26 September 2018 | Corporate Update

MMC Corporation Berhad

Ports business to remain as MMC's crown jewel

***Maintain* BUY**

***Revised* Target Price (TP): RM1.72**
(Previously: RM2.13)

INVESTMENT HIGHLIGHTS

- **Port of Tanjung Pelepas to remain as MMC's most prized possession, being the key regional hub for the 2M Alliance**
- **Timely expansion of Penang Port in anticipation of higher than average economic growth from the Northern region**
- **Port's profit margin to sustain above 10% despite higher cost from PPSB and lower earnings from RAPID MOLF**
- **Maintain BUY with a revised TP of RM1.72 per share**

Northport's container throughput will continue to rise. To recall, we have observed a +5.9%qoq recovery in 2QFY18 as the effects of the recalibration in shipping alliances wears off. Moving forward, we opine that Northport's container throughput will continue to trend upwards on a quarterly sequential basis throughout 2HFY18. This is expected to reverse the -6.5%yoy drop in throughput in FY17 to a positive growth of +1.3%yoy for FY18.

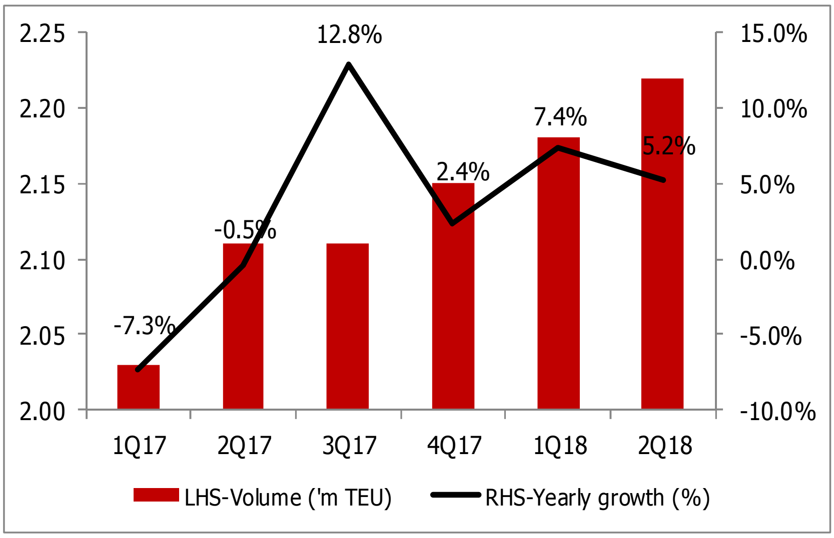
PTP to remain as MMC's gem. Port of Tanjung Pelepas (PTP) has recorded a yearly positive growth in its container throughput for the past four consecutive quarters since 1QFY17. PTP's competitive advantage is underpinned primarily by its role as a key regional hub for the 2M Alliance. Via the alliance, MMC leverages on Maersk's extensive network which constitutes over 60% of its clientele in addition to having over 90 weekly services connected to over 300 ports of calls globally. Container throughput of PTP is estimated to grow by approximately +10.0%yoy in FY18F. This would sustain PTP's earnings contribution to overall ports revenue at above 40%. Moreover, PTP's phase 3A berth expansion plans will further increase the capacity from 12.5m TEUs to 15.9m TEUs by 2025. This would place PTP in an advantageous position to capture the rise in intra-Asia container volumes from around 31m TEUs currently to approximately 34m TEUs in 2020.

Northern region economic activity to support Penang Port's livelihood. Currently, the Penang Port is undergoing expansion that could accommodate vessels larger than 8,000 TEUs. Expected to be completed within 12-15 months, the expansion include increasing the channel depth to 11.5m and berthing capacity up to 2.9m TEUs from 2.0m TEUs. We view that the expansion is timely to capture the economic growth in North Malaysia. Making reference to 2017, Penang's 7-year average annual economic growth of Penang stood at 5.6% surpassed the country's overall growth rate of 5.2%. On this note, we expect PPSB's container throughput to increase between three to five percent for FY18F and FY19F.

RETURN STATS	
Price (25 September 2018)	RM1.38
Target Price	RM1.72
Expected Share Price Return	+24.6%
Expected Dividend Yield	+2.9%
Expected Total Return	**+27.5%**

STOCK INFO	
KLCI	1,794.47
Bursa / Bloomberg	2194 / MMC MK
Board / Sector	Main/ Transportation & Logistics
Syariah Compliant	Yes
Issued shares (mil)	3,045.06
Market cap. (RM'm)	4,202.18
Price over NA	0.44
52-wk price Range	RM1.28 – RM2.30
Beta (against KLCI)	1.08
3-mth Avg Daily Vol	0.28m
3-mth Avg Daily Value	RM0.41m
Major Shareholders (%)	
Seaport Terminal	51.76
PNB	20.25
LTH	7.68
EPF	5.21

Figure 1: Container throughput at Port of Tanjung Pelepas



Source: MMC Corp, MIDFR

Penang-Songkhla Land Bridge could act as another catalyst for PPSB. The Government of Malaysia and Thailand has been engaging in preliminary talks on the proposal to establish a land bridge between the Port of Songkhla in Southern Thailand and Penang Port. The proposed new route (*refer to figure 2*) could drastically reduce shipping time to merely five to six hours instead of two to three days via the traditional route. We believe that this could further propel the earnings contribution from PPSB. Note that at present, PPSB's market share of total Southern Thailand cargo stands around 60% to 70%.

Figure 2: Penang-Songkhla Land Bridge

Source: MMC Corp

Port segment's profit margin to sustain above 10%. We are expecting a slight compression in profit margin. This is in view of: i) expected higher operating and finance costs stemming from PPSB and ii) lower earnings contribution from Johor Port as the RAPID Material Offloading Facilities (MOLF) project is nearing its tail end. Despite this, we opine that the profit margin will remain above 10% while gearing will remain below 1.0x.

Muted outlook for the construction segment. Financial performance of the construction segment could be under pressure amidst the deferment/cancellation of major infrastructure projects. MMC Corp's construction orderbook as of July 2018 stands at approximately RM14.9b. This translates into approximately 12x of the construction revenue in FY17. Looking ahead, we expect contributions from the construction segment will stem from the progress of the MRT Line 2 which currently at 26% and 35% respectively for the project delivery partner and underground portion.

Earnings forecast. To be on the conservative end, we are revising our FY18F and FY19F earnings forecast lower to RM201.5m and RM261.0m respectively. This is after imputing: (i) higher estimates for operating expenses and finance costs related to the acquisition of Penang Ports; and (ii) lower throughput contribution from the RAPID MOLF projects at Johor Ports.

Target price. Subsequent to our earnings revisions, we are revising our target price to **RM1.72 per share** (previously RM2.13 per share). This is premised on the adjustments made in our SOP valuation to incorporate a higher WACC of 10% (previously 8.5%) for MMC's ports to exercise caution from the competition from PSA.

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; (iii) resilient economic growth in Asia and ASEAN and; (iv) healthy orderbook of above RM10b for the engineering and construction segment. Key downside risks to our call include: (i) further cancellation or 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	4,609.6	4,874.5
EBIT (RM'm)	489.3	911.7	703.6	415.3	487.2
Pre-tax Profit (RM'm)	365.0	672.7	451.7	265.1	343.5
Core PATAMI (RM'm)	244.2	312.4	225.4	201.5	261.0
EPS (sen)	8.0	10.3	7.4	6.6	8.6
EPS growth (%)	269	(70)	(59)	(11)	30
PER (x)	17.2	13.5	18.6	20.9	16.1
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

DAILY PRICE CHART

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Sum-of-Parts Valuation: MMC Corp

Assets	Total Value (RM mil)	% Stake	Value	Value per share	Remarks
Energy & Utilities					
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
Ports & Logistics					
PTP	1,595.82	70	1,117.07	0.37	DCF @ WACC: 10%, Perpetual Growth: 1%
Johor Port	657.59	100	657.59	0.22	DCF @ WACC: 10%, Perpetual Growth: 1%
NCB Holdings Berhad	853.74	99	845.21	0.28	DCF @ WACC: 10%, Perpetual Growth: 1%
Penang Port	397.41	100	397.41	0.13	DCF @ WACC: 10%, Perpetual Growth: 1%
SMART Tunnel	569.57	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	855.60	100	855.60	0.28	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	2,130.3	100	2,130.3	0.70	2,718 acres @ RM18 psf
Tanjung Bin Land	1,768.1	100	1,768.1	0.58	2,255 acres @ RM18 psf
Net Debt (Estimate)			(4,421.0)	(1.45)	Company level debt
Total Value (RM mil)	21,358.42		8,733.58	2.84	
No of shares				3,045.10	
Value per Share				**2.87**	
Discount (%)				**40%**	Conglomerate discount
Fair Value per Share (RM)				**1.72**	

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 *rise* 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 *fall* 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.