

07 September 2018 | Corporate Update

MMC Corporation Berhad

Penang Port joins forces with Royal Caribbean Cruise

Maintain BUY

Unchanged Target Price (TP): RM2.13

INVESTMENT HIGHLIGHTS


- **Forming pact with Royal Caribbean Cruise pursuant to Head of Agreement signed in March 2017**
- **MMC to invest RM93m to expand the Swettenham Pier Cruise Terminal**
- **Expected increase in passenger terminal has been factored in**
- **Maintain BUY with an unchanged TP of RM2.13 per share**

Acquired 60% of SPCTSB. MMC Corporation Bhd (MMC) acquired 60% of Swettenham Pier Cruise Terminal Sdn Bhd ("SPCTSB") for a cash consideration of RM6. The remaining 40% equity stake was acquired by Royal Caribbean Cruises Ltd (RCL). To recall, in March 2017, Penang Port signed Heads of Agreement with Royal Caribbean Cruises Ltd for a joint venture to redevelop Swettenham Pier Cruise Terminal ("SPCT").

Further details of SPCT redevelopment. A total of RM155m will be invested by SPCTSB to upgrade the SPCT into a preferred port for international cruise operators which will take up to a year to complete. Types of upgrading works include the extension of the existing berths to approximately 660m from the current 400m which will enable to berth two mega cruise liners carrying over 4,900 passengers each at any one time.

Our view. We view the news positively as it will strengthen the capability of SPCT to cater larger cruise ships at its facilities which will increase the number of international transit calls. In 2017, Swettenham Pier has seen 125 cruise ships called compared with 78 cruise ships in Port Klang. In tandem, the number of passengers at the Swettenham Pier terminal reached 1.2m people in the same year, the highest in 3 years. Moving forward, SPCT is expected to attract 1.8m passengers in FY18, indicating an annual growth of nearly 50%.

Earnings forecast. We are maintaining our earnings forecasts for FY18 and FY19 as we have already factored in the growth of passenger terminals into our estimates.

Maintain BUY with an unchanged TP of RM2.13 per share, based on sum-of-parts (SOP) valuation. 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 propelled by economic activity at the northern region of Malaysia; and (iii) healthy orderbook above RM10b for the engineering and construction segment. Meanwhile, risks to our BUY call include: (i) further cancellation or reduction in value of construction projects; (ii) weak container volumes of its ports; and (iii) downward revision of its listed associates. 

RETURN STATS	
Price (6 th Sept 2018)	RM1.36
Target Price	RM2.13
Expected Share Price Return	+56.6%
Expected Dividend Yield	+2.9%
Expected Total Return	+59.5%

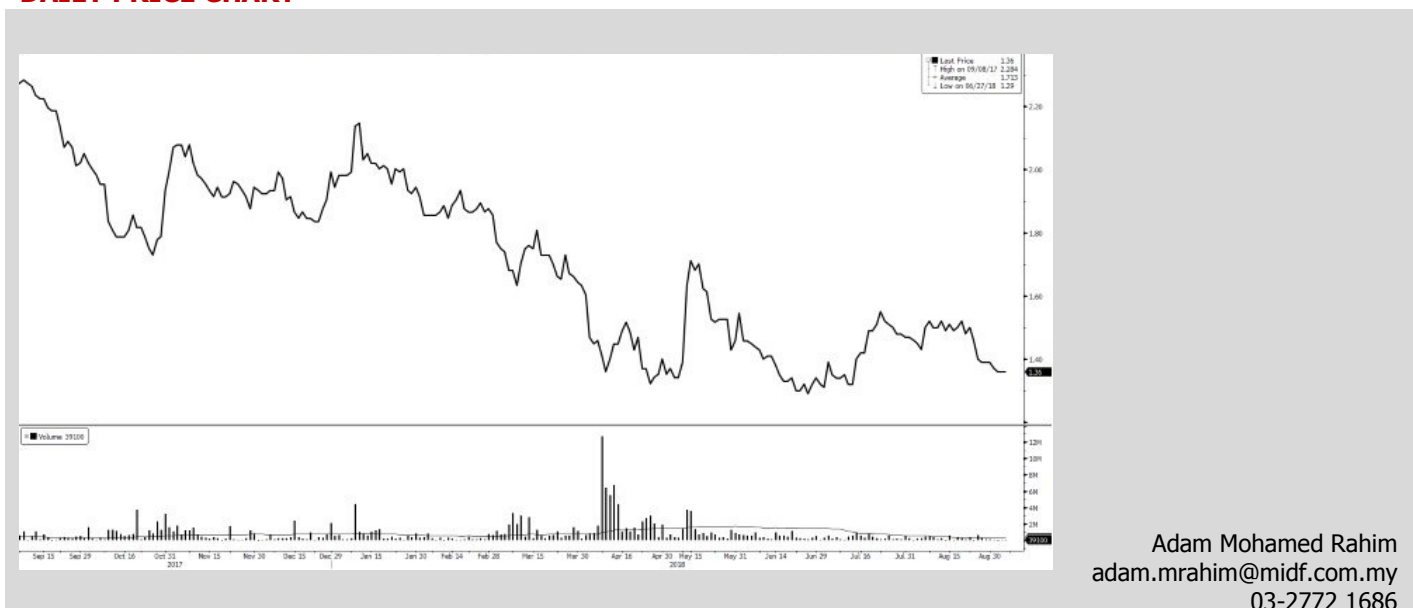
STOCK INFO	
KLCI	1,798.57
Bursa / Bloomberg	2194 / MMC MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	3,045.06
Market cap. (RM'm)	4,141.28
Price over NA	0.43
52-wk price Range	RM1.28 – RM2.36
Beta (against KLCI)	1.08
3-mth Avg Daily Vol	0.34m
3-mth Avg Daily Value	RM0.49m
Major Shareholders (%)	
Seaport Terminal	51.76
PNB	20.25
LTH	7.68
EPF	5.21

INVESTMENT STATISTICS

FYE Dec	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue (RM'm)	3,013.0	4,627.4	4,160.1	4,640.7	4,702.7
EBIT (RM'm)	489.3	911.7	703.6	680.2	704.0
Pre-tax Profit (RM'm)	365.0	672.7	451.7	384.2	463.3
Core PATAMI (RM'm)	244.2	312.4	225.4	292.0	352.1
EPS (sen)	8.0	10.3	7.4	9.6	11.6
EPS growth (%)	269	n.m.	n.m.	30	21
PER (x)	17.0	13.3	18.4	14.2	11.8
Net Dividend (sen)	3.8	4.0	4.0	4.0	4.0
Net Dividend Yield (%)	2.8	2.9	2.9	2.9	2.9

Source: Company, MIDFR

DAILY PRICE CHART



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Source: Bloomberg

TABLE 1: MMC CORP SUM-OF-PARTS VALUATION

Assets	Total Value (RM mil)	% Stake	Value	Value per share	Remarks
Energy & Utilities					
Malakoff	5,750.00	37.6	2,162.00	0.71	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
Ports & Logistics					
PTP	2,345.64	70	1,445.23	0.47	DCF @ WACC: 8.5%, Perpetual Growth: 1%
Johor Port	2,083.71	100	1,955.85	0.64	DCF @ WACC: 8.5%, Perpetual Growth: 1%
NCB Holdings Berhad	1,652.70	99	1,512.01	0.50	DCF @ WACC: 8.5%, Perpetual Growth: 1%
Penang Port	431.00	100	431.00	0.14	Acquisition price
SMART Tunnel	585.23	50	284.79	0.09	DCF @ WACC: 7%, Perpetual Growth: 2%
Senai airport	580.00	100	580.00	0.19	Acquisition price @ 2009
Engineering & Construction					
Construction services	762.48	100	762.48	0.25	PER @ 8x FY19 PAT
MMC-Gamuda MRT2 (PDP)	865.34	50	432.67	0.14	DCF
Phase 1 Pan Borneo Sabah (PDP)	501.13	20	100.23	0.03	DCF
Others					
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
Net Debt (Estimate)			(4,420.96)	(1.45)	Company level debt
Total Value (RM mil)	24,639.44		11,597.01	3.53	
No of shares				3,045.10	
Value per Share				3.55	
Discount (%)				40%	Conglomerate discount
Fair Value per Share (RM)				2.13	

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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.