



## Company report

## MMC CORPORATION

(MMC MK EQUITY, MMCB.KL)

22 May 2020

PTP benefits from trade diversion amidst pandemic

**BUY**

(Maintained)

AmInvestment Bank

www.amequities.com.my

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Rationale for report: Company update

Price	RM0.80
Fair Value	RM1.13
52-week High/Low	RM1.25/RM0.45

## Key Changes

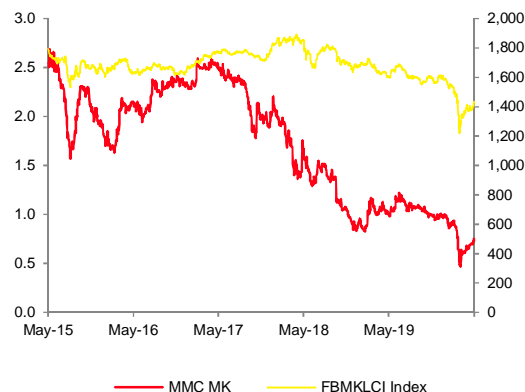
Fair value	↔
EPS	↔

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	4,717.3	4,230.4	5,151.6	6,125.2
Core net profit (RM mil)	248.0	208.2	243.6	282.6
FD Core EPS (sen)	8.1	6.8	8.0	9.3
FD Core EPS growth (%)	69.7	(16.1)	17.0	16.0
Consensus Net Profit (RM mil)	-	211.8	253.0	289.0
DPS (sen)	4.6	3.8	4.4	5.1
PE (x)	9.3	11.0	9.4	8.1
EV/EBITDA (x)	9.7	18.0	16.2	17.5
Div yield (%)	6.7	5.5	6.4	7.4
ROE (%)	2.7	2.1	2.5	2.8
Net Gearing (%)	82.6	82.5	83.2	84.2

## Stock and Financial Data

Shares Outstanding (million)	3,045.1
Market Cap (RM mil)	2,299.0
Book Value (RM/share)	3.18
P/BV (x)	0.2
ROE (%)	2.7
Net Gearing (%)	82.6
Major Shareholders	Seaport Terminal (Johore) Sdn Bhd(51.8%) Amanahraya Trustees Berhad(18.2%) Urusharla Jamaah Sdn Bhd(7.7%)
Free Float	22.4
Avg Daily Value (RM mil)	6.7

Price performance	3mth	6mth	12mth
Absolute (%)	(17.9)	(23.7)	(24.5)
Relative (%)	(12.2)	(14.9)	(15.5)



## Investment Highlights

- We maintain our forecasts and FV of RM1.13 based on sum-of-parts (SOP) valuation (Exhibit 1), valuing its ports division at 16x FY21F EPS. This is at a 30% discount to its peers' historical average to reflect its lower margins and a growing consensus of a steep downturn in the global economy, and hence global trade, due to the Covid-19 pandemic. We maintain our BUY recommendation.
- We came away from MMC's analyst briefing yesterday feeling positive. The key takeaways are as follows:

- The group remains cautiously positive on its port segment outlook, mainly driven by trade diversion as major shipping lines restructure their routes (less point-to-point, resulting in a greater need for cargo transshipment), in response to the weak container volumes amidst the economic downturn.

The group believes its ample capacity in storage facilities and reefers at PTP have attracted more transshipment cargoes to call at the port as shipping lines await the borders to reopen. YTD, MMC's largest port, i.e. PTP (contributes up to two-thirds of the total container volume handled at MMC's port) was still registering a slight growth of 2% YoY (despite a 6% YoY contraction seen in April 2020).

Meanwhile, Johor Port and Penang Port experienced a slowdown (both containerised and conventional throughput) during the movement control order (MCO) period, but volumes are expected to recover following the resumption of factory operations around the port. On the other hand, the group is more cautious on Northport's outlook as it expects lower import/export activities amidst the Covid-19 pandemic. Gateway cargoes contribute to more than half of the total container throughput volume at Northport.

- MMC guided for a single-digit contraction for its total container throughput volume at its ports in FY20 (vs. our more conservative projection of a 10% contraction). As expected, the group expects a soft 2Q ahead.
- For the construction segment, the group has continued to work on replenishing its order book. It is pitching to the government to kick-start the MRT 3 project, as well as eyeing the PGU-I gas pipeline replacement project and other EPC work packages.

4. The group will continue its aggressive cost-cutting initiatives amidst the challenging operating environment. It is currently assessing and monitoring closely its subsidiary, namely Senai Airport to reduce its variable costs as well as deferring its capex (part of circa RM400mil capex to be deferred) to conserve cash as the airport faces an unprecedented plunge in traffic due to the Covid-19 pandemic.
- The outlook for the port sector in the region (Malaysia included) is resilient, underpinned by global trade and investments in the manufacturing sector that generate tremendous inbound (feedstock) and outbound (finished product) throughput for ports. There have been significant relocations of the manufacturing base by multi-national companies out of China due to the rising labour and land costs, exacerbated by the US-China trade war. MMC Corp is well positioned to capitalise on these via its stable of five ports in Peninsular Malaysia with a total container handling capacity of 21.3mil TEUs annually (50% higher than peer Westports' capacity of 14mil TEUs annually).
  - While we are mindful of the soft patch ahead amidst a major slump in the world economy in the aftermath of the Covid-19 pandemic, we believe the sell-down on MMC Corp has been overdone. We see value in MMC Corp with its port business valued at 12.5x forward P/E on a stand-alone basis.

## EXHIBIT 1: SOP VALUATION

FYE Dec	Value (RM mil)	Basis
<b>Ports &amp; Logistics</b>		
Ports	4,678.2	16x FY21F earnings, a 30% discount to 23x of peers' historical average
Senai Airport	160.0	Book value as at Dec 2018
<b>Engineering &amp; Construction</b>	406.5	Net profit from outstanding orderbook (Exhibit 2), discounted to NPV at a 10% discount rate
<b>Energy &amp; Utilities</b>		
Malakoff (38.4%)	1,728.0	AmBank's FV @ RM1.00 with 10% holding company discount
Gas Malaysia (30.9%)	1,057.0	Consensus FV @ RM2.96 with 10% holding company discount
Aliran Ihsan Resources Berhad	487.0	Acquisition cost
<b>Net Cash/(Debt)</b>	(5,047.3)	As at 31 Dec 2019 (at the company level)
<b>Total Value (RM mil)</b>	<b>3,469.4</b>	
<b>No of shares</b>	<b>3,045.1</b>	
<b>FV per share</b>	<b>1.13</b>	

Source: Company, AmInvestment Bank Bhd

**EXHIBIT 2: OUTSTANDING CONSTRUCTION ORDER BOOK (AS AT MAR 2020)**

#	Project	Contract Value (RM'mil)	MMC's Portion	Outstanding Order Book (RM'mil)	JV Partner	Overall Progress	Calendar Year															
							2020				2021				2022				2023			
							Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	MRT Line 2 : Sg. Buloh - Serdang - Putrajaya (38.7km) - Overall (Elevated, Underground & System)	17,420	50%	3,851	Gamuda	72.3%	█	█	█	█	█	█	█	█	█	█	█	█				
2	MRT Line 2 : Sg. Buloh - Serdang - Putrajaya (13.5 km) - Underground Works	13,110	50%	1,639	Gamuda	74.4%	█	█	█	█	█	█	█	█	█	█	█	█				
3	Langat Sewerage Project (MMC PLSB)	1,505	100%	287	-	86.5%	█	█	█	█	█	█	█	█	█	█	█	█				
4	Sungai Pulai Bridge	565	60%	224	CHEC	31.6%	█	█	█	█	█	█	█	█	█	█	█	█				
5	PGU-I Gas Pipeline	131	90%	118	-	5.9%	█	█	█	█	█	█	█	█	█	█	█	█				
6	Upgrading NBCT for Penang Port	155	100%	30	-	86.2%	█	█	█	█	█	█	█	█	█	█	█	█				
7	Langat 2 Water Treatment Plant	994	50%	27	Salcon	99.6%	█	█	█	█	█	█	█	█	█	█	█	█				
8	Other projects	175	100%	116	-	-	█	█	█	█	█	█	█	█	█	█	█	█				
	<b>TOTAL</b>	<b>34,055</b>		<b>6,292</b>																		

Other projects: MADA, Rehabilitation works of Container Terminal Yard and ancillary works at Johor Port Berhad, Development of New Container Yard for the purpose of laden & empty containers at JPB, Design & Build contractor for the proposed arrival hall expansion and construction of new passenger holding lounge for Senai International Airport and Proposed Development of 3 Single-Storey Warehouse at NDSB 2 Logistics Hub for Northport (M) Berhad

**We are here**

Source: Company

**EXHIBIT 3: PB BAND CHART**



**EXHIBIT 4: PE BAND CHART**



## EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	4,983.8	4,717.3	4,230.4	5,151.6	6,125.2
EBITDA	900.4	1,058.7	574.9	648.6	740.5
Depreciation/Amortisation	(159.2)	(150.7)	(135.1)	(164.6)	(195.7)
Operating income (EBIT)	741.2	908.1	439.7	484.0	544.8
Other income & associates	206.8	301.8	290.0	297.2	297.2
Net interest	(545.1)	(677.1)	(401.1)	(406.8)	(417.0)
<b>Exceptional items</b>	-	-	-	-	-
Pretax profit	402.9	532.8	328.6	374.4	425.0
Taxation	(135.9)	(232.4)	(75.1)	(85.6)	(97.1)
<b>Minorities/pref dividends</b>	<b>47.0</b>	<b>45.3</b>	<b>45.3</b>	<b>45.3</b>	<b>45.3</b>
Net profit	220.1	255.2	208.2	243.6	282.6
Core net profit	146.2	248.0	208.2	243.6	282.6
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Fixed assets	9,481.9	10,038.8	10,538.2	11,146.4	11,869.5
Intangible assets	2,652.0	2,786.1	2,920.1	3,054.2	3,188.3
<b>Other long-term assets</b>	<b>8,502.0</b>	<b>8,669.8</b>	<b>8,825.7</b>	<b>8,988.8</b>	<b>9,152.0</b>
Total non-current assets	20,635.9	21,494.6	22,284.0	23,189.4	24,209.7
Cash & equivalent	1,055.7	2,696.0	2,625.5	2,469.4	-
Stock	104.7	104.7	104.7	104.7	104.7
Trade debtors	2,225.0	2,225.0	2,225.0	2,225.0	2,225.0
<b>Other current assets</b>	<b>1,283.7</b>	<b>1,283.7</b>	<b>1,283.7</b>	<b>1,283.7</b>	<b>1,283.7</b>
Total current assets	4,669.1	6,309.4	6,238.9	6,082.8	3,613.4
Trade creditors	1,882.5	1,882.5	1,882.5	1,882.5	1,882.5
Short-term borrowings	2,537.2	2,537.2	2,537.2	2,537.2	2,537.2
<b>Other current liabilities</b>	<b>863.2</b>	<b>863.2</b>	<b>863.2</b>	<b>863.2</b>	<b>863.2</b>
Total current liabilities	5,282.9	5,282.9	5,282.9	5,282.9	5,282.9
Long-term borrowings	8,146.2	8,146.2	8,146.2	8,146.2	8,146.2
<b>Other long-term liabilities</b>	<b>1,583.0</b>	<b>1,583.0</b>	<b>1,583.0</b>	<b>1,583.0</b>	<b>1,583.0</b>
<b>Total long-term liabilities</b>	<b>9,729.2</b>	<b>9,729.2</b>	<b>9,729.2</b>	<b>9,729.2</b>	<b>9,729.2</b>
Shareholders' funds	9,559.7	9,674.5	9,768.2	9,877.8	10,004.9
Minority interests	733.2	733.2	733.2	733.2	733.2
BV/share (RM)	3.14	3.18	3.21	3.24	3.29
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Pretax profit	402.9	532.8	328.6	374.4	425.0
Depreciation/Amortisation	159.2	150.7	135.1	164.6	195.7
Net change in working capital	(15.3)	-	-	-	-
<b>Others</b>	<b>581.3</b>	<b>746.5</b>	<b>616.0</b>	<b>618.4</b>	<b>617.1</b>
Cash flow from operations	1,128.2	1,430.1	1,079.7	1,157.4	1,237.8
Capital expenditure	(1.5)	-	-	-	-
Net investments & sale of fixed assets	(927.8)	(707.6)	(634.6)	(772.7)	(918.8)
<b>Others</b>	<b>467.2</b>	-	-	-	-
Cash flow from investing	(462.1)	(707.6)	(634.6)	(772.7)	(918.8)
Debt raised/(repaid)	833.4	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(152.7)	(140.3)	(114.5)	(134.0)	(155.4)
<b>Others</b>	<b>(558.0)</b>	<b>(677.1)</b>	<b>(401.1)</b>	<b>(406.8)</b>	<b>(417.0)</b>
<b>Cash flow from financing</b>	<b>122.6</b>	<b>(817.4)</b>	<b>(515.6)</b>	<b>(540.8)</b>	<b>(572.5)</b>
<b>Net cash flow</b>	<b>788.7</b>	<b>(95.0)</b>	<b>(70.5)</b>	<b>(156.1)</b>	<b>(253.5)</b>
<b>Net cash/(debt) b/f</b>	<b>558.0</b>	<b>(22.8)</b>	<b>802.7</b>	<b>732.2</b>	<b>576.1</b>
Net cash/(debt) c/f	1,354.8	(117.8)	732.2	576.1	322.7
<b>Key Ratios (YE31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Revenue growth (%)	19.8	(5.3)	(10.3)	21.8	18.9
EBITDA growth (%)	7.4	17.6	(45.7)	12.8	14.2
Pretax margin (%)	8.1	11.3	7.8	7.3	6.9
Net profit margin (%)	4.4	5.4	4.9	4.7	4.6
Interest cover (x)	1.4	1.3	1.1	1.2	1.3
Effective tax rate (%)	33.7	43.6	22.9	22.9	22.9
Dividend payout (%)	42.1	41.8	41.8	41.8	41.8
Debtors turnover (days)	163	172	192	158	133
Stock turnover (days)	9	10	10	8	7
Creditors turnover (days)	168	188	188	153	128

Source: Company, AmInvestment Bank Bhd estimates

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