



AmInvestment Bank

## Company report

## MMC CORPORATION

(MMC MK EQUITY, MMCB.KL)

25 May 2021

Ports drive doubling of 1QFY21 net profit YoY

BUY

(Maintained)

AmInvestment Bank

www.amequities.com.my

03-2036 2240

Rationale for report: Company results

Price	RM1.12
Fair Value	RM1.68
52-week High/Low	RM1.26/RM0.66

## Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	4,489.4	5,163.9	5,714.4	4,978.4
Core net profit (RM mil)	460.4	422.1	474.8	454.6
FD Core EPS (sen)	15.1	13.9	15.6	14.9
FD Core EPS growth (%)	85.6	(8.3)	12.5	(4.3)
Consensus Net Profit (RM mil)	-	339.0	356.5	471.0
DPS (sen)	6.8	7.6	86	8.2
PE (x)	7.4	8.1	7.2	7.5
EV/EBITDA (x)	6.0	8.9	8.4	8.8
Div yield (%)	6.1	6.8	7.7	7.3
ROE (%)	3.8	4.2	4.7	4.4
Net Gearing (%)	73.1	72.2	71.5	70.1

## Stock and Financial Data

Shares Outstanding (million)	3,045.1
Market Cap (RM mil)	3,410.5

Book Value (RM/share)	3.23
P/BV (x)	0.3
ROE (%)	3.8
Net Gearing (%)	73.1

Major Shareholders	Seaport Terminal (Johore) Sdn Bhd(51.8%) Amanahraya Trustees Berhad(20.3%) Urusharta Jamaah Sdn Bhd(3.4%)
Free Float	24.5
Avg Daily Value (RM mil)	25.7

Price performance	3mth	6mth	12mth
Absolute (%)	41.8	29.5	31.8
Relative (%)	40.5	30.0	20.4



— MMC MK — FBMKLCI Index

## Investment Highlights

- We maintained our forecasts and fair value (FV) of RM1.68 based on sum-of-parts (SOP) valuation (Exhibit 3) adjusted for a 3% discount to reflect a 2-star ESG rating as appraised by us (Exhibit 5). The FV values MMC's port division at 16x FY21F EPS (a 30% discount to its peers' historical average to reflect its lower margins). Maintain BUY.
- MMC's 1QFY21 core net profit of RM105.9mil (adjusted for gains from sublease of land at PTP) came in at 25% and 31% of our full-year forecast and full-year consensus estimates respectively. We consider the results within our forecast but above market expectations.
- MMC's 1QFY21 core net profit more than doubled thanks to higher volume handled at PTP and Northport and lower finance costs incurred during the quarter. These were partly offset by the lower work progress at the MRT2 (mainly due to completion of tunnelling works and the impact of Covid-19), lower contribution from its associate, particularly Malakoff (attributed to the lower contributions from its coal plants as a result of decline in applicable coal price, decrease in electricity despatch from the Segari power plant, higher operation and maintenance costs and lower share of results from associates, mainly Shuaibah assets in the Middle East), lower passenger and cargo volume at Senai Airport, and lower volume handled at Penang Port.
- Looking ahead, MMC will continue to invest in its ports infrastructure and focus on resource optimisation to improve operational and cost efficiencies. On the construction side, the group will continue to bid for new jobs on the back of anticipated economic recovery following the wide rollout of vaccination, while focusing on the execution and timely completion of its existing projects.
- The port sector in the region (Malaysia included) has come out from the pandemic relatively unscathed. Over the long term, its outlook is resilient underpinned by global trade and investments in the manufacturing sector that generate tremendous inbound (feedstock) and outbound (finished product) throughput for ports. There have been significant relocations of the manufacturing base by multi-national companies out of China due to the rising labour and land costs, exacerbated by the US-China trade war.

- MMC Corp is well positioned to capitalise on these via its stable of five ports in Peninsular Malaysia with a total container handling capacity of 21.3mil TEUs annually (50% higher than its peer Westports' capacity of 14mil TEUs annually). We see value in MMC Corp with its port business valued at 12x forward P/E on a stand-alone basis.

## EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM mil)	FY20 1Q	FY20 4Q	FY21 1Q	QoQ Chg	FY20 3M	FY21 3M	YoY Chg
<b>Revenue</b>	<b>1086.8</b>	<b>1293.4</b>	<b>1143.7</b>	<b>-12%</b>	<b>1086.8</b>	<b>1143.7</b>	<b>5%</b>
Cost of sales	-610.9	-695.7	-580.2	-17%	-610.9	-580.2	-5%
<b>Gross profit</b>	<b>475.9</b>	<b>597.7</b>	<b>563.5</b>	<b>-6%</b>	<b>475.9</b>	<b>563.5</b>	<b>18%</b>
Other income	49.3	68.7	39.4	-43%	49.3	39.4	-20%
Administrative expenses	-223.5	-218.5	-216.3	-1%	-223.5	-216.3	-3%
Other expenses	-87.1	-207.9	-81.2	-61%	-87.1	-81.2	-7%
<b>Profit from operations</b>	<b>214.6</b>	<b>240.0</b>	<b>305.4</b>	<b>27%</b>	<b>214.6</b>	<b>305.4</b>	<b>42%</b>
Finance costs	-172.0	-111.2	-145.0	30%	-172.0	-145.0	-16%
Shares of results of associates	40.0	38.5	36.7	-5%	40.0	36.7	-8%
Shares of results of JV	32.2	111.6	23.9	-79%	32.2	23.9	-26%
<b>PBT</b>	<b>114.8</b>	<b>278.8</b>	<b>221.0</b>	<b>-21%</b>	<b>114.8</b>	<b>221.0</b>	<b>92%</b>
Zakat	0.0	-3.6	0.0	n.m.	0.0	0.0	n.m.
Tax	-41.8	-68.7	-61.0	-11%	-41.8	-61.0	46%
<b>PAT</b>	<b>73.0</b>	<b>206.6</b>	<b>160.0</b>	<b>-23%</b>	<b>73.0</b>	<b>160.0</b>	<b>119%</b>
NCI (-)	-15.1	-27.4	-35.3	28%	-15.1	-35.3	133%
<b>Net Profit</b>	<b>57.9</b>	<b>179.1</b>	<b>124.7</b>	<b>-30%</b>	<b>57.9</b>	<b>124.7</b>	<b>115%</b>
EI	-9.1	89.6	-18.8	-121%	-9.1	-18.8	n.m.
<b>4Core net profit</b>	<b>48.8</b>	<b>268.7</b>	<b>105.9</b>	<b>-61%</b>	<b>48.8</b>	<b>105.9</b>	<b>117%</b>
EPS	2.4	6.8	5.3	-23%	2.4	5.3	119%
Core EPS	1.6	8.8	3.5	-61%	1.6	3.5	117%
<u>Margins</u>				<u>ppt</u>			<u>ppt</u>
EBIT	20%	19%	27%	8	20%	27%	7
PBT	11%	22%	19%	-2	11%	19%	9
Core net profit	4%	21%	9%	-12	4%	9%	5

Source: Company, AmlInvestment Bank Bhd

## EXHIBIT 2: SEGMENTAL BREAKDOWN

FYE Dec (RM mil)	FY20 1Q	FY20 4Q	FY21 1Q	QoQ Chg	FY20 3M	FY21 3M	YoY Chg
<b>Revenue</b>							
Port and logistics operations	801	901	904	0%	801	904	13%
Energy & utilities (Water)	0	6	6	0%	0	6	n.m.
Engineering	264	350	229	-35%	264	229	-13%
Others	22	36	5	-86%	22	5	-77%
<b>Total</b>	<b>1087</b>	<b>1293</b>	<b>1144</b>	<b>-12%</b>	<b>1087</b>	<b>1144</b>	<b>5%</b>
<b>EBIT</b>							
Port and logistics operations	225	324	325	0%	225	325	44%
Energy & utilities (Gas)	14	17	17	0%	14	17	21%
Energy & utilities (Energy)	27	15	16	7%	27	16	-41%
Energy & utilities (Water)	0	1	1	0%	0	1	n.m.
Engineering	61	146	50	-66%	61	50	-18%
Others	-40	-113	-43	-62%	-40	-43	8%
<b>Total</b>	<b>287</b>	<b>390</b>	<b>366</b>	<b>-6%</b>	<b>287</b>	<b>366</b>	<b>28%</b>
<b>PBT</b>							
Port and logistics operations	123	251	237	-6%	123	237	93%
Energy & utilities (Gas)	14	17	17	0%	14	17	21%
Energy & utilities (Energy)	27	15	16	7%	27	16	-41%
Energy & utilities (Water)	0	1	1	0%	0	1	n.m.
Engineering	61	146	50	-66%	61	50	-18%
Others	-110	-151	-100	-34%	-110	-100	-9%
<b>Total</b>	<b>115</b>	<b>279</b>	<b>221</b>	<b>-21%</b>	<b>115</b>	<b>221</b>	<b>92%</b>
<u>Operating margin by segment</u>				<u>ppt</u>			<u>ppt</u>
Port and logistics operations	28%	36%	36%	0	28%	36%	8
Energy & utilities (Water)	n.m.	17%	17%	0	n.m.	17%	n.m.
Engineering	23%	42%	22%	-20	23%	22%	-1
<b>Total</b>	<b>26%</b>	<b>30%</b>	<b>32%</b>	<b>2</b>	<b>26%</b>	<b>32%</b>	<b>6</b>

Source: Company, AmInvestment Bank Bhd

## EXHIBIT 3: SOP VALUATION

FYE Dec	Value (RM mil)	Basis
<b>Ports &amp; Logistics</b>		
Ports	6,605.0	16x FY22F earnings, a 30% discount to 23x of peers historical average
Senai Airport	160.0	Book value
<b>Engineering &amp; Construction</b>	256.8	Net profit from outstanding orderbook, discounted to NPV at a 10% discount rate
<b>Energy &amp; Utilities</b>		
Malakoff (38.5%)	1,608.7	AmBank's FV @ RM0.95 with 10% discount
Gas Malaysia (30.9%)	1,110.5	Consensus FV @ RM3.11 with 10% discount
Aliran Ihsan Resources Berhad	487.0	Acquisition cost
<b>Net Cash/(Debt)</b>	(4,957.0)	As at 31 Dec 2020 (at company level)
<b>Total Value (RM mil)</b>	<b>5,270.9</b>	
<b>No of shares</b>	<b>3,045.1</b>	
<b>FV per share</b>	<b>1.73</b>	
<b>ESG-adjusted FV</b>	<b>1.68</b>	Adjusted for a 3% discount to reflect a 2-star ESG rating

Source: Company, AmInvestment Bank Bhd

## EXHIBIT 4: OUTSTANDING CONSTRUCTION ORDER BOOK (AS AT DEC 2020)

#	Project	Total Contract Value (RM mil)	MMC's Portion	MMC's Outstanding Order Book (RM mil)	JV Partner	Overall Progress	Calendar Year																			
							2020				2021				2022				2023							
							Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
1	MRT Line 2 : Sg. Buloh - Serdang - Putrajaya (38.7km) - Overall (Elevated, Underground & System)	17,420	50%	1,503	Gamuda	85.1%																				
2	MRT Line 2 : Sg. Buloh - Serdang - Putrajaya (13.5 km) - Underground Works	13,110	50%	984	Gamuda	83.2%																				
3	Langat Sewerage Project (MMC PLSB)	1,505	100%	124	-	91.6%																				
4	Sungai Pulai Bridge	565	60%	166	CHEC	50.4%																				
5	PGU-I Gas Pipeline	131	100%	90	-	25.8%																				
6	Upgrading NBCT for Penang Port	155	100%	3.4	-	100%																				
7	Langat 2 Water Treatment Plant*	994	50%	24	Salcon	100%																				
8	Other projects	163	100%	59	-	-																				
	<b>TOTAL</b>	<b>34,043</b>		<b>2,953</b>																						

7) Completed on July 2020, currently pending for EOT, CPC and final claims.

8) Other projects: MADA, Rehabilitation works of Container Terminal Yard and ancillary works at Johor Port Berhad, Development of New Container Yard for the purpose of laden &amp; empty containers at JPB, Design &amp; Build contractor for the proposed arrival hall expansion and construction of new passenger holding lounge for Senai International Airport and Proposed Development of 3 Single-Storey Warehouse at NDSB 2 Logistics Hub for Northport (M) Berhad

Source: Company

**EXHIBIT 5: ESG RATING**

<b>Overall</b>	★	★			
Zero-carbon initiatives	★	★			
Pollution control	★	★			
Sustainable industrialization	★	★	★	★	
Diversity and inclusion	★	★			
Employees welfare	★	★	★		
Corporate social responsibilities	★	★	★		
Accessibility & transparency	★	★			
Supply chain auditing	★	★			

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

**EXHIBIT 6: PB BAND CHART**



**EXHIBIT 7: PE BAND CHART**



**DISCLOSURE AND DISCLAIMER**

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.