

28 November 2018 | 3QFY18 Results Review

## MMC Corporation Berhad

*PTP to remain as the main pillar of growth*

### INVESTMENT HIGHLIGHTS

- **9MFY18 earnings broadly in-line with expectations**
- **Reintroduction of Asia-North Europe loop in December 2018 by 2M Alliance to boost container volumes at PTP**
- **Energy and utilities segment supported by Gas Malaysia's increase in volume of gas sold with higher tariffs**
- **Orderbook >RM10b to provide earnings visibility for construction segment**
- **Maintain BUY with a revised TP of RM1.35 per share**

**Broadly in-line with expectations.** MMC Corporation Bhd's (MMC) 9MFY18 normalised PATAMI of RM95.2m (-61.7%yoy) came in broadly within expectations, accounting for 69.0% of our FY18 earnings estimates.

**Container volume growth at PTP and JPB.** 9MFY18 PBT for the ports and logistics segment declined by -22.5%yoy mainly due to: (i) the -6.3%yoy decline in container volume at Northport as customers shifted back to Westports; and (ii) lower contribution from RAPID Material Offloading Facilities (RAPID MOLFF) at Johor Port Berhad (JPB). Nonetheless, the growth in container volume in PTP and Johor Port of +5.6%yoy and +6.1%yoy respectively in 9MFY18 cushioned the abovementioned matters.

**Near term prospects of MMC's ports.** Moving forward, we reckon that the frontloading of cargoes ahead of the January 2019 U.S tariff deadline imposed on Chinese imports to support volumes at MMC's ports in 4QFY18 in addition to the year-end festive season. More importantly, PTP remains to be the pillar of MMC's stable of ports. We opine that the 2M alliance (of which Maersk is a part of) will likely reintroduce its AE2/Swan Asia-North Europe loop in December, where we could expect more calls at MMC's Port of Tanjung Pelepas (PTP) and hence support container throughput volumes which we estimate to reach 9.2m TEUs in FY18.

**Energy and utilities segment supported by Gas Malaysia Bhd.** Malakoff Corporation Bhd (Malakoff) recorded a -29.0%yoy decline in PATAMI for 9MFY18 mainly due to: (i) lower capacity payment recorded by the Segari Energy Ventures (SEV) following the tariff reduction under the extended PPA revision and; (ii) lower fuel margin recorded at Tanjung Bin Power and Tanjung Bin Energy plant. However, the decline in the PATAMI for the segment was partially offset by contribution from **Gas Malaysia Berhad (BUY; TP: RM3.50)** which posted a +29.6%yoy increase in PATAMI due to the increase in volume of gas sold coupled with higher natural gas tariff.

**Maintain BUY**


**Revised Target Price (TP): RM1.35**  
**(Previously: RM1.38)**

RETURN STATS	
Price (24 August 2018)	RM1.00
Target Price	RM1.35
Expected Share Price Return	+35.0%
Expected Dividend Yield	+3.5%
<b>Expected Total Return</b>	<b>+38.5%</b>

STOCK INFO	
KLCI	1,684.97
Bursa / Bloomberg	2194 / MMC MK
Board / Sector	Main/ Transportation & Logistics
Syariah Compliant	Yes
Issued shares (mil)	3,045.06
Market cap. (RM'm)	3,029.83
Price over NA	0.0.46
52-wk price Range	RM0.99 – RM2.30
Beta (against KLCI)	1.04
3-mth Avg Daily Vol	0.74m
3-mth Avg Daily Value	RM0.84m
Major Shareholders (%)	
Seaport Terminal	51.76
PNB	20.25
LTH	7.68
EPF	5.19

**Earnings visibility in construction segment.** PBT for engineering and construction (E&C) posted a staggering +88.8%yoy increase in 9MFY18. It is noteworthy that this substantial gain was largely attributed to the higher progress billings from the KVMRT2 and the Langat Sewerage Treatment project which were largely seen in the previous two quarters. 3QFY18 meanwhile recorded the lowest PBT so far in FY18. Nonetheless in 4QFY18, we expect progress billings of KVMRT2 projects to pick up again as seen in 4QFY17. Moreover, construction segment currently has an orderbook of >RM10b as of end September 2018, even after the revision of the contract value of the KVMRT2 project. This is 10x the construction revenue recorded in FY17.

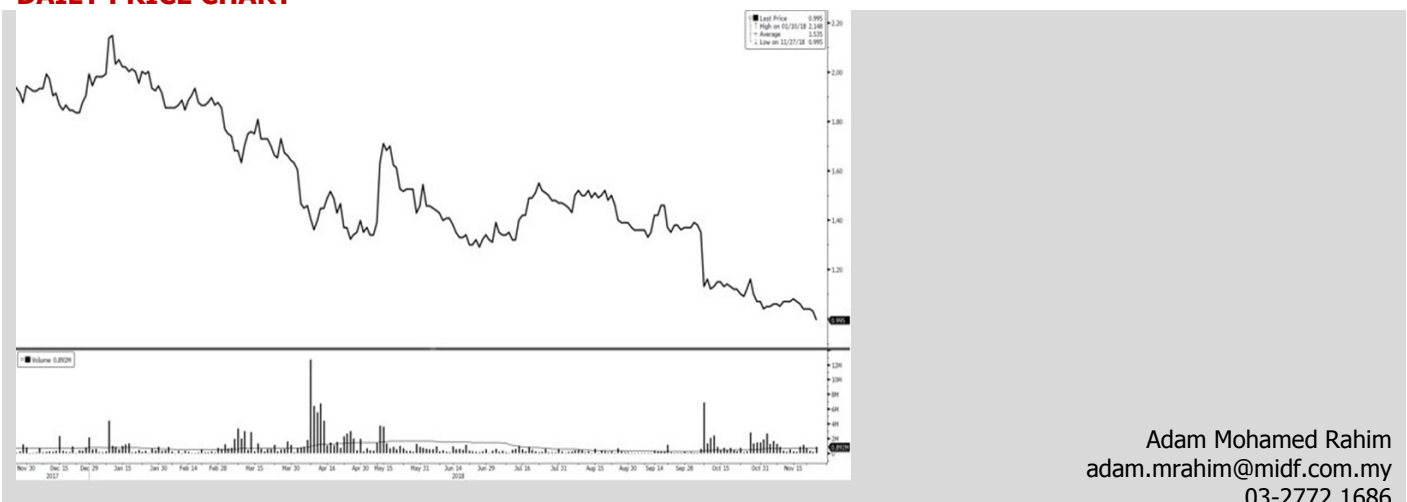
**Earnings forecast.** We are maintaining our earnings estimates at this juncture as results were broadly in-line.

**Maintain BUY with a revised TP of RM1.35 per share** (*previously RM1.38 per share*), based on our sum-of-parts (SOP) valuation. The change in target price reflects the lower consensus target price of RM1.00 per share for Malakoff. Our BUY call is mainly predicated on: (i) valuations supported by the market capitalisation of its listed associates; Malakoff and Gas Malaysia; (ii) synergies from the full acquisition of Penang Ports supported by the container terminal business and the cruise terminal operations in collaboration with Royal Caribbean Cruises Ltd driven by the growth in tourism in Penang and; (iii) healthy orderbook above RM10b for the engineering and construction segment. Key downside risks to our call include: (i) further reduction in value of construction projects; (ii) weak container volumes of MMC Corp's ports; and (iii) downward revision of its listed associates. 

## INVESTMENT STATISTICS

FYE Dec	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue (RM'm)	3,013.0	4,627.4	4,160.1	4,375.1	4,869.9
EBIT (RM'm)	489.3	911.7	703.6	410.9	633.6
Pre-tax Profit (RM'm)	365.0	672.7	451.7	181.5	303.6
Core PATAMI (RM'm)	244.2	312.4	225.4	138.0	230.7
EPS (sen)	8.0	10.3	7.4	4.5	7.6
EPS growth (%)	269	(70)	(59)	(39)	67
PER (x)	12.5	9.7	13.5	22.1	13.2
Net Dividend (sen)	3.8	4.0	4.0	3.5	3.5
Net Dividend Yield (%)	3.8	4.0	4.0	3.5	3.5

## DAILY PRICE CHART



## MMC CORPORATION BHD: 3QFY18 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	3QFY18	%YoY	%QoQ	9MFY18	%YoY	
Revenue	944.1	-10.6	-21.4	3,424.6	17.1	Consolidation of revenue from Penang Port
COGS	(560.3)	-12.4	-31.0	(2,265.0)	26.1	
Gross profit	383.749	-7.8	-1.3	1,159.6	2.7	
Operating expenses	(206.4)	-3.5	-21.8	(714.0)	8.9	
EBIT	177.4	-12.3	42.3	445.6	-5.9	
Finance expenses	(139.5)	15.5	-7.2	(398.7)	10.8	Finance costs of acquiring Penang port
Share of results from JV and Associates	50.9	434.8	11.9	146.2	-0.9	
PBT	88.782	33.8	121.4	193.127	-26.1	
Tax expense	(36.5)	1.3	241.6	(55.9)	-40.1	
PAT	52.3	72.5	77.7	137.208	-18.3	
PATAMI	38.9	105.7	94.0	100.4	-25.6	
Normalised PATAMI	49.0	-62.3	144.3	95.2	-61.8	

Segmental Breakdown	Quarterly Results			Cumulative		Comments
	3QFY18	%YoY	%QoQ	9MFY18	%YoY	
<b>Ports &amp; Logistics</b>						
Revenue	789.0	8.7	6.6	2183.00	1.9	
PBT	137.0	7.9	95.7	286.00	-22.5	Lower volume in Northport
<b>Malakoff (37.6% associate)</b>						
Revenue	1,912.7	5.0	-1.6	5460.96	2.3	
PATMI	83.5	30.1	58.9	188.95	-29.0	Lower capacity payment by SEV
<b>Gas Malaysia (30.9% associate)</b>						
Revenue	1,556.3	11.8	3.5	4494.72	16.4	Higher volume of gas sold
PATMI	41.0	22.1	-14.7	129.31	29.6	
<b>Engineering &amp; Construction</b>						
Revenue	131.0	-57.2	-70.2	1175.00	63.2	Higher progress billing from KVMRT 2 and Langat Sewerage
PBT	21.0	200.0	-73.1	173.00	88.0	

## MMC CORPORATION BHD: SUM-OF-PARTS VALUATION

Assets	Total Value (RM mil)	% Stake	Value	Value per share	Remarks
<b>Energy &amp; Utilities</b>					
Malakoff	5,000.00	37.6	1,880.00	0.62	Consensus TP of RM1.00
Gas Malaysia	4,494.00	30.9	1,388.65	0.46	MIDF Fair Value of RM3.50
Aliran Ihsan Resources Berhad	487.00	100	487.00	0.16	Takeover price
<b>Ports &amp; Logistics</b>					
PTP	885.81	70	620.06	0.20	DCF @ WACC: 12%, Perpetual Growth: 1%
Johor Port	508.66	100	508.66	0.17	DCF @ WACC: 12%, Perpetual Growth: 1%
NCB Holdings Berhad	626.49	99	620.23	0.20	DCF @ WACC: 12%, Perpetual Growth: 1%
Penang Port	162.34	100	162.34	0.05	DCF @ WACC: 12%, Perpetual Growth: 1%
SMART Tunnel	535.47	50	267.73	0.09	DCF @ WACC:8%, Perpetual Growth: 2%
Senai airport	580.00	100	580.00	0.19	Acquisition price @ 2009
<b>Engineering &amp; Construction</b>					
Construction services	90.60	100	90.60	0.03	PER @ 6x FY19 PAT
MMC-Gamuda MRT2 (AG)	518.47	50	259.24	0.09	DCF
MMC-Gamuda MRT2 (UG)	648.63	50	324.31	0.11	DCF
Phase 1 Pan Borneo Sabah (PDP)	499.85	20	99.97	0.03	DCF
<b>Others</b>					
Senai Development Land - Airport City	1,431.56	100	1,431.56	0.47	2,054 acres @ RM16 psf
Tanjung Bin Land	1,063.56	100	1,063.56	0.35	1,526 acres @ RM16 psf
<b>Net Debt (Estimate)</b>			(3020.96)	(0.99)	Company level debt
<b>Total Value (RM mil)</b>					
			17,735.22	6,842.22	2.22
<b>No of shares</b>				3,045.10	
<b>Value per Share</b>				<b>2.25</b>	
Discount (%)				<b>40%</b>	Conglomerate discount
<b>Fair Value per Share (RM)</b>				<b>1.35</b>	

Source: MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.