

# MMC Corporation Berhad

(2194 | MMC MK) Transportation & Logistics | Industrials

## Ripe for value revision

### KEY INVESTMENT HIGHLIGHTS

- **PTP recorded 7.07m TEU's for 9MFY20, or +5.0%yoy growth**
- **MMC bidding circa RM5.0b worth of contracts**
- **MMC is ripe for value revision as the group has proven to be resilient amid the pandemic**
- **Revise our earnings estimate for FY20E by +9%**
- **Maintain BUY with a revised TP of RM1.30 per share**

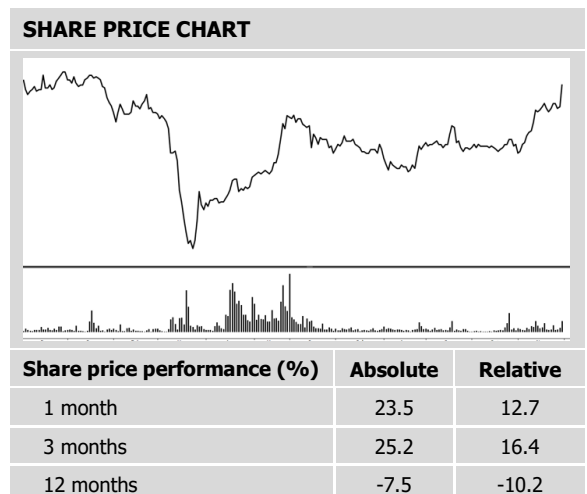
**PTP The Performer.** Based on our observation on MMC's ports statistics, we take note that Pelabuhan Tanjung Pelepas (PTP) has managed to grow its TEU's volume despite the trade turbulence due to the pandemic. PTP has recorded 7.07m TEUs for its YTD 9MFY20, or +5.0%yoy growth. In contrast, other major ports in MMC's stable are not faring as well for the current year. In terms of container volumes for 9MFY20, Penang Port recorded highest decline at -7.0%yoy, followed by Northport at -6.0%yoy while Johor Port showing the least decline in TEUs volume at only -3%yoy contraction. Furthermore, the strength in TEUs volume for PTP is also translated into financial performance as revenue for PTP has increased by +7.4%yoy to RM1.06b from RM989.0m during the same period last year. This performance is contrary to our previous forecast that surmised PTP potentially showing a negative contraction this year at -3.0%yoy. Evidently, we no longer hold the same bearish stance. Moving forward, we posit PTP and other ports owned by MMC to fully recover in FY21 as trade activities have started to resume in earnest as evidenced from recovery of key shipping lanes such as intra-Asia, Asia-Europe and Asia-Australasia, among others.

**Unlocking land value.** Recall that MMC Corp had established its Senai Airport City (SAC), an integrated industry park that is expected to service various industrial segments. The last sale of land took place in August 2015 whereby three parcels of land totalling 188.7 acres (76.4ha) was sold to I-Park Sdn Bhd for RM370.0m cash, a price that was more than double its original purchase price of RM140.5m. Other occupants/tenants of the SAC include Fuji Oil, Hershey's Chocolate and EcoWorld. According to the management, there are 1,221 acres of remaining land bank in SAC. SAC has managed to sign SPAs with three parties covering 19.3 acres of land while another circa 92.50 acres in the pipeline.

Assuming a price of RM50 per sqft, MMC Corp will potentially unlock revenue of around RM243.5m from sale of lands in SAC covering a total of 111.8 acres of land. Looking ahead, we do not discount the possibility of the potential land sale to take place in the coming years due to the limited land availability in Singapore, prompting businesses to shift part of their distribution or manufacturing operations to SAC.

**Maintain BUY**  
**Revised Target Price: RM1.30**  
 (Previously RM1.21)

RETURN STATISTICS	
Price @ 27 <sup>th</sup> November 2020	<b>0.920</b>
Expected share price return (%)	<b>+41.30</b>
Expected dividend yield (%)	<b>+5.00</b>
<b>Expected total return (%)</b>	<b>+46.30</b>




KEY STATISTICS	
FBM KLCI	1,607.59
Syariah compliant	Yes
Issue shares (m)	3045.06
Estimated free float (%)	20.29
Market Capitalisation (RM'm)	2,801.45
52-wk price range	RM0.45 - RM1.05
Beta vs FBM KLCI (x)	1.48
Monthly velocity (%)	0.00
Monthly volatility (%)	31.94
3-mth average daily volume (m)	2.78
3-mth average daily value (RM'm)	2.20
Top Shareholders (%)	
Seaport Terminal Johore Sdn Bhd	51.76
Amanah Saham Nasional Bhd	20.31
Urusharta Jamaah Sdn Bhd	3.40

**Limited visibility of its order book.** Currently, MMC's order book stands at RM3.9b with the biggest portion deriving from MRT 2 projects. However, despite the good size of its order book, the visibility of the contract is only until 1QFY23, upon the expiry of Langat Sewerage Project. Management guided that replenishment is on its way as they are bidding circa RM5.0b worth of contracts which include projects related to water treatment plant, gas pipelines, jetty expansion Putrajaya rail and KLIA projects. To note, this RM5.0b estimate excludes the potential job win from MRT 3. To recap, MRT 3 (est. size at ~RM40.0b) was scrapped under the previous government due to debt rationalization, only to be reinstated with a revised cost of about 50% less than its initial price tag (pending finalization). We opine that MMC-Gamuda JV has a high possibility to be awarded the project on a turnkey basis, given its prior experience with the first two lines. Based on our internal assumptions, we expect more details of the MRT3 contract to be announced on 12<sup>th</sup> Malaysia plan in January 2021, with award wins to be announced late 2021. Having said that, we reiterate that there is certain urgency for the management to enhance its order book visibility past FY23. Given its track records and financial strength, we are quite optimistic on MMC's capabilities to replenish its order book.

**MMC is deeply undervalued.** We postulate that with equity market buoyed by vaccine sentiment and macro recovery expectation, MMC is ripe for value revision as the group has proven to be resilient amid the pandemic. This is given its diverse revenue streams and deep undervaluation vis-à-vis its asset base; i.e. the group book value at RM3.06 per share. Furthermore, MMC is also deeply undervalued relative to its own historical valuation and peers group average. Currently, the company is traded at BF PE of 9.9x. This is one standard deviation below its average 5 years BF PE at 10.9x. Even when compared with MMC's peers, with average PE at 20.04x, MMC's valuation is low at PE of 10.65x.

**Earnings estimates.** In our previous report, *"Unshaken amidst pandemic"*, we forecast PTP's TEUs to decline at -3.0%yoy because of the Covid-induced trade disruptions. However, due to the positive surprise shown by the data, we revise our estimate for FY20E TEUs growth to +3.2%. We also revise our earnings estimate for FY20E from RM211.7m to RM231.7m. This translates to a +9% increase from our previous estimate.

**Target price.** Given the earnings adjustment, we revise our target price to **RM1.30 per share** (previously RM1.21) based on sum-of-the-parts valuation.

**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. In addition, we expect MMC Corp's container throughput to recover in FY21 in line with IMF's projection of Malaysia's GDP growth at 7.8% in 2021. 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 TEUs volume. Key downside risks to our call include: (i) prolonged Covid-19 outbreak; (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 a revised target price of **RM1.30 per share**. 

## INVESTMENT STATISTICS

Income Statement	2018A	2019A	2020E	2021F	2022F
Revenue	4,983.8	4,717.3	4,657.7	4,847.6	4,784.3
Cost of Sales	(3,338.1)	(2,814.1)	(2,943.5)	(2,934.8)	(2,836.1)
Net Opex	(904.5)	(995.1)	(919.2)	(1,030.2)	(1,042.0)
EBIT	741.2	908.1	795.1	882.7	906.2
Finance Cost	(545.1)	(677.1)	(558.9)	(553.4)	(535.1)
Assoc. and JV	206.8	301.8	235.4	240.1	248.5
PBT	402.9	532.8	471.6	569.4	619.5
Tax & Zakat	(135.9)	(232.4)	(182.0)	(214.5)	(239.6)
PAT	267.0	300.4	289.6	354.8	380.0
PATAMI	220.1	255.2	231.7	283.9	304.0

**MMC Corporation SOTP Valuation**

<b>Assets</b>	<b>Total Value (RM mil)</b>	<b>Remarks</b>
Ports and Logistics	MYR 2,651.3	PE @ 13.5x FY21 PAT
Engineering and Constructions	MYR 230.5	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 1,994.4	Consensus Target Price at RM1.06
Aliran Ihsan (100%)	MYR 487.0	Takeover Price
SOP Values	MYR 6,597.1	
Number of shares	3,045.10	
SOP Value/share	2.17	
Conglomerate Discount	40%	Conglomerate Discount
Target Price	MYR 1.30	

Source: MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878-X))  
 (Bank Pelaburan)  
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878-X)). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.