

09 October 2018 | Corporate Update

MMC Corporation Berhad

Ports segment to remain the main pillar of MMC's earnings

INVESTMENT HIGHLIGHTS

- Based on a statement by MoF, contract for underground portion of MRT2 cancelled and will be re-tendered through an international open tender
- Value of above-portion contract reduced to RM17.4b after shifting to turnkey contractor basis
- Stand a fair chance of winning the re-tender project
- Earnings to be supported by the ports segment
- Maintain BUY with a revised TP of RM1.32 per share

MMC-Gamuda's JV underground KVMRT2 contract cancelled off.

Based on a statement by MoF, the Malaysian government has decided to terminate MMC-Gamuda's KVMRT2 underground works contract worth RM16.7b after both parties failed to reach an agreement to cut costs. The latest publicly available percentage completion of the underground works stood at 40% with an effective remaining orderbook of approximately RM5.3b-RM5.4b for MMC's portion. Moving forward, the remaining 60% works for the underground portion of KVMRT2 will be re-tendered out via an international open tender process. As such, the estimated timeline for completion of KVMRT2 could be delayed beyond May 2022.

Value reduction for the above-portion works. Meanwhile, the Malaysian government accepted MMC-Gamuda's offer to proceed with the above-ground portion with a lower value of RM17.4b (-23%). This comes after MMC-Gamuda shifts from a project delivery partner (PDP) model to turnkey contractor basis. An advantage of being a turnkey contractor is that MMC-Gamuda would be able to participate in the re-tendering process of the underground works. We view that MMC-Gamuda would stand a fair chance of succeeding in the next bid given its expertise demonstrated in past projects, albeit at a more competitive value.

Remaining construction orderbook declines by >30%. We are negatively surprised as we did not foresee cancellations for the on-going construction project. Following the contract termination of KVMRT2 underground works for MMC-Gamuda and the 23% reduction for the remaining underground works, the effective remaining orderbook for MMC hovers below RM10b from RM14.9b previously.

Earnings impact. Despite the changes agreed for the above-ground contract value, the entirety of its outcome to MMC-Gamuda is still uncertain subsequent to the cancellation of the tunnelling works contract. This is considering the lack of official confirmation from MRT Corp to MMC-Gamuda as announced yesterday.

Maintain BUY

Revised Target Price (TP): RM1.32
(Previously: RM1.72)

RETURN STATS	
Price (8 th October 2018)	RM1.13
Target Price	RM1.32
Expected Share Price Return	+16.8%
Expected Dividend Yield	+3.1%
Expected Total Return	+19.9%

STOCK INFO	
KLCI	1,775.75
Bursa / Bloomberg	2194 / MMC MK
Board / Sector	Main/ Transportation & Logistics
Syariah Compliant	Yes
Issued shares (mil)	3,045.06
Market cap. (RM'm)	3,440.92
Price over NA	0.36
52-wk price Range	RM1.12 – RM2.30
Beta (against KLCI)	1.07
3-mth Avg Daily Vol	0.37m
3-mth Avg Daily Value	RM0.50m
Major Shareholders (%)	
Seaport Terminal	51.76
PNB	20.25
LTH	7.68
EPF	5.21


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In view of this, a conservative stance is palatable and has prompted us to adjust our FY18 and FY19 earnings estimates downwards by -45% and -35% to RM109.4m and RM168.3m respectively. This is after taking into account: (i) the omission of the outstanding 70% underground works worth roughly RM5.3b-RM5.4b as of July 2018, and (ii) the outstanding above-ground turnkey contract value estimated at RM4.4b after taking 50% of MMC's share.

Near term prospects. While the abovementioned matter is a drag on earnings, 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) has continued to record yearly and quarterly growth in its container throughput since 3QFY17. Meanwhile, Northport and Johor Port has been showing sequential recovery for the past two consecutive quarters as the 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.

Target price. Subsequent to our earnings revisions mainly in the construction segment, we are revising our target price downward to **RM1.32 per share** (previously RM1.72 per share). This is also premised on the adjustments made in our SOP valuation to incorporate: (i) a higher WACC of 12% (previously 10%) for MMC's ports to exercise caution from the competition from PSA; and (ii) lower construction PE multiple of only 6x (8x previously) to reflect the broad weakness of the construction sector.

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) further cancellation or reduction in value of existing 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	4,013.6	4,183.0
EBIT (RM'm)	489.3	911.7	703.6	395.51	577.1
Pre-tax Profit (RM'm)	365.0	672.7	451.7	143.9	221.5
Core PATAMI (RM'm)	244.2	312.4	225.4	109.4	168.3
EPS (sen)	8.0	10.3	7.4	3.6	5.5
EPS growth (%)	269	(70)	(59)	(51)	54
PER (x)	14.1	11.0	15.3	31.5	20.4
Net Dividend (sen)	3.8	4.0	4.0	3.5	3.5
Net Dividend Yield (%)	3.4	3.5	3.5	3.1	3.1

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	932.21	70	652.55	0.21	DCF @ WACC: 12%, Perpetual Growth: 1%
Johor Port	511.18	100	511.18	0.17	DCF @ WACC: 12%, Perpetual Growth: 1%
NCB Holdings Berhad	634.22	99	627.88	0.21	DCF @ WACC: 12%, Perpetual Growth: 1%
Penang Port	188.40	100	188.40	0.06	DCF @ WACC: 12%, Perpetual Growth: 1%
SMART Tunnel	536.47	50	268.23	0.09	DCF @ WACC: 8%, Perpetual Growth: 2%
Senai airport	580.00	100	580.00	0.19	Acquisition price @ 2009
Engineering & Construction					
Construction services	61.14	100	61.14	0.02	PER @ 6x FY19 PAT
MMC-Gamuda MRT2 (Turnkey)	518.47	50	259.24	0.09	DCF
Phase 1 Pan Borneo Sabah (PDP)	499.85	20	99.97	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)	18,944.18		6,711.61	2.38	
No of shares				3,045.10	
Value per Share				2.20	
Discount (%)				40%	Conglomerate discount
Fair Value per Share (RM)				1.32	

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.