

29 October 2018 | Corporate Update

## MMC Corporation Berhad

*MRT2 underground works back on track*

### INVESTMENT HIGHLIGHTS

- **MMC-Gamuda remain as contractor for MRT2 underground works at a revised cost of RM13.1b**
- **Pleasantly surprised with the development as the reduction in cost is less than what MoF has proposed**
- **Revision in MRT underground works contract reduces total construction cost by -22.4%**
- **Nonetheless, bulk of the group's earnings will still stem from the port segment**
- **Maintain BUY with a revised TP of RM1.38 per share**

**MMC-Gamuda remains as underground MRT2 contractor.** The Ministry of Finance (MoF) announced that MMC-Gamuda will remain as the contractor for the underground works but at a lower cost of RM13.1b (-RM3.6b or -21.6%) from RM16.7b previously. On a positive note, this is lower than the RM4.1b-RM5.8b reduction proposed by the MoF based on the study by an independent engineering consultant.

**Total MRT2 construction cost reduced by -22.4%.** Previously, we exercised conservatism by excluding the outstanding underground works worth approximately RM9.6b which is highlighted in MMC-Gamuda's media statement dated 8 October 2018. Hence, we are pleasantly surprised with the recent development. Considering the continuation of the underground portion at a lower cost, the overall cost for MRT2 would be lower by -22.4% to RM30.5b (excluding interest during construction, land acquisition costs and other costs). These final cost savings would translate into lower fares for MRT users which will spur the usage of public transportation in the Klang Valley.

**Estimated remaining orderbook stands at approximately RM10b.** Taking into consideration the revised value of the MRT2, we estimated that the remaining orderbook of MMC's construction segment amount to approximately RM10b.

**Earnings impact.** The continuation of the MRT2 underground works for MMC-Gamuda has prompted us to revise our FY18 and FY19 earnings upwards by 26.1% and 44.4% to RM138.0m and RM230.7m respectively. Note that for FY18, the earnings adjustment was made for 4QFY18 while full contribution of the MRT2 underground works will be reflected from FY19 onwards.

**Maintain BUY**

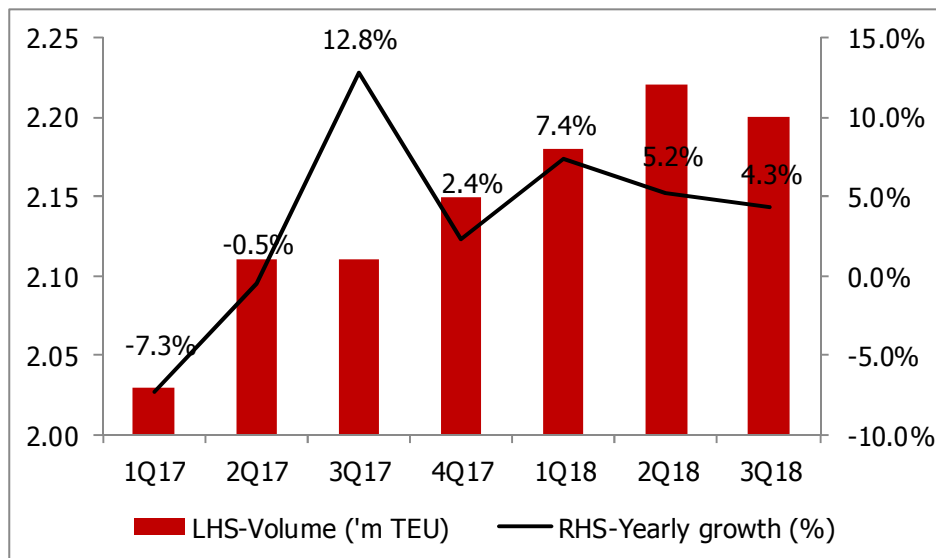
**Revised Target Price (TP): RM1.38**  
**(Previously: RM1.32)**

RETURN STATS	
Price (26 <sup>th</sup> October 2018)	RM1.16
Target Price	RM1.38
Expected Share Price Return	+19.0%
Expected Dividend Yield	+3.0%
<b>Expected Total Return</b>	<b>+22.0%</b>

STOCK INFO	
KLCI	1,683.06
Bursa / Bloomberg	2194 / MMC MK
Board / Sector	Main/ Transportation & Logistics
Syariah Compliant	Yes
Issued shares (mil)	3,045.06
Market cap. (RM'm)	3,532.27
Price over NA	0.37
52-wk price Range	RM1.09 – RM2.30
Beta (against KLCI)	1.23
3-mth Avg Daily Vol	0.46m
3-mth Avg Daily Value	RM0.58m
Major Shareholders (%)	
Seaport Terminal	51.76
PNB	20.25
LTH	7.68
EPF	5.21


**Looking ahead.** While the continuation of the MRT2 underground works will provide some cushion to MMC's earnings, margins of the construction segment will remain under pressure given the challenging environment of the construction sector. We opine that MMC's profitability to be buttressed by its ports segment as highlighted in our previous note on 26 September 2018. Port of Tanjung Pelepas (PTP) recorded 6.6m TEUs for 9MFY18, reflecting a yearly growth in its container throughput volume for the past five quarters. Meanwhile, Northport and Johor Port has been showing sequential recovery as the side effects of recalibration in shipping alliances start to fade. Moreover, Penang Port will be transitioning into a major port of call for cargo ships from just a feeder port under its RM500m capex plan for the next five years. Growth in Penang Port would also be further supported by the container terminal business but also the cruise terminal operations in collaboration with Royal Caribbean Cruises Ltd driven by the growth in tourism in Penang. Cumulatively, the estimated 12% growth in total revenue of MMC's ports in FY18 will sustain PAT margins of the segment above 10% and continue to contribute above 50% of earnings in FY18. To recall, MMC is the largest port operating group in Malaysia with a 58% market share of the nation's container market.

**Chart 1: Container throughput at Port of Tanjung Pelepas**



Source: MMC Corp, MIDFR

**Target price.** We are revising our target price upward to **RM1.38 per share** (previously RM1.32 per share) based on SOP valuation methodology. Note that we also take this opportunity to update our valuation for other construction projects namely i) Langat Sewerage Plant and Pan Borneo Highway in Sabah, and ii) lower acreage of land available for sale in Senai and Tanjung Bin.

**Maintain BUY.** Our BUY call is mainly anchored 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 propelled by economic activity at the northern region of Malaysia and; (iii) resilient economic growth in Asia and ASEAN. Key downside risks to our call include: (i) extension of project timeline that may dilute earnings recognition; (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)	14.5	11.3	15.7	25.6	15.3
Net Dividend (sen)	3.8	4.0	4.0	3.5	3.5
Net Dividend Yield (%)	3.3	3.4	3.4	3.0	3.0

Source: Company, MIDFR

## DAILY PRICE CHART



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## Sum-of-Parts Valuation: MMC Corp

Assets	Total Value (RM mil)	% Stake	Value	Value per share	Remarks
<b>Energy &amp; Utilities</b>					
Malakoff	5,400.00	37.6	2,030.40	0.67	Consensus TP of RM1.08
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 (Elevated)	518.47	50	259.24	0.09	DCF
MMC-Gamuda MRT2 (Tunnelling)	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>					
			(3,021)	(0.99)	Company level debt
<b>Total Value (RM mil)</b>					
	18,135.22		6,992.84	2.27	
<b>No of shares</b>					
				3,045.10	
<b>Value per Share</b>					
				<b>2.30</b>	
<b>Discount (%)</b>					
				40%	Conglomerate discount
<b>Fair Value per Share (RM)</b>					
				<b>1.38</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.