

09 April 2018 | Corporate Update

MMC Corporation Berhad

Plan to acquire Sabah Ports cancelled off

INVESTMENT HIGHLIGHTS

- **Suria Capital calls off proposed sale of Sabah Ports to MMC Corp**
- **Proposed stake of MMC Corp in Sabah Ports never disclosed**
- **MMC Corp to have greater focus on its existing ports**
- **Adjust valuation to reflect macro environment**
- **Maintain BUY with reduced TP of RM2.51 per share**

Proposed acquisition called off. Suria Capital Holdings Berhad announced that it is no longer planning to sell a stake in its wholly owned subsidiary, Sabah Ports Sdn Bhd (SPSB) to MMC Corp's subsidiary, MMC Ports Holdings Bhd. SPSB holds a 30-year concession to operate eight major ports in Sabah since 2004. Four of Suria Capital's ports are located on the west coast of Sabah and four on the east coast.

Details was never disclosed. MMC Corp confirmed in August 2017 that it was already in talks with Suria Capital regarding the proposed acquisition of a stake in SPSB. However, details of acquisition price were never disclosed.

Our view. The proposed acquisition of SPSB would have enabled MMC Corp to have a presence in the Brunei Darussalam-Indonesia-Malaysia-Philippines East Asean Growth Area (BIMP-EAGA). Nonetheless, we believe that the cancellation of the proposed acquisition would allow MMC Corp to focus on increasing competitiveness of its existing ports while completing the acquisition of the remaining 51% stake in Penang Ports.

Earnings forecast unchanged. We maintain our earnings forecasts as we previously did not impute earnings from the proposed acquisition of Sabah Ports into our estimates. Nonetheless, we are taking this opportunity to adjust our valuation to reflect the uncertain macroeconomic environment stemming from looming trade wars between the U.S and China. Hence, we are imputing a higher WACC of 8% (7% previously) into our DCF valuation for MMC Corp's ports segment.

Maintain BUY with revised TP of RM2.51 per share. We reduce our SOP derived TP to RM2.51 (from RM2.72) as we tweak our DCF valuation for MMC Corp's port segment. Our BUY call is mainly predicated on: (i) potential listing of its ports assets, (ii) expected synergies from full acquisition of Penang Ports and (iii) healthy construction order book of > RM10b.



Maintain BUY

Reduced Target Price (TP): RM2.51
(Previously RM2.72)

RETURN STATS	
Price (6 April 2018)	RM1.50
Target Price	RM2.51
Expected Share Price Return	+67.3%
Expected Dividend Yield	+2.7%
Expected Total Return	+70.0%

STOCK INFO	
KLCI	1,837.01
Bursa / Bloomberg	2194 / MMC MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	3,045.06
Market cap. (RM'm)	4,567.59
Price over NA	0.48
52-wk price Range	RM1.46 - RM2.63
Beta (against KLCI)	0.75
3-mth Avg Daily Vol	0.76m
3-mth Avg Daily Value	RM1.41m
Major Shareholders (%)	
Seaport Terminal	51.76
PNB	20.25
LTH	7.66

INVESTMENT STATISTICS

FYE Dec	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue (RM'm)	5,056.9	4,627.4	4,160.1	4,790.1	4,904.9
EBIT (RM'm)	2,406.6	911.7	703.6	847.2	890.2
Pre-tax Profit (RM'm)	1,969.5	672.7	451.7	580.9	691.9
Core PATAMI (RM'm)	255.4	312.4	254.9	441.5	525.8
EPS (sen)	8.4	10.3	7.4	14.5	17.3
EPS growth (%)	(47)	(70)	(59)	96	19
PER (x)	17.9	14.6	20.3	10.3	8.7
Net Dividend (sen)	3.8	4.0	4.0	4.0	4.0
Net Dividend Yield (%)	2.5	2.7	2.7	2.7	2.7

DAILY PRICE CHART



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Source: Bloomberg

Table 1: SOP Valuation

Assets	Total Value (RM mil)	% Stake	Value	Value per share	Remarks
Energy & Utilities					
Malakoff	5,300.00	37.6	1,992.80	0.65	Consensus TP of RM1.06
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	3,710.33	70	2,597.23	0.85	DCF @ WACC: 8%, Perpetual Growth: 1%
Johor Port	2,113.33	100	2,113.33	0.69	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	598.79	50	299.40	0.10	DCF @ WACC: 7%, Perpetual Growth: 2%
Senai airport	580.00	100	580.00	0.19	Acquisition price @ 2009
Engineering & Construction					
Construction services	838.72	100	838.72	0.28	PER @ 11x FY18 PAT
MMC-Gamuda MRT2 (PDP)	865.34	50	432.67	0.14	DCF
Phase 1 Pan Borneo Sabah (PDP)	502.41	20	125.60	0.04	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)			(4,587.84)	(1.51)	Company level debt
Total Value (RM mil)	26,089.21		12,743.56	4.16	
No of shares				3,045.10	
Value per Share				4.18	
Discount (%)				40%	Conglomerate discount
Fair Value per Share (RM)				2.51	

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.