

# MMC Corporation Berhad

(2194 | MMC MK) Transportation & Logistics | Industrials

## PTP Propels Earnings

**Maintain BUY**

**Revised Target Price: RM1.15**

(Previously RM1.17)

### KEY INVESTMENT HIGHLIGHTS

- **Core 6MFY20 earnings surged by more than 15%.**
- **PTP's higher volume contributed to this quarter's stellar earnings result**
- **Steady performance in energy and utilities contributed by Malakoff and Gas Malaysia**
- **Clear V-shaped recovery of TEU's volumes after March 2020 bodes well for MMC**
- **Trade activities resume in earnest amidst pandemic**
- **Maintain BUY with a revised TP of RM1.15**

**Core 6MFY20 earnings surged by more than 15%.** MMC Corp recorded a 2QFY20 core PATAMI of RM77.7m, higher than the previous results. Cumulatively, 1HFY20 core earnings recorded growth of +21.2%yoy. This came in above ours and consensus' FY20 estimates at 65.5% and 69.4% respectively. This was a positive surprise given that the earnings were recorded on the back of lower topline caused by Covid-19 pandemic that disrupted businesses around the world. Factors that drive the better-than-expected performance came from increased share of profit from associates, namely Malakoff and higher volume handled at PTP.

**PTP's higher volume contributed to this quarter stellar earnings result.** Revenue and PBT for the ports and logistics segment decreased by -3.4%yoy and -1.4%yoy respectively. Performance of the segment was underpinned by the container throughput at PTP as other ports saw lower volume handled throughout the period. PTP's higher volume helped offset the decline in overall container throughput and contributed to the quarter stellar earnings result. Based on our observation, shipping lanes that saw the most impactful rebounds were: (i) Asia – Australasia & Oceania, (ii) Asia – North America, (iii) Asia – India Sub Cont & Middle East, (iv) Asia – Asia.

**Steady performance in energy and utilities.** Year to date, Malakoff Corporation Berhad (Malakoff) (**MLK MK, NR**) recorded a +19.0%yoy increase in PBT for 2QFY20 mainly due to: (i) contribution from Alam Flora, (ii) higher contribution from Tanjung Bin Energy following shorter duration of plant outage; (iii) lower operations and maintenance costs and higher contributions from investments in associates (completion of 12% additional interest in Shuaibah IWPP). Meanwhile, **Gas Malaysia Berhad (BUY; TP: RM3.11)** recorded a profit after tax of RM49.09m (-8.9%yoy) in 2Q20 due to lower volume of natural gas sold and lower natural gas tariff. We believe that earnings growth for Gas Malaysia going forward will mainly be driven by: (i) expansion of existing customers' volume and; (ii) better margins resulting from the recently implemented Third Party Access (TPA) regulation.

### RETURN STATISTICS

Price @ 25 <sup>th</sup> August 2020 (RM)	0.68
Expected share price return (%)	+69.11
Expected dividend yield (%)	+3.80
<b>Expected total return (%)</b>	<b>+72.91</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.7	-1.4
3 months	-2.7	-23.5
12 months	-36.0	-34.4

### KEY STATISTICS


FBM KLCI	1,568.58
Syariah compliant	Yes
Issue shares (m)	3045.06
Estimated free float (%)	20.29
Market Capitalisation (RM'm)	2,161.99
52-wk price range	RM0.45 - RM1.16
Beta vs FBM KLCI (x)	1.54
Monthly velocity (%)	6.09
Monthly volatility (%)	21.54
3-mth average daily volume (m)	4.73
3-mth average daily value (RM'm)	3.79
Top Shareholders (%)	
Seaport Terminal Johore Sdn Bhd	51.76
Skim Amanah Saham Bumiputera	20.31
Urusharta Jamaah Sdn Bhd	3.40

**Clear V-shaped recovery of TEU's volumes after March 2020.** Based on TEU's data that we have compiled (Figure 1), we observed that there is a clear pattern of contraction in volume seen early on during the Covid-19 outbreak. Maersk which makes PTP as its regional transshipment hub had cancelled around 50 sailings out of China since late January 2020 amidst the extended factory closures and delayed resumption of work due to the virus. However, as the virus continues to ravage a greater part of the globe, we saw a clear V-shaped recovery of TEU's volumes after March 2020. However, this has yet to recover to the pre-Covid level.

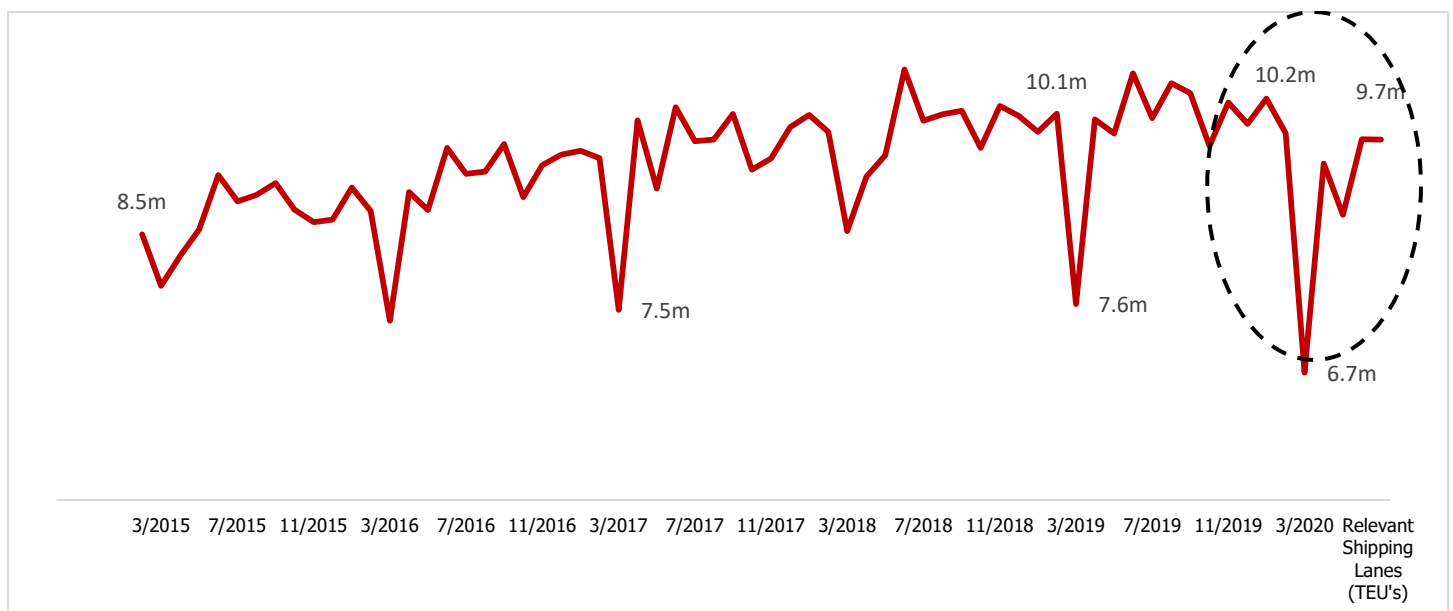
We opine that the rebound staged recently is due to pent-up supplies from China and backlog orders as trade was hampered due to border control and local lockdown which impede manufacturing activities. Moving forward, our view is that, we can expect softer numbers on TEU's volumes vis-à-vis 2019. However, we do not foresee any further trade disruptions as countries around the world have started to re-open strategic ports and resume trade activities in earnest. Consequently, this will cushion the fall in demand and lend support to ports operators' earnings.

**Earnings estimates.** Initially, MMC Corp was projecting an average +3-5%yoy growth for its total container throughput at its ports. With the Covid-19 issues lingering, we opine that MMC Corp will revise its projection for the total container throughput lower. Therefore, we revised our container throughput growth forecast for MMC Corp's ports FY20E. We have adjusted the container throughput growth for MMC from +2.5%yoy to -3.0%yoy decline for FY20E to account for the challenging operating environment which changes our earnings estimate FY20E from RM218.9m to RM211.7m.

**Target price.** As slight adjustments were made to our earnings estimates, we are revising our target price at **RM1.15 per share** based on sum-of-the-parts valuation.

**Maintain BUY.** We continue to favour MMC Corp as we view seaports to be more resilient compared to air freight. With Maersk, the largest container ship operator in the world, owning a 30.0% stake in PTP, we believe that the shipping company will ensure that PTP will remain as its regional transshipment hub in the wake of the Covid-19 outbreak. It is also notable that MMC Corp's ports other than PTP such as Johor Port, Penang Port have a high concentration of gateway cargo of more than 90.0% of total container throughput, which is positive as global trade picking up the pace. The increasing prevalence of intra-ASEAN trade following the emergence of regional distribution hubs in ASEAN especially Malaysia will bode well for these two ports. A further earnings catalyst for MMC Corp would be the possible reinstatement of the KVMRT3 project at a revised cost (estimated to cost half from the original price tag of RM45b). Key downside risks to our earnings include: (i) prolonged Covid-19 outbreak; (ii) weaker than expected container volumes of MMC Corp's ports; and (iii) downward revision of the earnings its listed associates. All factors considered; we reiterate our **BUY** call on MMC Corp with a revised **target price** of **RM1.15 per share**. 

**Figure 1: TEU's Monthly (Malaysia related Shipping Lanes)**



Source: Company, MIDFR

## INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Revenue (RM'm)	4,983.6	4,717.3	4,657.7	5,105.3	5,364.8
EBIT (RM'm)	741.0	908.1	702.6	843.3	818.1
Pre-tax Profit (RM'm)	402.8	532.8	415.1	509.2	562.1
Normalised Net Profit (RM'm)	<b>157.5</b>	<b>256.7</b>	<b>211.7</b>	<b>259.7</b>	<b>286.7</b>
EPS (sen)	5.2	8.4	7.0	8.5	9.4
EPS growth (%)	(24.5)	63.0	(17.5)	22.7	10.4
PER(x)	13.7	8.4	10.2	8.3	7.5
Net Dividend (sen)	3.5	4.5	4.0	4.0	4.0
Net Dividend Yield (%)	4.9	6.3	5.6	5.6	5.6

Source: Company, MIDFR

**MMC: 2QFY20 RESULTS SUMMARY**

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results					Cumulative		
	2Q20	1QFY20	2QFY19	%YoY	%QoQ	6MFY20	6MFY19	%YoY
<b>Revenue</b>	990.7	1,086.8	1,230.2	-8.8%	-19.5%	2,077.5	2,373.4	-12.5%
<b>COGS</b>	-510.7	-610.9	-752.5	16.4%	32.1%	-1,121.6	-1,458.2	23.1%
<b>Gross profit</b>	480.0	475.9	477.6	0.9%	0.5%	955.9	915.2	4.4%
<b>Operating expenses</b>	-248.3	-261.3	-236.4	5.0%	-5.1%	-509.6	-478.1	-6.6%
<b>EBIT</b>	231.6	214.6	241.3	7.9%	-4.0%	446.2	437.1	2.1%
<b>Finance expenses</b>	-173.5	-172.0	-176.3	-0.9%	1.6%	-345.5	-347.2	0.5%
<b>Share of results from JV and Associates</b>	70.0	72.2	67.0	-3.0%	4.5%	142.2	130.5	8.9%
<b>PBT</b>	128.1	114.8	131.9	11.6%	-2.9%	242.9	220.4	10.2%
<b>Tax expense</b>	-38.2	-41.8	-50.3	8.5%	23.9%	-80.0	-73.9	-8.4%
<b>PAT</b>	89.9	73.0	81.7	23.1%	10.0%	162.9	146.6	11.1%
<b>PATAMI</b>	77.4	57.9	67.2	33.7%	15.1%	135.2	120.7	12.0%
<b>Core PATAMI</b>	77.7	48.8	50.8	59.2%	52.8%	126.4	104.3	21.2%

**MMC: 2QFY20 SEGMENTAL BREAKDOWN**

<b>Ports &amp; Logistics</b>	2Q20	1QFY20	2QFY19	%YoY	%QoQ	6MFY20	6MFY19	%YoY
Revenue	728.0	801.0	802.0	-9.1%	-9.2%	1,529.0	1,582.0	-3.4%
PBT	96.0	123.0	119.0	-22.0%	-19.3%	219.0	222.0	-1.4%

<b>Malakoff (37.6% associate)</b>	2Q20	1QFY20	2QFY19	%YoY	%QoQ	6MFY20	6MFY19	%YoY
Revenue	1,506.2	1,774.0	1,814.8	-15.1%	-17.0%	3,280.1	3,822.1	-14.2%
PATMI	105.0	89.2	52.3	17.7%	100.9%	194.1	119.3	62.8%

<b>Gas Malaysia (30.9% associate)</b>	2Q20	1QFY20	2QFY19	%YoY	%QoQ	6MFY20	6MFY19	%YoY
Revenue	1,539.6	1,606.2	1,736.7	-4.1%	-11.3%	3,145.8	3,452.3	-8.9%
PATMI	44.6	47.9	49.0	-6.8%	-8.9%	92.5	90.2	2.6%

<b>Engineering &amp; Construction</b>	2Q20	1QFY20	2QFY19	%YoY	%QoQ	6MFY20	6MFY19	%YoY
Revenue	242.0	264.0	402.0	-8.3%	-39.8%	506.0	740.0	-31.6%
PBT	60.0	61.0	68.0	-1.6%	-11.8%	121.0	119.0	1.7%

**MMC CORPORATION BERHAD: SOTP VALUATION**

Assets	Total Value (RM mil)	% Stake	Value	Value per share	Remarks
<b>Energy &amp; Utilities</b>					
Malakoff	4,900.0	37.6	1,842.4	0.61	Consensus Target Price of RM1.02
Gas Malaysia	3,993.2	30.9	1,233.9	0.41	MIDF Fair Value of RM3.11
Aliran Ihsan Resources Berhad	487.0	100.0	487.0	0.16	Takeover price
<b>Ports &amp; Logistics</b>					
PTP	385.2	70.0	269.6	0.075	DCF @ WACC: 11%, Perpetual Growth: 1%
Johor Port	518.5	100.0	518.5	0.150	DCF @ WACC: 11%, Perpetual Growth: 1%
NCB Holdings Berhad	605.3	99.0	599.2	0.160	DCF @ WACC: 11%, Perpetual Growth: 1%
Penang Port	85.0	100.0	85.0	0.025	Acquisition price
SMART Tunnel					DCF @ WACC: 9%, Perpetual Growth: 2%
Senai airport	580.0	100.0	580.0	0.19	Acquisition price @ 2009
<b>Engineering &amp; Construction</b>					
Construction services	488.6	100.0	488.6	0.16	PER @ 7x FY20 PAT
MMC-Gamuda MRT2 (AG)	422.5	50.0	211.3	0.07	DCF
MMC-Gamuda MRT2 (UG)	468.4	50.0	234.2	0.08	DCF
<b>Others</b>					
Senai Development Land - Airport City	1,466.4	100.0	1,466.4	0.48	2,079 acres @ RM16 psf
Tanjung Bin Land	1,063.6	100.0	1,063.6	0.35	1,526 acres @ RM16 psf
Net Debt (Estimate)			-3,142.7	-1.03	Company level debt
<b>Total Value (RM mil)</b>	15,463.7		5,937.0	1.95	
No of shares				3,045.10	
<b>Value per Share</b>				1.95	
<b>Discount (%)</b>				40%	Conglomerate discount
<b>Fair Value per Share (RM)</b>				1.15	
<b>Current Share Price (RM)</b>				0.710	
<b>Upside/Downside</b>				70%	

Source: MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.