

Malaysia Company Update

MMC Corporation

Bloomberg: MMC MK | Reuters: MMCB.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

11 Mar 2021

BUY

Last Traded Price (10 Mar 2021): RM1.16 (KLCI : 1,639.83)
Price Target 12-mth: RM1.50 (29% upside) (Prev RM1.35)

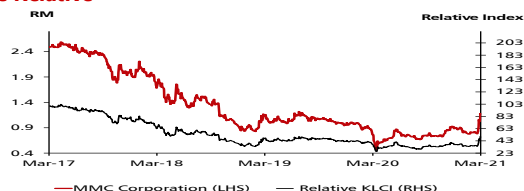
Analyst

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What's New

- Strong port throughput particularly for PTP is sustaining in 1Q21 with visibility till 1H21
- Still awaiting clarity on MRT 3; focus on internal jobs
- Expect higher land transactions in Senai in FY21
- Maintain BUY with higher TP of RM1.50

Price Relative



Forecasts and Valuation

FY Dec (RMm)	2019A	2020A	2021F	2022F
Revenue	4,717	4,489	5,689	6,060
EBITDA	1,895	1,924	1,659	1,678
Pre-tax Profit	533	646	539	544
Net Profit	255	375	314	327
Net Pft (Pre Ex.)	255	375	314	327
Net Pft Gth (Pre-ex) (%)	27.5	47.1	(16.4)	4.4
EPS (sen)	8.38	12.3	10.3	10.7
EPS Pre Ex. (sen)	8.38	12.3	10.3	10.7
EPS Gth Pre Ex (%)	28	47	(16)	4
Diluted EPS (sen)	8.38	12.3	10.3	10.7
Net DPS (sen)	4.50	1.50	4.50	4.50
BV Per Share (sen)	304	312	318	324
PE (X)	13.8	9.4	11.3	10.8
PE Pre Ex. (X)	13.8	9.4	11.3	10.8
P/Cash Flow (X)	1.6	1.6	41.0	3.6
EV/EBITDA (X)	6.5	5.9	7.2	6.9
Net Div Yield (%)	3.9	1.3	3.9	3.9
P/Book Value (X)	0.4	0.4	0.4	0.4
Net Debt/Equity (X)	0.8	0.7	0.7	0.7
ROAE (%)	2.7	4.0	3.3	3.3

Earnings Rev (%): - 10 (4)
Consensus EPS (sen): N/A 12.3 13.7
Other Broker Recs: B: 5 S: 0 H: 1

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

Strengthening its asset base

Investment Thesis:

Deep value with improving earnings. The market continues to overlook one of the deepest value stocks with a varied business encompassing almost the whole Malaysian economy – infrastructure, energy and utilities, airport, industrial land, water concession and ports. Its 4Q results also point to a more sustained earnings recovery. The current market value of its land in Senai alone is worth more than its current market capitalisation.

Three main themes. We see three main themes for the stock – proxy to revival in infrastructure flows, proliferation of industrial boom beneficiary and ports turnaround. For FY20, port pretax profit grew by 23% y-o-y anchored by PTP.

Listing of port assets is potential catalyst. The market acknowledges MMC's positioning as a deep-value conglomerate. The pricing of its assets via an IPO and better earnings delivery will be crucial to narrow the steep discount to SOP. MMC should also get better recognition as an infrastructure proxy.

Valuation:

Our valuation of MMC is based on SOP, given the diversified business model – valuing its ports at DCF, Malakoff at market value, Gas Malaysia at our TP and land at a discount to market prices.

Where we differ:

Our TP is higher than consensus, despite assigning a 40% discount which has priced in a holding company discount and concerns over corporate governance.

Key Risks to Our View:

Corporate governance and related-party transactions pose the biggest risk for MMC, in our view; the SATS purchase in 2008 saw the share price being punished severely.

At A Glance

Issued Capital (m shrs)	3,045
Mkt. Cap (RMm/US\$m)	3,532 / 856
Major Shareholders (%)	
Seaport Terminal	51.8
Amanah Saham	20.5
Free Float (%)	25
3m Avg. Daily Val (US\$m)	2.9

GIC Industry : Industrials / Capital Goods



Live more, Bank less

WHAT'S NEW

Strengthening its asset base

Deep value with improving earnings trajectory. With the release of its 4Q20 results that far surpassed expectations, we are now more convinced of our thesis of MMC being one of the most overlooked companies on Bursa Malaysia. It trades at a steep discount to its SOP value while also offering superior earnings recovery. To put things into perspective, the current market value of just its Senai land is worth more than its current market capitalisation. As highlighted before, its businesses encompass almost the whole Malaysian economy – infrastructure, energy and utilities, airport, industrial land, water concession and ports.

Our key themes for the stock remain unchanged, as follows:

- 1) **Proxy to infrastructure flows.** Its current outstanding orderbook stands at RM2.95bn that is sufficient for revenue visibility of about two years. Its pretax profit for 4Q20 nearly tripled q-o-q to RM146m due to the upward revision in margins for Langat 2 water treatment plant and also underground works for MRT Line 2.

We believe there is some urgency to replenish its orderbook, capitalising on the higher budget allocation in Budget 2021. Besides the larger infrastructure projects like MRT 3, we think MMC Engineering will benefit from the creation of more in-house projects from marine and port expansion which will still be smaller in nature.

MRT 3. There is some urgency to implement MRT 3 given that MRT 2 is already 83-85% completed for aboveground and underground works. MMC's view on MRT 3 remains the same and continues to lobby hard for the project to be implemented sooner than later and for the project to be spread out among the many large listed and smaller contractors. While there is no real visibility, it remains a 'shovel-ready' project and would be the ideal project for the government to roll out to spur the economy.

The most ideal scenario for MMC would be the award of this project on a turnkey basis to the MMC-Gamuda JV given its prior experience with the first two lines. However, we think the more likely scenario now would be the return to the PDP structure to minimise risk and capitalise on the current low interest rate environment. The PDP structure may be the more ideal structure to expedite and facilitate a direct award to MMC-Gamuda

where the subsequent sub-contracting packages can still be done via open tender.

We estimate MRT 3 to have a value of c.RM20-25bn where the tunnelling portion could be worth RM12bn, or RM6bn each for MMC and Gamuda. This is not withstanding PDP fees if the PDP structure is adopted.

MMC's Total Outstanding Orderbook as at 31 Dec 2020

Projects	JV Partner	Remaining orderbook value		Progress(%)
		Value (RMm)	RMm	
MRT Line 2 - Elevated	Gamuda	17,420	1,503	85.1
MRT Line 2 - Underground	Gamuda	13,110	984	83.2
Langat Sewerage Project (MMC PLSB)	-	1,505	124	91.6
Sungai Pulai Bridge	CHEC	565	166	50.4
PGU-1 Gas Pipeline	Sedia	131	90	25.8
Upgrading NBCT for Penang Port	-	155	3.4	100
Langat 2 Water Treatment Plant	Salcon	994	24	100
Other projects	-	175	59	
		34,055	2,953	

Source: Company, AllianceDBS, DBS Vickers

- 2) **Higher take-up for Industrial land.** MMC's vast land in Johor makes it a key beneficiary of morphing of industrial warehouses and relocation of businesses to Malaysia. MMC has c.1,219 acres of industrial land in Senai Industrial Park remaining and also another 1,239 acres at Tanjung Bin. Over the past few years, it has inked agreements with various parties at an average price of RM45-50 psf, inclusive of infrastructure cost

With the proliferation of more industrial warehouses and potential shift of Japanese businesses from China to South East Asia, MMC has seen a renewed increase in enquiries for its land.

The current sales pipeline involves 92.50 acres which are at relatively advance stages of closing. This excludes alternative parcels under consideration amounting to 102-132 acres of land. MMC believes land sales in FY21 will be higher than FY20. The 1,219 acres of land remaining in Senai is worth RM2.4bn at RM40 psf vs. RM1.85bn or RM35 psf in our revised SOP valuation.

- 3) **Ports continued to show growth momentum.** MMC's CEO painted a bullish tone for FY21, citing a carry-through of its strong performance from 4Q20 in January and February 2021. He believes visibility remains strong

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up until June 2021. It is also negotiating with the government to extend the ports concession to 2055.

FY20 turnover inched up by 1.5% y-o-y to RM3,230m while pretax profit was higher at RM599m (RM488m in FY20). For PTP, its FY20 throughput rose 8% y-o-y to 9.85m TEU where ad-hoc calls from MSC helped offset the lower volume from Maersk. For FY20, PTP's pretax profit rose 48% to RM310m and contributed 51% of ports pretax profit in FY20.

Johor Port also showed commendable growth with a 47% y-o-y increase in FY20 pretax profit to RM138m in spite of conventional throughput easing by 5% to 17.3m FWT and container volume also dropping by 4% to 1.01m TEU.

Northport's FY20 pretax profit rose 12% to RM83m. Its conventional throughput fell by 3% to 8.4m FWT while its container volume inched up 1% to 2.74m TEU. Northport has been a beneficiary of higher ad-hoc calls (108 in 2020) and diversion services from Westport. It is also seeing a comeback from ONE, Evergreen and MSC and believes this volume is sustainable. December 2020 saw the highest ever monthly volume of 310,488 TEU. Northport has proclaimed that its strategy is not to compete directly with Westport but to excel in areas that Westport is not focusing on such as warehousing.

MMC's Port throughput FY20

	FY20 Growth y-o-y (%)	
PTP (m TEU)	9.85	8
JPB (m TEU)	1.01	-4
JPB Conventional (FWT)	17.3	-5
Northport (m TEU)	2.74	1
Northport (Conventional FWT)	8.4	-9
Penang Port (m TEU)	1.39	-7
Penang Port Conventional (FWT)	8.29	-11
Tg Bruas Conventional (FWT)	0.82	-17
Tg Bruas (m TEU)	0.014	-21

Source: Company, AllianceDBS, DBS Vickers

Better port earnings pave way for listing. While there is no pressing need for a port listing, we think its strong earnings momentum may pave the way for a listing sooner than later. It has recently also said it may be mulling the revival of the IPO to potentially raise US\$1bn by as early as end-2021.

Scenario Analysis Assuming EV/EBITDA of 10-14x

EV/EBITDA (x)	10	11	12	13	14
EV (RMm)	17,000	18,700	20,400	22,100	23,800
Market Cap (RMm)	13,500	15,200	16,900	18,600	20,300
Potential funds raised	4,050	4,560	5,070	5,580	6,090

Source: Company, AllianceDBS, DBS Vickers

In the table above, we provide a scenario analysis by assuming that MMC Port's EBITDA of RM1.7bn for FY20, with EV/EBITDA ranging from 10-14x. This assumes a market cap of between RM13.5bn and RM20.3bn. Assuming MMC Ports were to pare down its stake by 30%, this could raise RM4bn to RM6bn.

Tweaking earnings, BUY with higher TP. We adjust our FY21-22F earnings higher by +10%/-4% to factor in the better 4Q20 earnings while we also factor in better port throughput for PTP. This is balanced off by lower MRT 2 recognition in FY21-22F due to the higher recognition in 4Q20. We also raise our SOP-derived TP to RM1.50 to factor in i) higher land values at Senai of RM35 psf vs RM30 previously; ii) marking to market the market values of Malakoff and Gas Malaysia; and iii) imputing an incremental new orderbook of RM300m, but this is offset by lower values for MRT 1 and 2 due to higher recognition in FY20. Our TP assumes a similar 40% discount to SOP.

Company Background

MMC is a utilities and infrastructure group with core businesses under the divisions of ports & logistics (Port Tanjung Pelepas, SMART Motorway), energy & utilities (Malakoff, Gas Malaysia), and engineering & construction (infrastructure projects, Mass Rapid Transit).

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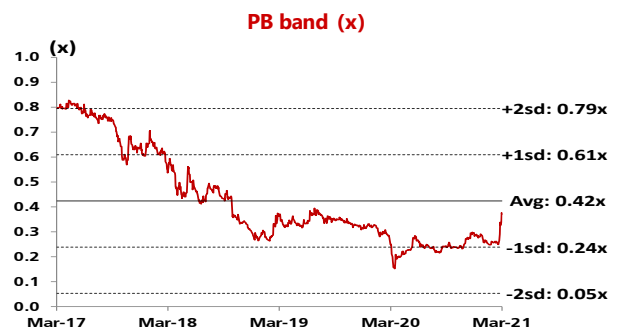
SOP Value

	Valuation RMm	Method	Stake %	Value RMm	Value/s hare RM
Ports					
- PTP	1876.6	DCF	70.0	1,313.6	0.43
- Johor Port	1632.5	DCF	100.0	1,632.5	0.54
- NCB	1800.0	Disc Acq Price	100.0	1,080.0	0.35
Energy and Utilities					
- Malakoff IPP assets	4000.0	Market price	38.0	1,520.0	0.50
- Gas Malaysia	3466.8	Market price	31.0	1,074.7	0.35
Concessions					
- Smart	320.0	DCF	50.0	160.0	0.05
- SATS	580.0	Acquisition price	100.0	580.0	0.19
Engineering and Construction					
MRT - Tunneling	397.1	DCF and PE	50.0	397.1	0.13
MRT - PDP Fees	422.2	DCF and PE	50.0	422.2	0.14
Others	167.6	DCF and PE	100.0	167.6	0.06
Raw land					
- Tanjung Bin Land	1619.1	Market price	100.0	1,619.1	0.53
- Tanjung Bin - Vitol	112.5	Lease price	100.0	112.5	0.04
- Senai Land	1858.5	Market price	100.0	1,858.5	0.61
Other companies					
- Zelan	50.7	Market price	39.2	19.9	0.01
- Aliran Ihsan	82.0	Book Value	100.0	82.0	0.03
Subtotal				12,039.6	
Less Holding Co debt				(4,400.0)	-1.4
SOP Value				7,639.6	
Number of shares (m)				3,045.1	
SOP Value/s hare (RM/s hare)				2.51	
Target Price (RM/s hare)				1.50	

Historical PE and PB band



Source: Bloomberg Finance L.P., AllianceDBS estimates



Source: Bloomberg Finance L.P., AllianceDBS estimates

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Key Assumptions

FY Dec	2018A	2019A	2020A	2021F	2022F
Port throughput - PTP (m)	9.00	9.06	9.84	9.84	9.90
Container - Johor Port (m)	1.00	1.00	1.00	1.00	1.00
Construction New Order	0.0	0.0	1,000	1,500	1,500
Construction Margins	15.3	6.00	6.00	6.00	8.00

Segmental Breakdown

FY Dec	2018A	2019A	2020A	2021F	2022F
Revenues (RMm)					
Transport & Logistics	2,988	3,189	3,230	2,921	2,954
Energy & Utilities	0.0	0.0	24.0	0.0	0.0
Engineering &	1,926	1,421	1,161	2,686	3,017
Others	96.0	107	74.0	81.4	89.5
Total	5,010	4,717	4,489	5,689	6,060

Income Statement (RMm)

FY Dec	2018A	2019A	2020A	2021F	2022F
Revenue	5,010	4,717	4,489	5,689	6,060
Cost of Goods Sold	(3,347)	(2,814)	(2,453)	(3,226)	(3,473)
Gross Profit	1,663	1,903	2,036	2,463	2,587
Other Opnq (Exp)/Inc	(983)	(1,032)	(1,201)	(1,693)	(1,803)
Operating Profit	681	871	835	770	784
Other Non Opq (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	204	302	367	167	173
Net Interest (Exp)/Inc	(515)	(640)	(556)	(398)	(412)
Exceptional Gain/(Loss)	20.0	0.0	0.0	0.0	0.0
Pre-tax Profit	390	533	646	539	544
Tax	(123)	(232)	(200)	(162)	(152)
Minority Interest	(47.0)	(45.3)	(70.4)	(63.6)	(64.6)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	220	255	375	314	327
Net Profit before Except.	200	255	375	314	327
EBITDA	1,606	1,895	1,924	1,659	1,678
Growth					
Revenue Gth (%)	20.4	(5.8)	(4.8)	26.7	6.5
EBITDA Gth (%)	(2.1)	18.0	1.5	(13.8)	1.2
Opq Profit Gth (%)	0.1	28.0	(4.1)	(7.8)	1.8
Net Profit Gth (Pre-ex) (%)	(20.1)	27.5	47.1	(16.4)	4.4
Margins & Ratio					
Gross Margins (%)	33.2	40.3	45.4	43.3	42.7
Opg Profit Margin (%)	13.6	18.5	18.6	13.5	12.9
Net Profit Margin (%)	4.4	5.4	8.4	5.5	5.4
ROAE (%)	2.3	2.7	4.0	3.3	3.3
ROA (%)	0.9	1.0	1.4	1.2	1.2
ROCE (%)	2.5	3.1	2.8	2.6	2.5
Div Payout Ratio (%)	62.3	53.7	12.2	43.7	41.9
Net Interest Cover (x)	1.3	1.4	1.5	1.9	1.9

Source: Company, AllianceDBS

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Quarterly Income Statement (RMm)

FY Dec	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020
Revenue	1,098	1,087	991	1,119	1,293
Cost of Goods Sold	(557)	(611)	(511)	(636)	(696)
Gross Profit	541	476	480	483	598
Other Oper. (Exp)/Inc	(272)	(261)	(248)	(196)	(358)
Operating Profit	269	215	232	287	240
Other Non Opq (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	87.1	72.2	69.7	(3.2)	150
Net Interest (Exp)/Inc	(164)	(172)	(174)	(160)	(111)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	192	115	128	124	279
Tax	(116)	(41.8)	(38.2)	(47.5)	(72.3)
Minority Interest	(7.9)	(15.1)	(12.5)	(15.3)	(27.5)
Net Profit	68.1	57.9	77.4	60.9	179
Net profit bef Except.	68.1	57.9	77.4	60.9	179
EBITDA	356	287	302	283	390

Growth

Revenue Gth (%)	(11.9)	(1.0)	(8.8)	12.9	15.6
EBITDA Gth (%)	24.4	(19.4)	5.2	(6.1)	37.7
Opq Profit Gth (%)	33.1	(20.2)	8.0	23.6	(16.2)
Net Profit Gth (Pre-ex) (%)	2.6	(15.0)	33.7	(21.2)	194.0

Margins

Gross Margins (%)	49.2	43.8	48.4	43.2	46.2
Opq Profit Margins (%)	24.5	19.7	23.4	25.6	18.6
Net Profit Margins (%)	6.2	5.3	7.8	5.4	13.8

Balance Sheet (RMm)

FY Dec	2018A	2019A	2020A	2021F	2022F
Net Fixed Assets	9,488	9,363	8,640	8,418	8,196
Invts in Associates & JVs	4,740	4,782	4,605	4,772	4,945
Other LT Assets	6,417	8,159	8,646	8,646	8,646
Cash & ST Invts	1,596	2,394	2,798	2,247	2,578
Inventory	105	90.2	66.1	250	275
Debtors	2,743	1,658	1,113	2,844	3,030
Other Current Assets	312	288	128	128	128
Total Assets	25,401	26,733	25,995	27,306	27,798
ST Debt	2,487	3,045	1,010	1,010	1,010
Creditor	2,738	1,647	1,523	2,504	2,751
Other Current Liab	31.6	1,172	1,240	1,328	1,319
LT Debt	8,196	7,336	8,761	8,761	8,761
Other LT Liabilities	1,655	3,538	3,165	3,165	3,165
Shareholder's Equity	9,561	9,264	9,510	9,686	9,877
Minority Interests	733	731	787	851	915
Total Cap. & Liab.	25,401	26,733	25,995	27,306	27,798
Non-Cash Wkg. Capital	391	(784)	(1,455)	(610)	(637)
Net Cash/(Debt)	(9,087)	(7,987)	(6,974)	(7,524)	(7,193)
Debtors Turn (avg days)	186.2	170.3	112.6	127.0	176.9
Creditors Turn (avg days)	355.8	382.4	334.1	293.5	348.6
Inventory Turn (avg days)	15.6	17.0	16.5	23.1	34.9
Asset Turnover (x)	0.2	0.2	0.2	0.2	0.2
Current Ratio (x)	0.9	0.8	1.1	1.1	1.2
Quick Ratio (x)	0.8	0.7	1.0	1.1	1.1
Net Debt/Equity (X)	0.9	0.8	0.7	0.7	0.7
Net Debt/Equity ex MI (X)	1.0	0.9	0.7	0.8	0.7
Capex to Debt (%)	8.3	5.9	8.4	5.1	5.1
Z-Score (X)	0.7	0.7	0.7	0.7	0.7

Source: Company, AllianceDBS

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Cash Flow Statement (RMm)

FY Dec	2018A	2019A	2020A	2021F	2022F
Pre-Tax Profit	390	533	646	539	544
Dep. & Amort.	722	722	722	722	722
Tax Paid	(2.0)	(4.6)	(44.5)	(73.1)	(162)
Assoc. & JV Inc/(loss)	(204)	(302)	(367)	(167)	(173)
Chg in Wkg.Cap.	259	1,031	635	(934)	36.4
Other Operating CF	5.56	210	555	0.0	0.0
Net Operating CF	1,169	2,188	2,146	86.2	968
Capital Exp.(net)	(889)	(609)	(823)	(500)	(500)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	291	322	(1,584)	0.0	0.0
Net Investing CF	(598)	(286)	(2,407)	(500)	(500)
Div Paid	(153)	(157)	(230)	(137)	(137)
Chg in Gross Debt	833	(321)	(647)	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(557)	(598)	(484)	0.0	0.0
Net Financing CF	124	(1,077)	(1,362)	(137)	(137)
Currency Adjustments	204	(27.6)	2,026	0.0	0.0
Chg in Cash	898	798	403	(551)	331
Opg CFPS (sen)	29.9	38.0	49.6	33.5	30.6
Free CFPS (sen)	9.19	51.9	43.5	(13.6)	15.4

Source: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	21 May 20	0.81	1.35	BUY
2:	25 Aug 20	0.74	1.35	BUY
3:	02 Nov 20	0.73	1.35	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Tjen-San CHONG

AllianceDBS recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 11 Mar 2021 07:43:01 (MYT)

Dissemination Date: 11 Mar 2021 07:48:43 (MYT)

Sources for all charts and tables are AllianceDBS unless otherwise specified.

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