

MMC Corporation Berhad

(2194 | MMC MK) Transportation & Logistics | Industrials

Ending FY19 with a bang

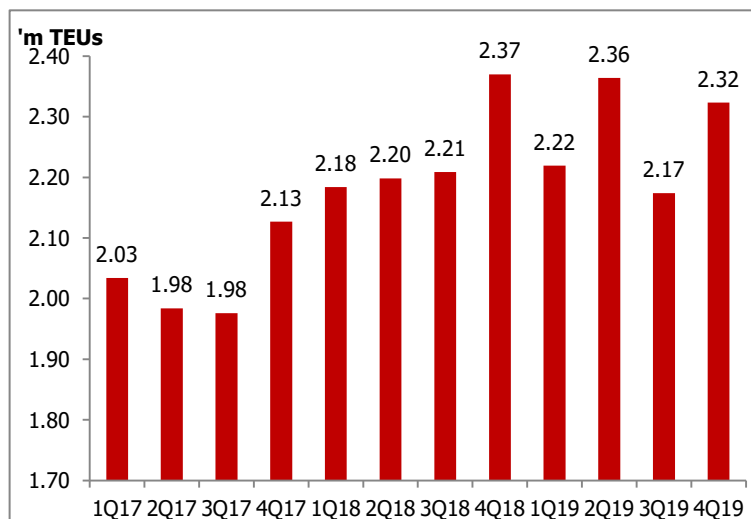
KEY INVESTMENT HIGHLIGHTS

- **Normalised FY19 earnings exceeded expectations**
- **PTP and JPB were main drivers of container throughput growth in FY19**
- **Lower work progress for KVMRT2 pushed earnings slightly by +2.1% in FY19**
- **Completion of Alam Flora acquisition to offset loss of income from MacArthur Wind Farm**
- **Earnings estimates revised; conservative container but upward revision in share of profit from associate**
- **Maintain BUY with an revised TP of RM1.27 (from RM1.30)**

Normalised FY19 earnings surged by more than 30%. MMC Corp recorded a FY19 net profit of RM255.2m. Excluding exceptional items such as compensation received for the oil spill at Port of Tanjung Pelepas (PTP) in 2016 and gain on disposals for assets, MMC Corp recorded a normalised net profit of RM256.7m (+62.9%yoy). This came in above ours and consensus' full year estimates at more than 110%. Some factors for the better-than-expected performance came from increased share of profit from associates and joint venture and better cost management.

Growth seen at PTP and JPB. Revenue and PBT for the ports and logistics segment increased by +6.4%yoy and +11.4%yoy respectively. Performance of the segment was underpinned by the container throughput at Port of Tanjung Pelepas (PTP) and Johor Port Berhad (JPB) which grew +1.3%yoy and +10.8%yoy respectively. In fact, PTP contributed more than 70% to the absolute net growth in container throughput during the period under review. This helped offset the small decline in container throughput at Penang Port (PPSB) and Northport during the same period.

Figure 1: Quarterly Container Throughput of PTP



Source: Johor Port Authority, Company

Maintain BUY
Revised Target Price: RM1.27

(from RM1.30)

RETURN STATISTICS

Price @ 26 th Feb 2020 (RM)	0.90
Expected share price return (%)	+41.10
Expected dividend yield (%)	+4.40
Expected total return (%)	+45.50

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-6.2	-1.8
3 months	-8.6	-3.6
12 months	-10.0	3.4

KEY STATISTICS

FBM KLCI	1,500.88
Syariah compliant	Yes
Issue shares (m)	3045.06
Estimated free float (%)	12.20
Market Capitalisation (RM'm)	2,740.55
52-wk price range	RM0.84 - RM1.25
Beta vs FBM KLCI (x)	1.22
Monthly velocity (%)	30.6
Monthly volatility (%)	21.54
3-mth average daily volume (m)	2.45
3-mth average daily value (RM'm)	2.38
Top Shareholders (%)	
Seaport Terminal Johore Sdn Bhd	51.76
Skim Amanah Saham Bumiputera	19.06
Urusharta Jamaah Sdn Bhd	7.68

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Earnings visibility for the construction segment. PBT for engineering and construction (E&C) posted a +2.1%yoy increase in FY19 to reach RM298.0m due to the lower work progress from KVMRT2 project. The average completion was nearly 70% in FY19 compared to 40.3% a year ago. The segment's orderbook stood around RM6.4b as at 31 December 2019 which is roughly 4x the construction revenue recorded in FY19. Looking ahead, we gathered that the company is actively proposing a few railway related projects to several state governments. MMC Corp has also put forward alternative solutions for the proposed railway projects touting better cost efficiency and reduction of total cost of ownership by one third of the normal cost. This is in addition to the submitted proposal to revise the MRT3 project at a price tag lower than RM45.0b to the government in December 2018. As such, we believe that this could provide earnings visibility for the segment as the KVMRT2 reaches completion in 2022.

Steady performance in energy and utilities. Malakoff Corporation Berhad (Malakoff) (NON-RATED) recorded a +26.4%yoy increase in PATAMI for FY19 due to: (i) higher energy payment recorded from Segari Energy Ventures (SEV), (ii) higher capacity income from Tanjung Bin Energy Sdn Bhd (TBE) given the shorter duration of forced outage at plant and; (iii) one-month revenue contribution from newly acquired subsidiary, Alam Flora Sdn Bhd (AFSB). Meanwhile, **Gas Malaysia Berhad (BUY; TP:RM3.11)** recorded a profit after tax of RM190.1m (+5.4%yoy) in FY19 due to higher volume of natural gas sold and higher natural gas tariff. We believe that gas sales volume for FY20 to continue to be sustained with a growth range of 4.5% to 5.0%. Management has also guided that FY20 will see growth coming from: (i) better margins resulting from the recently implemented Third Party Access (TPA) regulation and; (ii) the increase in volume of gas sold in line with recently acquired customers primarily from rubber, oleo-chemical, consumer products and glass manufacturing industries.

Prospects for MMC ports in the wake of 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 Covid-19 outbreak. As such, the shipping line is looking towards April for a possible recovery from what it admits will likely be a weak 1QCY20. Factories are slowly returning to production but we estimate that they are operating at 50%-60% of capacity, which will be ramping up to around 90% of capacity by the first week of March provided there is no major surge in Covid-19 cases. Implying a V-shaped recovery to take place, we can expect an overshoot in the latter part of 2QCY20. On a side note, China announced new tariff exemptions that it will allow importers to apply for exemptions to additional trade war tariffs on nearly 700 types of goods from the United States, including farm and energy products, medical equipment, natural gas. Even before this happened, both Beijing and Washington had halved additional duties on certain respective imports from February 14, when the phase one trade deal signed in December officially took effect. Henceforth, such trade deal will partially offset declining container throughput especially for transshipment throughput. Still, it is too early to make a call on this depending on how long the outbreak lasts. The expected slowdown in China within this short period so far, might still be able to be compensated later in the year if the outbreak is contained in a timely manner.

Earnings estimates. We have pencilled in a more conservative container throughput growth for MMC Corp's ports amidst the Covid-19 outbreak. We are now forecasting PTP to grow by +2.5%yoy compared to +5.0%yoy previously in FY20. Notwithstanding this, we have also made an upward adjustment to the share of profit from associates and joint venture in addition to reduction in some cost parameters following the company's ongoing cost management efforts. As such, the net result is a higher earnings estimate for FY20E and FY21F of RM265.1m (previously RM244.3m) and RM291.1m (RM286.7m) respectively.

Target price. The downward revision in our container throughput has led to a lower value per share for the ports and logistics division in our sum-of-the-parts valuation. As such, we have arrived at a new target price of **RM1.27 per share** (previously RM1.30).

Maintain BUY. We continue to favour MMC Corp as we view sea ports to be more resilient compared to air freight (*refer Table 1*). Apart from that, MMC Corp's valuation is supported by the market capitalisation of its listed associates; Malakoff and Gas Malaysia. Malakoff's completed the acquisition of AFSB in December 2019 has enabled a one-month revenue recognition in 4QCY19. On an annual basis, AFSB is expected to contribute net profit around RM70-90m, mitigating the annual loss of income of MR40-60m from MacArthur Wind Farm disposal. Recall that Alam Flora's PBT margins stood above 10.0% from FY14 to FY18. Other catalysts for MMC Corp include the possible reinstatement of the KVMRT3 project at a revised cost (possibly half the original price tag of RM45b). Moreover, we are confident that MMC Corp will be able to clinch new construction projects especially in railway projects which will act as a buffer for its construction orderbook. Key downside risks to our call include: (i) prolonged Covid-19 outbreak; (ii) weak container volumes of MMC Corp's ports; and (iii) downward revision of its listed associates. All factors considered, we reiterate our **BUY** call on MMC Corp with an revised **target price of RM1.27 per share.**



Table 1: DHL Global Trade Barometer

Month	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
World Trade	48	49	47	46	45	45
Air Trade	48	48	45	43	42	43
Ocean Trade	48	49	48	48	46	47

Source: DHL

INVESTMENT STATISTICS

Financial year ending 31 st December (in RM'm, unless otherwise stated)	2018A	2019A	2020F	2021F	2022F
Revenue (RM' m)	4,983.8	4,717.3	4,739.3	5,189.6	5,452.3
EBIT (RM' m)	741.2	908.1	818.2	915.5	892.1
Pretax Profit (RM' m)	402.9	532.8	520.4	570.9	626.4
Normalised Net Profit (RM'm)	157.6	256.7	265.4	291.1	319.5
EPS (sen)	5.2	8.4	8.7	9.6	10.5
EPS growth (%)	(24.5)	63.0	3.4	9.7	9.7
PER (x)	17.4	10.7	10.3	9.4	8.6
Net Dividend (sen)	3.5	4.0	0.0	4.0	4.0
Net Dividend Yield (%)	3.9	4.4	0.0	4.4	4.4

Source: Company, MIDFR

MMC CORPORATION BHD: 4QFY19 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		
	4Q19	%YoY	%QoQ	12M19	12M18	%YoY
Revenue	1,098.1	-29.6	-11.9	4,717.3	4,983.8	-5.3
COGS	(557.5)	-47.4	-30.2	(2,814.1)	(3,324.4)	-15.4
Gross profit	540.6	8.2	20.9	1,903.1	1,659.3	14.7
Operating expenses	(271.7)	33.0	10.7	(995.1)	(918.2)	8.4
EBIT	269.0	-9.0	33.1	908.1	741.2	22.5
Finance expenses	(163.8)	11.9	1.3	(677.1)	(545.1)	24.2
Share of results from JV and Associates	87.1	43.6	3.3	301.8	206.8	45.9
PBT	192.1	-8.4	59.9	532.8	402.9	32.2
Tax expense	(116.2)	45.2	174.2	(232.4)	(135.9)	71.0
PAT	76.0	-41.4	-2.3	300.4	267.0	12.5
PATAMI	68.1	-43.1	2.6	255.2	220.1	15.9
Normalised PATAMI	114.8	-5.0	205.8	256.7	157.6	62.9

Segmental Breakdown	Quarterly Results			Cumulative		
	4Q19	%YoY	%QoQ	12M19	12M18	%YoY
Ports & Logistics						
Revenue	825.0	1.4	5.5	3,189.0	2997.0	6.4
PBT	144.0	13.4	56.5	460.0	413.0	11.4

Malakoff (37.6% associate)	4Q19	%YoY	%QoQ	12M19	12M18	%YoY
	Revenue	1,715.5	-7.1	-5.8	7,278.5	7184.9
PATAMI	98.5	39.8	19.4	275.3	217.80	26.4

Gas Malaysia (30.9% associate)	4Q19	%YoY	%QoQ	12M19	12M18	%YoY
	Revenue	1,678.3	-3.5	-4.4	6,886.5	6233.2
PATAMI	57.9	13.4	37.9	190.1	180.4	5.4

Engineering & Construction	4Q19	%YoY	%QoQ	12M19	12M18	%YoY
	Revenue	242.0	-66.2	-44.7	1,421.0	1892.0
PBT	106.0	-10.9	45.2	298.0	292.00	2.1

MMC CORPORATION BERHAD: SOTP VALUATION

Assets	Total Value (RM mil)	% Stake	Value	Value per share	Remarks
Energy & Utilities					
Malakoff	5,100.00	37.6	1,917.60	0.63	Consensus TP of RM1.02
Gas Malaysia	3,993.24	30.9	1,233.91	0.41	MIDF Fair Value of RM3.11
Aliran Ihsan Resources Berhad	487.00	100	487.00	0.16	Takeover price
Ports & Logistics					
PTP	832.75	70	582.92	0.19	DCF @ WACC: 11%, Perpetual Growth: 1%
Johor Port	518.55	100	518.55	0.17	DCF @ WACC: 11%, Perpetual Growth: 1%
NCB Holdings Berhad	605.27	99	599.22	0.20	DCF @ WACC: 11%, Perpetual Growth: 1%
Penang Port	85.04	100	85.04	0.03	Acquisition price
Senai airport	580.00	100	580.00	0.19	Acquisition price @ 2009
Engineering & Construction					
Construction services	488.60	100	488.60	0.16	PER @ 7x FY20 PAT
MMC-Gamuda MRT2 (AG)	422.52	50	211.26	0.07	DCF
MMC-Gamuda MRT2 (UG)	468.37	50	234.19	0.08	DCF
Others					
Senai Development Land - Airport City	1,466.40	100	1,466.40	0.48	2,104 acres @ RM16 psf
Tanjung Bin Land	1,063.56	100	1,063.56	0.35	1,526 acres @ RM16 psf
Net Debt (Estimate)			(3020.96)	(0.99)	Company level debt
Total Value (RM mil)	16,111.30		6,447.29	2.12	
No of shares				3,045.10	
Value per Share				2.12	
Discount (%)				40%	Conglomerate discount
Fair Value per Share (RM)				1.27	

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.