleum	1.10	0.77	0.7x FY13F P/BV
Chemical	0.31	0.22	0.7x FY13F P/BV
	RM 'm		
Less: Net debt	6,409.4	1.44	
TOTAL		5.60	

Source: Company, MIDFR

DAILY PRICE CHART



Chua Boon Kian
Chua.bk@midf.com.my
03-2173 8393

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 (Bank Pelaburan)
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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 <i>rise</i> 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 <i>fall</i> 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.