

MMC CORPORATION

(MMC MK EQUITY, MMCB.KL)

30 Nov 2020



Company report

AmInvestment Bank

www.amequities.com.my

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Rationale for report: Company update

BUY

(Maintained)

Price	RM0.92
Fair Value	RM1.56
52-week High/Low	RM1.05/RM0.45

Key Changes

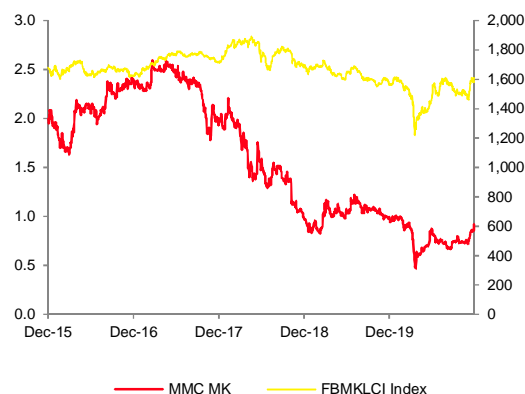
Fair value	↕
EPS	↔

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	260.4	277.5	302.0
FD Core EPS (sen)	8.1	8.6	9.1	9.9
FD Core EPS growth (%)	69.7	5.0	6.6	8.8
Consensus Net Profit (RM mil)	-	228.0	271.0	293.0
DPS (sen)	4.6	4.7	5.0	5.5
PE (x)	11.3	10.8	10.1	9.3
EV/EBITDA (x)	6.6	17.7	16.6	18.8
Div yield (%)	5.4	5.5	5.9	6.4
ROE (%)	2.7	2.7	2.8	3.0
Net Gearing (%)	82.6	82.1	82.3	106.3

Stock and Financial Data

Shares Outstanding (million)	3,045.1
Market Cap (RM mil)	2,801.5
Book Value (RM/share)	3.18
P/BV (x)	0.3
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)	2.2

Price performance	3mth	6mth	12mth
Absolute (%)	22.7	5.7	(7.5)
Relative (%)	16.4	(3.1)	(10.2)



Investment Highlights

- We maintain our forecasts but tweak our fair value up slightly to RM1.56 (from RM1.52 previously) for MMC based on sum-of-parts (SOP) valuation (Exhibit 1), as we adjust the fair value for Gas Malaysia upwards in our SOP, according to the consensus fair value of RM3.06 (from RM2.72 previously). This values its seaport division at 16x FY21F EPS (a 30% discount to its peers' historical average to reflect its lower margins). Maintain BUY.
- We came away from MMC's analyst briefing last Friday feeling positive. The key takeaways are as follows:

- Ports segment: MMC reiterated its bullish stance for the outlook for its ports in FY21, underpinned by its continued investment in port infrastructure to capture more volume as global trade activities recover from the pandemic. We are projecting a 3% growth YoY for MMC's total container throughput volume in FY21F.

For 9MFY20, MMC's total container throughput was flattish YoY, vs. our full-year FY20F forecast of a 2% contraction conservatively (as we believe there was a one-off spike in volume in 3QFY20). MMC has been actively enticing shipping liners to reposition their empty containers (from Southeast Asia to China) at its ports by giving rebates.

We believe PTP (historically contributes ~65% of MMC's total container throughput volume) is still on track to achieve its target of a 5% container throughput volume growth in FY20F. For 9MFY20, it already achieved 4%.

- Engineering segment: As of September 2020, MMC's outstanding order book (Exhibit 2) declined to RM3.9bil from RM6.62bil in the beginning of the year. We believe there is a mild urgency for MMC to replenish its order book.

MMC guided for a tender book worth ~RM3.5bil and it is confident to win at least one or two. For the MRT3 project, MMC has submitted its proposal and has held a preliminary discussion with the government.

3. **Penang Port:** Penang Port's container throughput volume has seen recovery from its low in April during the movement control order (MCO) period. Moving forward, MMC is confident that Penang Port can achieve ~1.5mil TEUs in FY21F (back to pre-Covid level), underpinned by: (1) the booming paper recycling industry in Penang (which will contribute to about 100K TEUs during its peak season); (2) the recovery of Southern Thailand's containers, further enhanced by the newly launched operations of Bang Klam Inland Container Depot (ICD) in South Thailand (commenced in early October 2020), which is estimated to be able to bring in additional 5.8K TEUs annually; (3) upcoming free commercial zone (FCZ) status (expecting approval to be completed by 4QFY20), with a land size area of ~83.57 ha, that will allow Penang Port to tap into secondary market (such as transshipment containers between the Bay of Bengal and the Far-East; and (4) the growing foreign direct investments in Penang and northern Kedah. The capex for Penang Port is budgeted to be around RM155mil.
 4. **Johor Port:** Johor Port is a multipurpose port (focusing on gateway cargoes) with a captive market of the diversified hinterland industries in Johor. In FY20 (YTD), Johor Port has seen volume contraction mainly from clinker and petroleum, partly cushioned by volume growth from essential products/commodities such as food & plantation related items. Johor Port is expanding to the growing marine services market within the Pasir Gudang water limit (underpinned by the increase in vessel calls at Pengerang Terminals). It also has a 25-year concession with Petronas to provide operations and maintenance to its Refinery and Petrochemical integrated Development (RAPID) Solid Product Terminal. Johor Port has a planned capex of ~RM180mil in the pipeline.
- 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 9x forward P/E on a stand-alone basis.

EXHIBIT 1: SOP VALUATION

FYE Dec	Value (RM mil)	Basis
Ports & Logistics		
Ports	5,836.5	16x FY21F earnings, a 30% discount to 23x of peers historical average
Senai Airport	160.0	Book value
Engineering & Construction	355.5	Net profit from outstanding orderbook, discounted to NPV at a 10% discount rate
Energy & Utilities		
Malakoff (38.5%)	1,862.7	AmBank's FV @ RM1.10 with 10% discount
Gas Malaysia (30.9%)	1,092.7	Consensus FV @ RM3.06 with 10% discount
Aliran Ihsan Resources Berhad	487.0	Acquisition cost
Net Cash/(Debt)	(5,047.3)	As at 31 Dec 2019 (at company level)
Total Value (RM mil)	4,747.1	
No of shares	3,045.1	
FV per share	1.56	

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: OUTSTANDING CONSTRUCTION ORDER BOOK (AS AT SEP 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%	2,121	Gamuda	80.8%																				
2	MRT Line 2 : Sg. Buloh - Serdang - Putrajaya (13.5 km) - Underground Works	13,110	50%	1,160	Gamuda	80.8%																				
3	Langat Sewerage Project (MMC PLSB)	1,505	100%	219	-	88.9%																				
4	Sungai Pulai Bridge	565	60%	195	CHEC	40.3%																				
5	PGU-I Gas Pipeline	131	100%	112	-	22.0%																				
6	Upgrading NBCT for Penang Port	155	100%	9	-	100%																				
7	Langat 2 Water Treatment Plant*	994	50%	24	Salcon	100%																				
8	Other projects	163	100%	74	-	-																				
	TOTAL	34,043		3,914																						

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 & empty containers at JPB, Design & 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 3: PENANG PORT'S MARKET SHARE

Penang Port	Market Share (TEUs)	2019	2020	Growth (YOY)
	Barge	29,021	40,563	40%
	Rail	104,780	75,601	-28%
	Road	47,745	48,227	1%
	Total	181,546	163,293	-9%
PPSB Market Share	72%	68%		

Competitors	Market Share (TEUs)	2019	2020	Growth (YOY)
	Songkhla (Port)	61,508	64,137	4%
	Surat Thani (Port)	8,990	11,341	26%
	Port Klang (Rail)	1,228	300	-76%
	Total	71,726	75,778	6%
Competitors Market Share	28%	32%		

- For YTD September, Penang Port secured 68% of total South Thai market share.

Source: Company

EXHIBIT 4: JOHOR PORT'S CAPACITY EXPANSION PLAN (INFRASTRUCTURE)

Aerial view of new Container Yard
Phase II Progress as at 30 October 2020 - 8.35% ahead of schedule.
The Project is expected to be completed by Jan 2021.

Container wharf
1st, 2nd, 3rd

Liquid jetties

Dry Bulk, Breakbulk & OIMR wharf

Container Yard

- **1st Phase** – Rehab completed in Mar 2020 (ground slots of 300 with 6 high stackings).
- **2nd Phase** - Expansion on 5.02 acres for MTY Containers and conversion of existing 5.647 acres for LDN Containers (completion by Q1 2021).
- **3rd Phase** - Rehabilitate existing Container Yard to allow for higher stacking i.e. 5 high stacking (completion by Q2 2022).

Extension of Liquid jetties

Additional 2 berths with deeper draft for both Edible & Non-Edible cargo.

To commence in 2023 and completion by 2025.

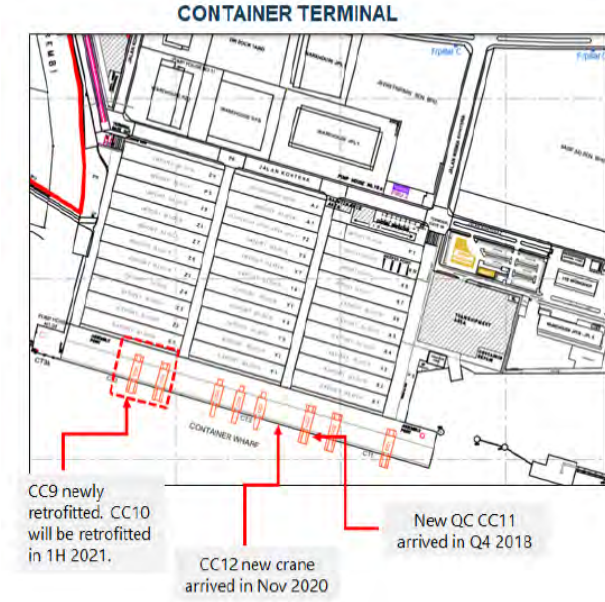
Warehouse Expansion

To accommodate the future demand of the Commodity market within this region inline with our vision to position Johor Port as the **Regional Commodity Trading Centre**, Warehouse Expansion programs will be carried out in phases from 2021 and completion by 2026.

Additional 400k sq ft of warehouse space will be created on top of the existing 5.1 mil sq ft space.

Source: Company

EXHIBIT 5: JOHOR PORT'S CAPACITY EXPANSION PLAN (EQUIPMENT)



1. Quay Cranes (QC):
 - 2 new QCs (2018 & 2020).
 - 2 units to be retrofitted (completion 1H 2021).
 - 2 units to be refurbished (completion by 2H 2021).
 - 2 new QCs to replace existing units (2026).
2. RTGs:
 - 4 new RTGs by 2022 (total 34).
 - 9/13 units have been successfully retrofitted.
3. Terminal Tractors:
 - 8 new units in 2021 (total 50).
 - 15 new units in 2025 (total 65).



- New ZPMC Quay Crane arrived on the 7 November 2020.
- Crane expected to be fully operational in December 2020.

Source: Company

EXHIBIT 6: PB BAND CHART



EXHIBIT 7: PE BAND CHART



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