



## Company report

# MMC CORPORATION

(MMC MK EQUITY, MMCB.KL)

26 Aug 2020

PTP shrugs off Covid-19

## BUY

(Maintained)

AmInvestment Bank

www.amequities.com.my

03-2036 2240

Rationale for report: Company update

Price	RM0.74
Fair Value	RM1.56
52-week High/Low	RM1.16/RM0.45

### Key Changes

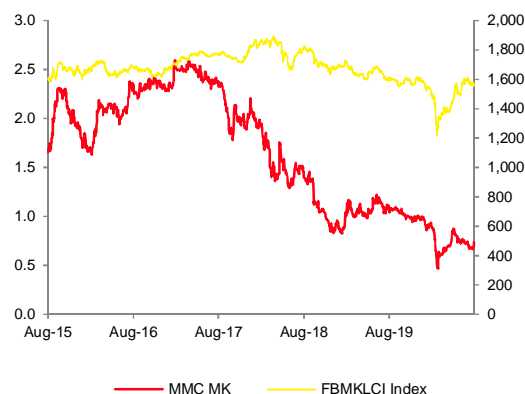
Fair value	↑
EPS	↑

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	4,717.3	4,595.2	5,354.3	6,196.4
Core net profit (RM mil)	248.0	303.2	341.2	364.9
FD Core EPS (sen)	8.1	10.0	11.2	12.0
FD Core EPS growth (%)	69.7	22.2	12.5	7.0
Consensus Net Profit (RM mil)	-	238.5	273.3	326.7
DPS (sen)	4.6	5.5	6.2	6.6
PE (x)	9.1	7.4	6.6	6.2
EV/EBITDA (x)	6.2	15.3	13.9	16.1
Div yield (%)	6.2	7.4	8.3	8.9
ROE (%)	2.7	3.1	3.5	3.6
Net Gearing (%)	82.6	81.7	81.6	105.5

### Stock and Financial Data

Shares Outstanding (million)	3,045.1
Market Cap (RM mil)	2,253.3
Book Value (RM/share)	3.18
P/BV (x)	0.2
ROE (%)	2.7
Net Gearing (%)	82.6
Major Shareholders	Seaport Terminal (Johore) Sdn Bhd(51.8%) Amanahraya Trustees Berhad(20.3%) Urusharla Jamaah Sdn Bhd(3.4%)
Free Float	24.5
Avg Daily Value (RM mil)	3.8

Price performance	3mth	6mth	12mth
Absolute (%)	(12.9)	(17.8)	(33.3)
Relative (%)	(19.6)	(20.6)	(31.0)



### Investment Highlights

- We raise our FY20F–FY22F net profit forecasts by 3%, 5% and 3% respectively, and increase our FV by 5% to RM1.56 (from RM1.49 previously) based on sum-of-parts (SOP) valuation (Exhibit 1), valuing its ports division at 16x FY21F EPS. This is at a 30% discount to its peers' historical average to reflect its lower margins. We maintain our BUY recommendation.
- We came away from MMC's analyst briefing yesterday feeling positive. The key takeaways are as follows:

- MMC guided for flattish/small growth in container throughput volume at the Port of Tanjung Pelepas (PTP) in FY20F as it continues to gain in market share from neighbouring ports (driven by competitive rates and improved operational efficiencies) and benefit from trade diversion.

Already, cumulatively in 1HFY20, PTP recorded a 1% YoY growth in throughput volume (PTP contributes ~65% of MMC's total container throughput volume). This helped to cushion a 7% fall in container volume in other ports (Johor Port, Northport and Penang Port), resulting in its total container throughput contracting by only 2%. On a quarterly basis, PTP has already seen the worst in 2QFY20 with container throughput volume shrinking by 7% YoY. PTP has already been registering an uptick in the number since 2HFY20F.

- Meanwhile, PTP continues its efforts to rationalise costs to improve margins and operational efficiencies. To date, the port has managed to save up to RM12.2mil from the initiatives including procurement contract renegotiation, MSS scheme, overtime reduction, insourcing of engineering work, etc. (Exhibit 3).

Over the longer term, the group is also investing RM140mil to expand its free trade zone (to attract more multinational companies to set up factories around PTP, which will help to generate throughput volumes for the port), optimising its current footprint capacity, as well as embarking on digitalization and automation at its port.

3. For the construction segment, the group is working on replenishing its order book. YTD, the group has submitted around five tenders, with the aim of maintaining its target of RM5bil outstanding order book. The group will continue to focus on projects in the niche segments within its expertise such as marine, utilities and rail-related projects, which include the MRT3 (where it is actively pitching to the government to kick-start the project), the PGU-I gas pipeline replacement project and other EPC work packages.
- Our earnings upgrade is to reflect more resilient total container throughput volume growth assumptions of a 2% contraction in FY20F, followed by a 3% growth in FY21F (vs. a 7% contraction in FY20F and a 5% growth in FY21F projected previously).
  - The outlook for the port sector in the region (Malaysia included) 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 peer Westports' capacity of 14mil TEUs annually). We see value in MMC Corp with its port business valued at 9x forward P/E on a stand-alone basis.

## EXHIBIT 1: SOP VALUATION

FYE Dec	Value (RM mil)	Basis
<b>Ports &amp; Logistics</b>		
Ports	5,836.5	16x FY21F earnings, a 30% discount to 23x of peers historical average
Senai Airport	160.0	Book value as at Dec 2018
<b>Engineering &amp; Construction</b>	366.5	Net profit from outstanding orderbook, discounted to NPV at a 10% discount rate
<b>Energy &amp; Utilities</b>		
Malakoff (38.5%)	1,862.7	AmBank's FV @ RM1.10 with 10% discount
Gas Malaysia (30.9%)	1,071.2	Consensus FV @ RM3.00 with 10% discount
Aliran Ihsan Resources Berhad	487.0	Acquisition cost
<b>Net Cash/(Debt)</b>	(5,047.3)	As at 31 Dec 2019 (at company level)
<b>Total Value (RM mil)</b>	<b>4,736.6</b>	
<b>No of shares</b>	<b>3,045.1</b>	
<b>FV per share</b>	<b>1.56</b>	

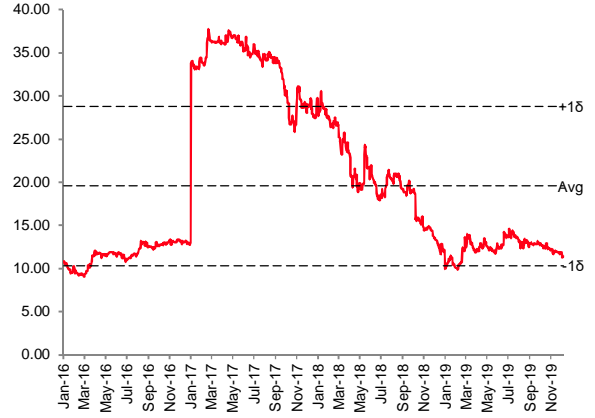
Source: Company, AmInvestment Bank Bhd



**EXHIBIT 4: PB BAND CHART**



**EXHIBIT 5: PE BAND CHART**



## EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	4,983.8	4,717.3	4,595.2	5,354.3	6,196.4
EBITDA	900.4	1,641.0	670.4	749.0	804.9
Depreciation/Amortisation	(159.2)	(732.9)	(146.8)	(171.0)	(197.9)
Operating income (EBIT)	741.2	908.1	523.6	578.0	606.9
Other income & associates	206.8	301.8	328.3	326.6	335.7
Net interest	(545.1)	(677.1)	(400.2)	(403.7)	(411.0)
<b>Exceptional items</b>	-	-	-	-	-
Pretax profit	402.9	532.8	451.7	500.9	531.7
Taxation	(135.9)	(232.4)	(103.2)	(114.5)	(121.5)
<b>Minorities/pref dividends</b>	<b>47.0</b>	<b>45.3</b>	<b>45.3</b>	<b>45.3</b>	<b>45.3</b>
Net profit	220.1	255.2	303.2	341.2	364.9
Core net profit	146.2	248.0	303.2	341.2	364.9
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Fixed assets	9,481.9	9,456.6	9,999.1	10,631.2	11,362.7
Intangible assets	2,652.0	2,786.1	2,920.1	3,054.2	3,188.3
<b>Other long-term assets</b>	<b>8,502.0</b>	<b>8,669.8</b>	<b>8,864.0</b>	<b>9,056.5</b>	<b>9,258.2</b>
Total non-current assets	20,635.9	20,912.4	21,783.2	22,741.9	23,809.1
Cash & equivalent	1,055.7	2,696.0	2,663.6	2,556.8	-
Stock	104.7	104.7	104.7	104.7	104.7
Trade debtors	2,225.0	2,225.0	2,225.0	2,225.0	2,225.0
<b>Other current assets</b>	<b>1,283.7</b>	<b>1,283.7</b>	<b>1,283.7</b>	<b>1,283.7</b>	<b>1,283.7</b>
Total current assets	4,669.1	6,309.4	6,277.0	6,170.2	3,613.4
Trade creditors	1,882.5	1,882.5	1,882.5	1,882.5	1,882.5
Short-term borrowings	2,537.2	2,537.2	2,537.2	2,537.2	2,537.2
<b>Other current liabilities</b>	<b>863.2</b>	<b>863.2</b>	<b>863.2</b>	<b>863.2</b>	<b>863.2</b>
Total current liabilities	5,282.9	5,282.9	5,282.9	5,282.9	5,282.9
Long-term borrowings	8,146.2	8,146.2	8,146.2	8,146.2	8,146.2
<b>Other long-term liabilities</b>	<b>1,583.0</b>	<b>1,583.0</b>	<b>1,583.0</b>	<b>1,583.0</b>	<b>1,583.0</b>
<b>Total long-term liabilities</b>	<b>9,729.2</b>	<b>9,729.2</b>	<b>9,729.2</b>	<b>9,729.2</b>	<b>9,729.2</b>
Shareholders' funds	9,559.7	9,674.5	9,810.9	9,964.4	10,128.6
Minority interests	733.2	733.2	733.2	733.2	733.2
BV/share (RM)	3.14	3.18	3.22	3.27	3.33
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Pretax profit	402.9	532.8	451.7	500.9	531.7
Depreciation/Amortisation	159.2	732.9	146.8	171.0	197.9
Net change in working capital	(15.3)	-	-	-	-
<b>Others</b>	<b>581.3</b>	<b>746.5</b>	<b>625.2</b>	<b>615.8</b>	<b>625.2</b>
Cash flow from operations	1,128.2	2,012.3	1,223.8	1,287.7	1,354.8
Capital expenditure	(1.5)	-	-	-	-
Net investments & sale of fixed assets	(927.8)	(707.6)	(689.3)	(803.1)	(929.5)
<b>Others</b>	<b>467.2</b>	-	-	-	-
Cash flow from investing	(462.1)	(707.6)	(689.3)	(803.1)	(929.5)
Debt raised/(repaid)	833.4	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(152.7)	(140.3)	(166.8)	(187.6)	(200.7)
<b>Others</b>	<b>(558.0)</b>	<b>(677.1)</b>	<b>(400.2)</b>	<b>(403.7)</b>	<b>(411.0)</b>
<b>Cash flow from financing</b>	<b>122.6</b>	<b>(817.4)</b>	<b>(566.9)</b>	<b>(591.3)</b>	<b>(611.7)</b>
<b>Net cash flow</b>	<b>788.7</b>	<b>487.3</b>	<b>(32.5)</b>	<b>(106.7)</b>	<b>(186.3)</b>
<b>Net cash/(debt) b/f</b>	<b>558.0</b>	<b>(22.8)</b>	<b>802.7</b>	<b>770.3</b>	<b>663.5</b>
Net cash/(debt) c/f	1,354.8	464.4	770.3	663.5	477.2
<b>Key Ratios (YE31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Revenue growth (%)	19.8	(5.3)	(2.6)	16.5	15.7
EBITDA growth (%)	7.4	82.3	(59.1)	11.7	7.5
Pretax margin (%)	8.1	11.3	9.8	9.4	8.6
Net profit margin (%)	4.4	5.4	6.6	6.4	5.9
Interest cover (x)	1.4	1.3	1.3	1.4	1.5
Effective tax rate (%)	33.7	43.6	22.9	22.9	22.9
Dividend payout (%)	42.1	41.8	41.8	41.8	41.8
Debtors turnover (days)	163	172	177	152	131
Stock turnover (days)	9	12	10	8	7
Creditors turnover (days)	168	223	175	149	127

Source: Company, AmInvestment Bank Bhd estimates

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