

02 January 2018 | Corporate Update

## MMC Corporation Berhad

*Faces additional income tax from IRB*

**Maintain BUY**

**Unchanged Target Price (TP): RM2.67**

### INVESTMENT HIGHLIGHTS

- **MMC Corp faces additional income tax of RM45.9m**
- **Interest expenses on certain investments not tax deductible**
- **No material impact on MMC Corp's financial health**
- **Maintain BUY with unchanged TP of RM2.67 per share**


**MMC Corp receives Notices of Assessment from IRB.** The company on 29 December 2017 announced that it has received Notices of Assessment from the Inland Revenue Board (IRB). The notices follow a tax audit for the years of assessment from 2011 to 2013 pertaining to additional income tax and penalties totalling RM45.9m. The company noted that it will be making the full payment for the additional income tax without prejudice basis to the IRB.

**Basis for additional income tax.** The IRB imposed the additional income tax on MMC Corp on grounds that interest expenses relating to certain investments are not eligible for tax deduction according to Section 33 of the Income Tax Act, 1967.

**MMC Corp plans to appeal.** Pursuant to MMC Corp's consultation with its tax counsel, the company opines that there are reasonable grounds to challenge the Notices of Assessment. Henceforth, the company intends to file the Notices of Appeal to the Special Commissioners of Income Tax while taking all steps to challenge the disputed Notices of Assessment.

**Appeal proceedings may take time.** Based on our understanding, an appeal proceeding may take up to as long as 12 months to be completed. Hence, any impact from the appeal if it were to be in favour of MMC Corp will not likely be reflected in the near term.

**Financial impact.** As the payment to IRB will likely be settled on an instalment basis, we reckon that the additional income tax and penalties worth RM45.9m will not have a material impact on MMC Corp's day-to-day operations and its financial health as the company has generated a net operating cash flow of RM168m on average for the past three quarters in FY17. Meanwhile as of 30 September 2017, MMC Corp has a cash pile of RM844m and debt worth RM9b which translates to a net debt-to-equity ratio of 0.79x.

**Maintain BUY with unchanged TP of RM2.67 per share,** based on our sum-of-parts (SOP) valuation. Our BUY call is premised on: i) expected higher contribution from Penang Port upon completion of its 51% remaining stake, ii) the recovery in Johor Port and PTP due to higher demand of conventional cargo at the Johor Hinterland and iii) the steady performance by the energy segment. 

RETURN STATS	
Price (29 Dec 2017)	RM2.05
Target Price	RM2.67
Expected Share Price Return	+30.2%
Expected Dividend Yield	+2.0%
<b>Expected Total Return</b>	<b>+32.2%</b>

STOCK INFO	
KLCI	1,796.81
Bursa / Bloomberg	2194 / MMC MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	3,045.06
Market cap. (RM'm)	6,242.37
Price over NA	0.66
52-wk price Range	RM1.77 - RM2.65
Beta (against KLCI)	0.93
3-mth Avg Daily Vol	0.74m
3-mth Avg Daily Value	RM1.45m
<b>Major Shareholders (%)</b>	
Seaport Terminal	51.76
PNB	20.25
LTH	7.63

## INVESTMENT STATISTICS

FYE Dec	FY15A	FY16A	FY17F	FY18F	FY19F
Revenue (RM'm)	5,056.9	4,627.4	3,859.4	4,301.1	4,387.1
EBIT (RM'm)	2,406.6	911.7	881.3	956.6	975.8
Pre-tax Profit (RM'm)	1,969.5	672.7	409.1	363.2	370.5
Core PATAMI (RM'm)	255.4	312.4	336.8	374.6	384.0
EPS (sen)	8.4	10.3	10.6	12.9	13.2
EPS growth (%)	(47)	22	(41)	22	2
PER (x)	28.2	23.1	19.3	15.8	15.5
Net Dividend (sen)	3.8	4.0	4.0	4.2	4.2
Net Dividend Yield (%)	1.6	1.7	2.0	2.0	2.0

## DAILY PRICE CHART



Source: Bloomberg

Assets	Total Value (RM mil)	% Stake	Value	Value per share	Remarks
<b>Energy &amp; Utilities</b>					
Malakoff	5,500.00	37.6	2,180.80	0.72	Consensus Fair Value of RM1.16
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	2,962.02	70	2,073.41	0.68	DCF @ WACC: 8%, Perpetual Growth: 1%
Johor Port	2,906.92	100	2,906.92	0.95	DCF @ WACC: 8%, Perpetual Growth: 1%
NCB Holdings Berhad	2,067.07	100	2,067.07	0.68	DCF @ WACC: 8%, Perpetual Growth: 1%
Penang Port	431.00	100	431.00	0.14	Acquisition price
SMART Tunnel	568.70	50	284.35	0.09	DCF @ WACC: 7%, Perpetual Growth: 1%
Senai airport	580.00	100	580.00	0.19	Acquisition price @ 2009
<b>Engineering &amp; Construction</b>					
Construction services	1,305.88	100	1,305.88	0.43	PER @ 10x FY18 PAT
MMC-Gamuda MRT2 (PDP)	691.89	50	345.95	0.11	DCF
Phase 1 Pan Borneo Sabah (PDP)	471.25	20	117.81	0.04	DCF
Zelan Berhad	202.78	39.2	79.49	0.03	Current market capitalisation
<b>Others</b>					
Senai Development Land - Airport City	2,130.35	100	2,130.35	0.70	2,718 acres @ RM18 psf
Tanjung Bin Land	1,768.10	100	1,768.10	0.58	2,255 acres @ RM18 psf
<b>Net Debt (Estimate)</b>			<b>(4,587.84)</b>	<b>(1.51)</b>	Company level debt
<b>Total Value (RM mil)</b>	26,866.94		13,558.92	4.45	
<b>No of shares</b>				3,045.10	
<b>Value per Share</b>				<b>4.45</b>	
Discount (%)				<b>40%</b>	Conglomerate discount
<b>Fair Value per Share (RM)</b>				<b>2.67</b>	

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
 (Bank Pelaburan)  
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### 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.