

# MMC Corporation Berhad

(2194 | MMC MK) Transportation & Logistics | Industrials

## MMC will ride the tailwind of economic recovery

### KEY INVESTMENT HIGHLIGHTS

- **Pelabuhan Tanjung Pelepas (PTP) has achieved exceptional growth for 12MFY20.**
- **They are bidding approximately circa ~RM5.0b worth of contracts**
- **MMC is ripe for value revision as the group has proven to be resilient amid the pandemic**
- **We are maintaining our earnings estimate for FY21E**
- **Maintain BUY with an unchanged TP of RM1.30 per share**

**Operating Highlights.** Pelabuhan Tanjung Pelepas (PTP) had achieved exceptional growth for 12MFY20. Its TEU's volume reached 9.85m, +8%yoy, despite the trade disruptions early last year. Other than PTP, Northport (NMB) has also recorded slight TEU growth at 2.74m or +1%yoy whereas total conventional saw contraction of -5.0%yoy, 17.30m (FWT). In contrast, other major ports in MMC's stable are not faring as well for the current year. Tanjung Bruas Port recorded highest decline at -17.0%yoy, followed by Penang Port, -13.0%yoy, with Johor Port showing the least decline in TEU's volume at only -4.0% contractions.

**TEU's continue to do well.** At this juncture, we remain sanguine that the year 2021 will bode well for ports players such as MMC, better than 2020, as they will ride the tailwind of economic recovery without the disruptions caused by any unplanned lockdown that could hinder movement of trades.

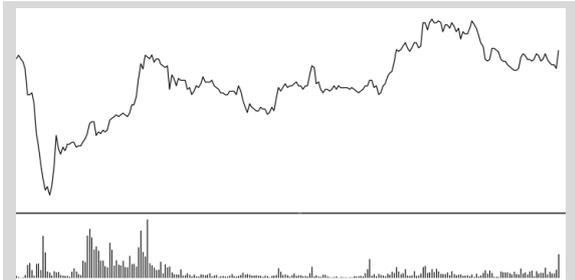
**Engineering Segment Orderbook.** The total outstanding orderbook of the group stands at RM2.95b. Currently, the biggest project is MRT 2 with remaining work stood at RM2.5b and expected full completion on 1QCY23. The balance of circa RM450.0m worth of orderbook is scattered across multiple small projects such as Langat Sewerage Project and Sungai Pulai Bridge. We would like to highlight on 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 approximately circa ~RM5.0b worth of contracts which includes projects related to water treatment plant, gas pipelines, jetty expansion Putrajaya rail and KLIA projects. To note, this RM5.0b estimate exclude the potential job win from MRT 3, a mega infrastructure project that MMC is keen to be part of. To recap, MRT 3 (est. size at ~RM40.0b) was scrapped under the previous government, early on in their administration 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 high possibility to be awarded the project on a turnkey basis, given its prior experience with the first two lines. Having said that, we maintained 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.

**Maintain BUY**  
**Unchanged Target Price: RM1.30**

#### RETURN STATISTICS

Price @ 1 <sup>st</sup> March 2021 (RM)	<b>0.830</b>
Expected share price return (%)	<b>+56.63</b>
Expected dividend yield (%)	<b>+3.50</b>
<b>Expected total return (%)</b>	<b>+60.13</b>

#### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	7.1	7.0
3 months	-7.8	-5.7
12 months	-5.7	-10.8

#### KEY STATISTICS

FBM KLCI	1,567.14
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star Rating)	☆☆☆
Issue shares (m)	3045.06
Estimated free float (%)	20.29
Market Capitalisation (RM'm)	2,527.40
52-wk price range	RM0.45 - RM0.96
Beta vs FBM KLCI (x)	1.36
Monthly velocity (%)	0.00
Monthly volatility (%)	31.94
3-mth average daily volume (m)	4.09
3-mth average daily value (RM'm)	3.46
Top Shareholders (%)	
Seaport Terminal Johore Sdn Bhd	51.76
Amanah Saham Nasional Bhd	20.31
Urusharta Jamaah Sdn Bhd	3.40

**Low Valuation.** We believe MMC is a “no-brainer” picking for recovery stock play. We postulate that with equity market buoyed by vaccine sentiment and 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; the group book value stood at only RM3.38 per share. Furthermore, MMC is also deeply undervalued relative to its own historical valuation and peers group average. Currently, the company is traded at only BF PE of 6.5x. This is below one standard deviation of its average 5 years BF PE at 10.5x. Even when compared with MMC’s peers, with average PE stood at 15.3x, MMC’s valuation at PE of 6.8x.

**Earnings estimates.** We are maintaining our earnings estimate for FY21E as we are expecting the full year performance will meet our projection.

**Target price.** We are maintaining our target price at **RM1.30 per share** for now based on sum-of-the-parts valuation with a discount of 40%.

**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. Therefore, this will prevent MMC Corp’s overall container throughput from declining by more than -10.0% annually. 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% FY21. 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 TEU’s 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 an unchanged target price of **RM1.30 per share.** 

## INVESTMENT STATISTICS

Income Statement	2019A	2020A	2021E	2022F	2023F
Revenue	4,717.3	4,489.4	5,014.4	5,370.0	5,445.6
Cost of Sales	(2,814.1)	(2,453.1)	(2,957.5)	(3,059.8)	(3,066.5)
Net Opex	(995.1)	(1,141.0)	(1,129.2)	(1,342.5)	(1,338.9)
EBIT	908.1	895.3	927.7	967.7	1,040.2
Finance Cost	(677.1)	(616.3)	(574.5)	(583.9)	(518.2)
Assoc. and JV	301.8	366.5	345.0	359.4	357.0
PBT	532.8	645.5	698.2	743.2	878.9
Tax & Zakat	(232.4)	(199.8)	(243.1)	(260.7)	(289.6)
PAT	300.4	445.7	455.1	482.4	589.3
PATAMI	255.2	375.3	364.1	385.9	471.4
Core PATAMI	241.1	338.5	364.1	385.9	471.4
Core EPS	0.08	0.11	0.12	0.13	0.15
Dividend Yield	4.7%	2.0%	3.5%	3.5%	3.5%
P/E (x)	12.0	6.8	10.7	10.1	8.3

Source: MIDFR

**MMC Corporation SOTP Valuation**

<b>Assets</b>	<b>Total Value (RM mil)</b>	<b>Remarks</b>
Ports and Logistics	MYR 2,697.5	PE @ 13.5x FY21 PAT
Engineering and Constructions	MYR 215.7	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 1,862.7	Consensus Target Price at RM0.99
Aliran Ihsan (100%)	MYR 487.0	Takeover Price
SOP Values	MYR 6,496.8	
Number of shares	3,045.10	
SOP Value/share	2.13	
Conglomerate Discount	40%	Conglomerate Discount
Target Price	MYR 1.3	

Source: MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

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

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

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology