

MMC Corporation Berhad

(2194 | MMC MK) Transportation & Logistics | Industrials

The Best Kind of Start to FY21

KEY INVESTMENT HIGHLIGHTS

- 1QFY20 core PATAMI grew at +156.0%yoy
- Performance was underpinned by higher container throughput at PTP and NMB
- Sanguine that the year 2021 will bode well for ports players
- Avoidance of total lockdown by Government of Malaysia is a positive for MMC
- Maintain our earnings estimate for FY21
- Maintain BUY with an unchanged TP of RM1.30 per share

Above expectation. MMC Corp recorded a 1QFY21 core PATAMI of RM124.7m (-15%qoq and +156.0%yoy) on the back of a higher revenue recorded at RM1.14b (-16.0%qoq and +5.0%yoy). This came in as a positive surprise as earnings deviated from ours and consensus expectation by +9.2% and +11.8% respectively.

Port's segment is doing well. On a quarterly sequential basis, top line for ports and logistics improved slightly by +0.33%qoq and +13.0%yoy. At PBT level for 1QFY21, the segment saw encouraging improvement as PBT increased by +93.0%yoy to RM237.0m, albeit lower sequential result at -6.0%qoq. Performance of the segment was underpinned by the higher container throughput handled at Port of Tanjung Pelepas (PTP) and Northport Malaysia (NMB). This includes a small gain from sublease of land at PTP. Relatively, other ports in MMC's stable saw lower volume handled throughout the period. This certainly was the right start of the year for the group given the gradual economic recovery around the globe despite the unabated pandemic.

Engineering and Construction shows decline. For 1QFY21, Engineering and Construction segment recorded a lower revenue of RM229.0m (-43.0%qoq and -13%yoy). PBT also showed contraction to the tune of -18.0%yoy and -18%yoy at RM50.0m. The poor performance was mainly contributed by lower work progress from KVMRT-SSP Line due to completion of tunnelling works and impact of Covid-19. As of now, the dismal performance of the segment was cushioned by the stellar performance from Ports which improved the group overall performance. Moving forward, the segment is potentially a beneficiary of the anticipated economic recovery and expansionary Budget 2021 which increase the development expenditure allocation by 38% as compared to Budget 2020.

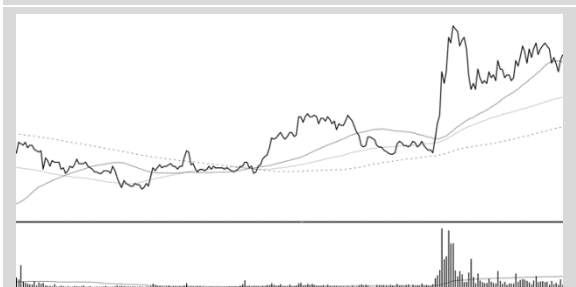
Group prospects is bright. We remain sanguine that the year 2021 will bode well for ports players such as MMC as it will ride the tailwind of economic recovery without the disruptions caused by any unplanned lockdown that could hinder movement of trades. We believe avoidance of total lockdown by Government of Malaysia is a positive for MMC as the economic sector will remain open.

Maintain BUY
Unchanged Target Price: RM1.30

RETURN STATISTICS

Price @ 24 th May 2021 (RM)	1.12
Expected share price return (%)	+16.1
Expected dividend yield (%)	+3.5
Expected total return (%)	+19.6

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.6	-0.3
3 months	8.7	40.5
12 months	31.8	20.4


KEY STATISTICS

FBM KLCI	1,571.82
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star Rating)	☆☆☆
Issue shares (m)	3045.06
Estimated free float (%)	20.29
Market Capitalisation (RM'm)	3,410.47
52-wk price range	RM0.66 - RM1.26
Beta vs FBM KLCI (x)	1.47
Monthly velocity (%)	0.00
Monthly volatility (%)	31.94
3-mth average daily volume (m)	23.69
3-mth average daily value (RM'm)	25.68
Top Shareholders (%)	
Seaport Terminal Johore Sdn Bhd	51.76
Amanah Saham Nasional Bhd	20.31
Urusharta Jamaah Sdn Bhd	3.40

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Maintain Earnings estimates. Due to the positive performance, we are maintaining our earnings estimate for FY21E.

Target price. We are maintaining our target price at **RM1.30 per share** for now based on sum-of-the-parts valuation with a discount of 40%.

Maintain BUY. We opine that PTP's role as a transshipment hub will act as a cushion for other MMC Corp's ports which rely heavily on gateway containers. Therefore, this will prevent MMC Corp's overall container throughput from declining by more than -10.0% annually. In addition, we expect MMC Corp's container throughput to recover in FY21, in line with the recovery in Malaysia's GDP. Our economics team are expecting Malaysia's GDP to grow by 6.2% this year. Furthermore, 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, ensuring sustainability of TEU's volume. Key downside risks to our call include: (i) rampant Covid-19 outbreak at key facilities; (ii) weaker than expected 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 unchanged target price of **RM1.30 per share**. 

INVESTMENT STATISTICS

Income Statement	2019A	2020A	2021E	2022F	2023F
Revenue	4,717.3	4,489.4	5,014.7	5,363.1	5,389.7
Cost of Sales	(2,814.1)	(2,453.1)	(2,957.7)	(3,055.9)	(3,035.0)
Net Opex	(995.1)	(1,141.0)	(1,129.2)	(1,340.8)	(1,325.2)
EBIT	908.1	895.3	927.8	966.4	1,029.5
Finance Cost	(677.1)	(616.3)	(574.5)	(583.9)	(518.2)
Assoc. and JV	301.8	366.5	345.0	359.4	357.0
PBT	532.8	645.5	698.2	741.9	868.2
Tax & Zakat	(232.4)	(199.8)	(243.1)	(260.3)	(286.1)
PAT	300.4	445.7	455.2	481.6	582.1
PATAMI	255.2	375.3	364.1	385.3	465.7
Core PATAMI	241.1	338.5	364.1	385.3	465.7
Core EPS	0.08	0.11	0.120	0.127	0.15
Dividend Yield	4.7%	2.0%	3.5%	3.5%	3.5%
P/E (x)	12.0	6.8	10.7	10.1	8.4

MMC: 1Q21 RESULTS SUMMARY

Income Statement	Quarterly Results					Cumulative		
	1Q21	4Q20	1Q20	QoQ	YoY	3M21	3M20	YoY
Revenue	1,143.7	1,293.4	1,086.8	-12%	5%	1,143.7	1,086.8	5%
Cost of Sales	(580.2)	(695.7)	(610.9)	17%	5%	(580.2)	(610.9)	5%
Net Operating Expenses	(258.1)	(357.7)	(261.3)	28%	1%	(258.1)	(261.3)	1%
EBIT	305.4	240.0	214.6	27%	42%	305.4	214.6	42%
Finance Cost	(145.0)	(111.2)	(172.0)	-30%	16%	(145.0)	(172.0)	16%
Assoc. and JV	60.6	150.0	72.2	-60%	-16%	60.6	72.2	-16%
PBT	221.0	278.8	114.8	-21%	92%	221.0	114.8	92%
Tax and Zakat	(61.0)	(72.3)	(41.8)	16%	-46%	(61.0)	(41.8)	-46%
PAT	160.0	206.6	73.0	-23%	119%	160.0	73.0	119%
Minority Interests	(35.3)	(27.4)	(15.1)	-28%	-133%	(35.3)	(15.1)	-133%
PATAMI	124.7	179.1	57.9	-30%	115%	124.7	57.9	115%
Core Earnings	124.7	146.8	48.8	-15%	156%	124.7	48.8	156%

MMC: 1Q21 RESULTS SUMMARY

Ports & Logistics	1Q21	4Q20	1Q20	QoQ	YoY	3M21	3M20	YoY
Revenue	904.0	901.0	800.6	0.33%	13%	3,230.0	3,204.0	1%
PBT	237.0	251.0	122.7	-6%	93%	599.0	449.0	33%

Engineering & Construction	1Q21	4Q20	1Q20	QoQ	YoY	3M21	3M20	YoY
Revenue	229.0	400.0	264.4	-43%	-13%	1,161.0	1,422.0	-18%
PBT	50.0	146.0	61.0	-66%	-18%	322.0	289.0	11%

Source: Company, MIDFR

MMC Corporation SOTP Valuation

Assets	Total Value (RM mil)	Remarks
Ports and Logistics	MYR 2,697.5	PE @ 13.5x FY21 PAT
Engineering and Constructions	MYR 215.7	NPV of PAT from Outstanding Orderbook, discounted at 10%
Gas Malaysia (30.9%)	MYR 1,233.9	MIDF Fair Value at RM3.11
Malakoff (38.5%)	MYR 1,862.7	Consensus Target Price at RM0.99
Aliran Ihsan (100%)	MYR 487.0	Takeover Price
SOP Values	MYR 6,496.8	
Number of shares	3,045.10	
SOP Value/share	2.13	
Conglomerate Discount	40%	Conglomerate Discount
Target Price	MYR 1.3	

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.
HOLD	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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology