



AmInvestment Bank

## Company report

## MMC CORPORATION

(MMC MK EQUITY, MMCB.KL)

21 May 2020

Southern ports still recorded growth in 1QFY20

BUY

(Maintained)

AmInvestment Bank

www.amequities.com.my

03-2036 2240

Rationale for report: Company results

Price	RM0.76
Fair Value	RM1.13
52-week High/Low	RM1.25/RM0.45

## Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	4,717.3	4,230.4	5,151.6	6,125.2
Core net profit (RM mil)	248.0	208.2	243.6	282.6
FD Core EPS (sen)	8.1	6.8	8.0	9.3
FD Core EPS growth (%)	69.7	(16.1)	17.0	16.0
Consensus Net Profit (RM mil)	-	236.0	267.3	301.5
DPS (sen)	4.6	3.8	4.4	5.1
PE (x)	9.3	11.0	9.4	8.1
EV/EBITDA (x)	9.7	18.0	16.2	17.5
Div yield (%)	6.7	5.5	6.4	7.4
ROE (%)	2.7	2.1	2.5	2.8
Net Gearing (%)	82.6	82.5	83.2	84.2

## Stock and Financial Data

Shares Outstanding (million)	3,045.1
Market Cap (RMmil)	2,299.0

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(18.2%) Urusharta Jamaah Sdn Bhd(7.7%)
--------------------	-----------------------------------------------------------------------------------------------------------------

Free Float	22.4
Avg Daily Value (RMmil)	6.7

Price performance	3mth	6mth	12mth
Absolute (%)	(17.9)	(23.7)	(24.5)
Relative (%)	(12.2)	(14.9)	(15.5)



— MMC MK — FBMKLCI Index

## Investment Highlights

- We maintain our forecasts and FV of RM1.13 based on sum-of-parts (SOP) valuation (Exhibit 1) valuing its ports division at 16x FY21F EPS (a 30% discount to its peers' historical average to reflect its lower margins and a growing consensus of a steep downturn in the global economy, and hence global trade, due to the Covid-19 pandemic). We maintain our BUY recommendation.
- MMC's 1QFY20 core net profit of RM63.9mil (adjusted for disposal gains) came in at 31% and 27% of our full-year forecast and consensus estimate respectively. We consider the results within expectations as we expect weaker quarters ahead in the fallout of the Covid-19 pandemic.
- MMC's 1QFY20 core net profit eased slightly by 2% YoY, mainly due to lower volume handled at Northport, lower contribution from logistics services (particularly Kontena Nasional), lower work progress from underground work packages for the MRT2 project, lower passenger and cargo volumes at Senai Airport and higher other operating expenses. These were partly cushioned by higher cargo volumes handled at Pelabuhan Tanjung Pelepas (PTP) and Johor Port, as well as better results of associates, namely Malakoff (due to contribution from Alam Flora following the completion of its acquisition on 5 Dec 2019) and Gas Malaysia (on the back of higher gas contribution and lower other costs of sales). Also helping were higher interest income and lower operating expenses at the MRT2 project.
- MMC plans to continue investing in its ports infrastructure and expand capacities to improve operational and cost efficiencies. On the construction side, the group will continue to bid for new jobs while focusing on the execution and timely completion of its existing projects.
- 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).
- While we are mindful of the soft patch ahead amidst a major slump in the world economy in the aftermath of the Covid-19 pandemic, we believe the sell-down on MMC Corp has been overdone. 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)	FY19 4Q	FY20 1Q	QoQ Chg	FY19 3M	FY20 3M	YoY Chg
<b>Revenue</b>	<b>1098.1</b>	<b>1086.8</b>	<b>-1%</b>	<b>1143.2</b>	<b>1086.8</b>	<b>-5%</b>
Cost of sales	-557.5	-610.9	10%	-705.6	-610.9	-13%
<b>Gross profit</b>	<b>540.6</b>	<b>475.9</b>	<b>-12%</b>	<b>437.6</b>	<b>475.9</b>	<b>9%</b>
Other income	54.7	49.3	-10%	35.3	49.3	40%
Administrative expenses	-213.0	-223.5	5%	-196.5	-223.5	14%
Other expenses	-113.4	-87.1	-23%	-80.6	-87.1	8%
<b>Profit from operations</b>	<b>269.0</b>	<b>214.6</b>	<b>-20%</b>	<b>195.9</b>	<b>214.6</b>	<b>10%</b>
Finance costs	-163.8	-172.0	5%	-170.9	-172.0	1%
Shares of results of associates	48.8	40.0	-18%	35.0	40.0	14%
Shares of results of JV	38.2	32.2	-16%	28.5	32.2	13%
<b>PBT</b>	<b>192.2</b>	<b>114.8</b>	<b>-40%</b>	<b>88.5</b>	<b>114.8</b>	<b>30%</b>
Zakat	-3.5	0.0	-100%	0.0	0.0	n.m.
Tax	-112.7	-41.8	-63%	-23.6	-41.8	77%
<b>PAT</b>	<b>76.0</b>	<b>73.0</b>	<b>-4%</b>	<b>64.9</b>	<b>73.0</b>	<b>13%</b>
El	-7.2	-9.1	26%	0.0	-9.1	n.m.
<b>Core net profit</b>	<b>68.8</b>	<b>63.9</b>	<b>-7%</b>	<b>64.9</b>	<b>63.9</b>	<b>-2%</b>
EPS	2.5	2.4	-4%	2.1	2.4	13%
Core EPS	2.3	2.1	-7%	2.1	2.1	-2%
<u>Margins</u>			<u>ppt</u>			<u>ppt</u>
EBIT	24%	20%	-5	17%	20%	3
PBT	18%	11%	-7	8%	11%	3
Core net profit	6%	6%	0	6%	6%	0
Segmental breakdown						
<b>Revenue</b>						
Port and logistics operations	825	801	-3%	780	801	3%
Engineering	242	264	9%	338	264	-22%
Others	31	22	-29%	25	22	-12%
<b>Total</b>	<b>1098</b>	<b>1087</b>	<b>-1%</b>	<b>1143</b>	<b>1087</b>	<b>-5%</b>
<b>EBIT</b>						
Port and logistics operations	236	225	-5%	201	225	12%
Energy & utilities (Gas)	18	14	-22%	13	14	8%
Energy & utilities (Energy)	35	27	-23%	19	27	42%
Engineering	106	61	-42%	49	61	24%
Others	-39	-40	3%	-23	-40	74%
<b>Total</b>	<b>356</b>	<b>287</b>	<b>-19%</b>	<b>259</b>	<b>287</b>	<b>11%</b>
<u>Operating margin by segment</u>			<u>ppt</u>			<u>ppt</u>
Port and logistics operations	29%	28%	-1	26%	28%	2
Engineering	44%	23%	-21	14%	23%	9
Others	-126%	-182%	-56	-92%	-182%	-90
<b>Total</b>	<b>32%</b>	<b>26%</b>	<b>-6</b>	<b>23%</b>	<b>26%</b>	<b>4</b>

Source: Company, AmlInvestment Bank Bhd

## EXHIBIT 2: SOP VALUATION

FYE Dec	Value (RM mil)	Basis
<b>Ports &amp; Logistics</b>		
Ports	4,678.2	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>	406.5	Net profit from outstanding orderbook (Exhibit 2), discounted to NPV at a 10% discount rate
<b>Energy &amp; Utilities</b>		
Malakoff (38.4%)	1,728.0	AmBank's FV @ RM1.00 with 10% holding company discount
Gas Malaysia (30.9%)	1,057.0	Consensus FV @ RM2.96 with 10% holding company discount
Aliran Ihsan Resources Berhad	487.0	Acquisition cost
<b>Net Cash/(Debt)</b>	(5,047.3)	As at 31 Dec 2019 (at the company level)
<b>Total Value (RM mil)</b>	<b>3,469.4</b>	
<b>No of shares</b>	<b>3,045.1</b>	
<b>FV per share</b>	<b>1.13</b>	

Source: Company, AmInvestment Bank Bhd

## EXHIBIT 3: OUTSTANDING CONSTRUCTION ORDER BOOK (AS AT DEC 2019)

No	Project	JV Partner	Value (RM mil)	Effective Remaining Order Book	Award Date	Progress	Target Completion
1	Langat sewerage project	N/A	1,505.0	302.0	Nov-15	85.4%	Feb-23
2	Langat 2 water treatment plant	Salcon	497.0	18.8	Apr-14	99.3%	Stage 1: Sept-19 Stage 2: Dec-19
3	MRT2: Sg Buloh-Serdang-Putrajaya (38.7km – elevated)	Gamuda	8,710.0	4,040.7	Jul-15	69.5%	Jul-22
4	MRT2: Sg Buloh-Serdang-Putrajaya (13.5km – underground)	Gamuda	6,555.0	1,801.5	Mar-16	72.0%	May-22
5	Sungai Pulai Bridge	CHEC	339.0	237.7	Oct-17	26.9%	Dec-21
6	Upgrading North Butterworth Container Terminal for Penang Port	-	155.0	39.3	Dec-18	75.3%	Oct-20
<b>Total project value</b>			<b>17,761.0</b>				
<b>MMC effective remaining order book</b>				<b>6,440.0</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	4,230.4	5,151.6	6,125.2
EBITDA	900.4	1,058.7	574.9	648.6	740.5
Depreciation/Amortisation	(159.2)	(150.7)	(135.1)	(164.6)	(195.7)
Operating income (EBIT)	741.2	908.1	439.7	484.0	544.8
Other income & associates	206.8	301.8	290.0	297.2	297.2
Net interest	(545.1)	(677.1)	(401.1)	(406.8)	(417.0)
<b>Exceptional items</b>	-	-	-	-	-
Pretax profit	402.9	532.8	328.6	374.4	425.0
Taxation	(135.9)	(232.4)	(75.1)	(85.6)	(97.1)
<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	208.2	243.6	282.6
Core net profit	146.2	248.0	208.2	243.6	282.6
<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	10,038.8	10,538.2	11,146.4	11,869.5
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>8,825.7</b>	<b>8,988.8</b>	<b>9,152.0</b>
Total non-current assets	20,635.9	21,494.6	22,284.0	23,189.4	24,209.7
Cash & equivalent	1,055.7	2,696.0	2,625.5	2,469.4	-
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	6,238.9	6,082.8	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	9,768.2	9,877.8	10,004.9
Minority interests	733.2	733.2	733.2	733.2	733.2
BV/share (RM)	3.14	3.18	3.21	3.24	3.29
<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	328.6	374.4	425.0
Depreciation/Amortisation	159.2	150.7	135.1	164.6	195.7
Net change in working capital	(15.3)	-	-	-	-
<b>Others</b>	<b>581.3</b>	<b>746.5</b>	<b>616.0</b>	<b>618.4</b>	<b>617.1</b>
Cash flow from operations	1,128.2	1,430.1	1,079.7	1,157.4	1,237.8
Capital expenditure	(1.5)	-	-	-	-
Net investments & sale of fixed assets	(927.8)	(707.6)	(634.6)	(772.7)	(918.8)
<b>Others</b>	<b>467.2</b>	-	-	-	-
Cash flow from investing	(462.1)	(707.6)	(634.6)	(772.7)	(918.8)
Debt raised/(repaid)	833.4	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(152.7)	(140.3)	(114.5)	(134.0)	(155.4)
<b>Others</b>	<b>(558.0)</b>	<b>(677.1)</b>	<b>(401.1)</b>	<b>(406.8)</b>	<b>(417.0)</b>
<b>Cash flow from financing</b>	<b>122.6</b>	<b>(817.4)</b>	<b>(515.6)</b>	<b>(540.8)</b>	<b>(572.5)</b>
<b>Net cash flow</b>	<b>788.7</b>	<b>(95.0)</b>	<b>(70.5)</b>	<b>(156.1)</b>	<b>(253.5)</b>
<b>Net cash/(debt) b/f</b>	<b>558.0</b>	<b>(22.8)</b>	<b>802.7</b>	<b>732.2</b>	<b>576.1</b>
Net cash/(debt) c/f	1,354.8	(117.8)	732.2	576.1	322.7
<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)	(10.3)	21.8	18.9
EBITDA growth (%)	7.4	17.6	(45.7)	12.8	14.2
Pretax margin (%)	8.1	11.3	7.8	7.3	6.9
Net profit margin (%)	4.4	5.4	4.9	4.7	4.6
Interest cover (x)	1.4	1.3	1.1	1.2	1.3
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	192	158	133
Stock turnover (days)	9	10	10	8	7
Creditors turnover (days)	168	188	188	153	128

Source: Company, AmlInvestment Bank Bhd estimates

**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.