

MMC CORPORATION

(MMC MK EQUITY, MMCB.KL)

2 Mar 2021

Northport enjoys spillover from neighbouring ports

BUY

(Maintained)

Company report

AmInvestment Bank

www.amequities.com.my

03-2036 2240

Rationale for report: Company update

Price	RM0.83
Fair Value	RM1.49
52-week High/Low	RM0.96/RM0.45

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	4,489.4	4,976.0	5,489.5	4,746.8
Core net profit (RM mil)	460.4	396.2	445.0	420.3
FD Core EPS (sen)	15.1	13.0	14.6	13.8
FD Core EPS growth (%)	85.6	(13.9)	12.3	(5.6)
Consensus Net Profit (RM mil)	-	324.0	345.0	-
DPS (sen)	6.8	7.2	8.0	7.6
PE (x)	5.2	6.0	5.3	5.7
EV/EBITDA (x)	5.5	8.3	7.9	8.3
Div yield (%)	8.7	9.2	10.3	9.7
ROE (%)	3.8	4.0	4.4	4.1
Net Gearing (%)	73.1	72.2	71.4	70.1

Stock and Financial Data

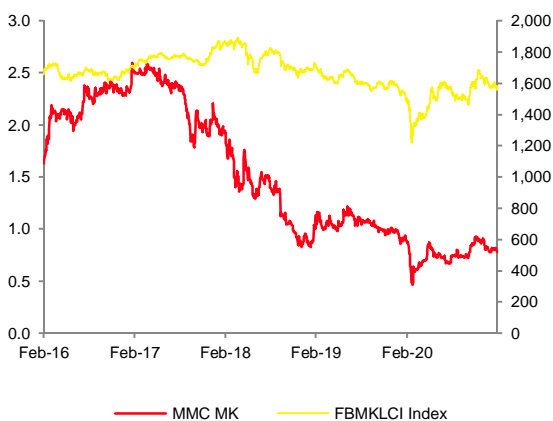
Shares Outstanding (million)	3,045.1
Market Cap (RM mil)	2,375.2

Book Value (RM/share)	3.23
P/BV (x)	0.2
ROE (%)	3.8
Net Gearing (%)	73.1

Major Shareholders	Seaport Terminal (Johore) Sdn Bhd(51.8%) Amanahraya Trustees Berhad(20.3%) Urusharta Jamaah Sdn Bhd(3.4%)
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Free Float	24.5
Avg Daily Value (RM mil)	3.5

Price performance	3mth	6mth	12mth
Absolute (%)	(15.2)	4.0	(11.4)
Relative (%)	(13.9)	0.3	(16.7)



Investment Highlights

- We maintain our forecasts but tweak our fair value (FV) down slightly by 3% to RM1.49 (from RM1.54) based on “sum of parts” (SOP), adjusting for a 3% discount to reflect a 2-star ESG rating as appraised by us (Exhibits 1, 2 & 5). The FV values MMC’s ports division at 16x FY21F earnings (a 30% discount to its peers’ historical average to reflect its lower margins). Maintain BUY.

- We came away from MMC’s analyst briefing feeling positive. The key takeaways are as follows:

1. **Outlook for ports:** MMC highlighted that the sector’s outlook remains positive in FY21F as economies reopen. Already, PTP registered a record container volume handled of 9.85mil TEUs in FY20, translating to an 8% growth YoY. It also expects stronger container volume recovery at Penang Port underpinned by the return of containers’ volume from southern Thailand following the reopening of borders for cargoes, coupled with its recently awarded free commercial zone status (which enables it to tap into the transshipment market).
2. **Northport:** Similarly, it recorded the highest monthly volume of 310.5K TEUs handled in December 2020, backed by the return of major shipping lines such as ONE, Evergreen, MSC amid port congestion experienced at Westports and Port of Singapore (PSA). This brought its total container volume handled to 2.7mil TEUs in FY20, translating to a 0.6% increase YoY. For the year, it has received 108 ad-hoc calls and observed nine diversion of services from Westports, as well as nine new services calling at the port.
3. **MMC shared more information on Aliran Ihsan Resources (AIRB)** (which makes up about 5% of our SOP valuation). The integrated solution service provider in water and wastewater development has about three decades of experience in water supply services industry in Malaysia.

Some of its current projects include: (i) operation and maintenance (O&M) of two water treatment plants (WTPs) in Gunung Semanggol and Taiping; (ii) six industrial wastewater reclamation plants using membrane technology; and (iii) non-revenue water (NRW) reduction projects for sister companies Johor Port, Northport, Penang Port and Senai Airport, etc. Over the years, it has been shifting its focus from the traditional municipal businesses to higher growth segments such as water reclamation and NRW projects to boost margins.

- 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	6,089.8	16x FY21F earnings, a 30% discount to 23x of peers historical average
Senai Airport	160.0	Book value
Engineering & Construction	256.8	Net profit from outstanding orderbook, discounted to NPV at a 10% discount rate
Energy & Utilities		
Malakoff (38.5%)	1,608.7	AmBank's FV @ RM0.95 with 10% discount
Gas Malaysia (30.9%)	1,057.0	Consensus FV @ RM2.96 with 10% discount
Aliran Ihsan Resources Berhad	487.0	Acquisition cost
Net Cash/(Debt)	(4,957.0)	As at 31 Dec 2020 (at company level)
Total Value (RM mil)	4,702.2	
No of shares	3,045.1	
FV per share	1.49	Discounted by 3% (from RM1.54) to reflect a 2-star ESG rating

Source: Company, AmInvestment Bank Bhd

EXHIBIT 4: AIRB'S NON-REVENUE WATER PROJECTS OVERVIEW



Source: Company

EXHIBIT 5: ESG RATING

Overall	★	★		
Zero-carbon initiatives	★	★		
Pollution control	★	★		
Sustainable industrialization	★	★	★	★
Diversity and inclusion	★	★		
Employees welfare	★	★	★	
Corporate social responsibilities	★	★	★	
Accessibility & transparency	★	★		
Supply chain auditing	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

EXHIBIT 6: PB BAND CHART



EXHIBIT 7: PE BAND CHART



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