

MMC Corporation Berhad

(2194 | MMC MK) Transportation & Logistics | Industrials

Expecting a blip in 2QFY20 before a gradual recovery

Maintain BUY

Revised Target Price: RM1.17

(Previously RM1.27)

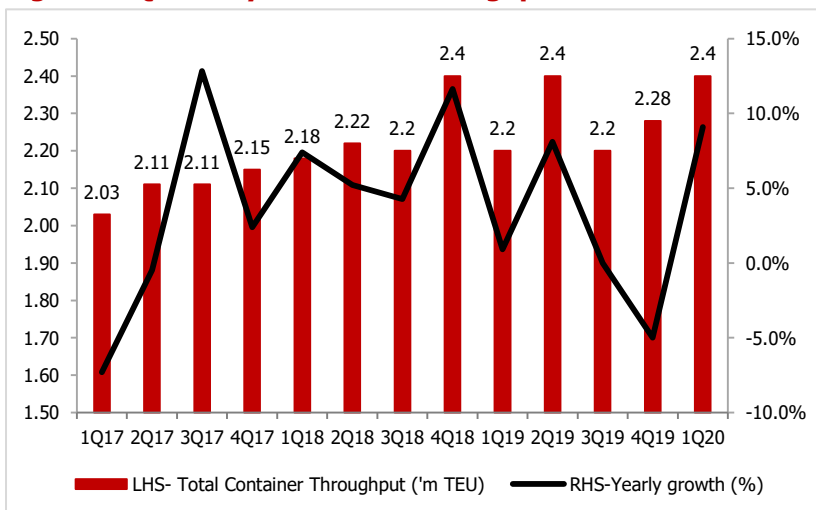
KEY INVESTMENT HIGHLIGHTS

- Normalised 1QFY20 earnings were below expectations
- PTP and JPB were main drivers of container throughput growth in 1QFY20
- Lower operating expenses for KVMRT2 pushed earnings for construction segment by +24.5% in 1QFY20
- Orderbook of construction segment to provide earnings visibility until early 2023
- Earnings estimates revised downward to reflect the temporary blip in 2QFY20 due to increased blank sailings
- Maintain BUY with a revised TP of RM1.17 per share

Normalised 1QFY20 earnings missed expectations. MMC Corp recorded a 1QFY20 net profit of RM57.9m. Excluding exceptional items such as gain on disposals for assets, MMC Corp recorded a normalised net profit of RM48.8m (-8.8%yoy). This came in below our estimates at 18.4% but met consensus' expectations at 20.7%. Some factors for the lesser-than-expected performance came from administrative and operating costs which increased by +13.8%yoy and +7.9%yoy respectively during the quarter under review.

Container throughput growth continues at PTP and JPB. Revenue and PBT for the ports and logistics segment in 1QFY20 increased by +2.7%yoy and +18.3%yoy respectively. Performance of the segment was underpinned by the container throughput at Port of Tanjung Pelepas (PTP) and Johor Port Berhad (JPB) which grew +9.1%yoy and +6.5%yoy respectively during the said quarter. This demonstrated the resilience of both ports in the wake of the Covid-19 pandemic which saw a slowdown in manufacturing activity especially in China. This helped offset the small decline in container throughput at Northport during the same period by -3.7%yoy and the lower contribution from Kontena Nasional Berhad.

Figure 1: Quarterly Container Throughput of PTP



Source: Johor Port Authority, Company

RETURN STATISTICS	
Price @ 20 th May 2020 (RM)	0.76
Expected share price return (%)	+55.00
Expected dividend yield (%)	+5.30
Expected total return (%)	+60.30



Share price performance (%)	Absolute	Relative
1 month	18.0	13.6
3 months	24.8	-14.3
12 months	-25.2	-16.5

KEY STATISTICS	
FBM KLCI	1,435.12
Syariah compliant	Yes
Issue shares (m)	3045.06
Estimated free float (%)	20.27
Market Capitalisation (RM'm)	2,299.02
52-wk price range	RM0.45 - RM1.25
Beta vs FBM KLCI (x)	1.67
Monthly velocity (%)	0.00
Monthly volatility (%)	21.54
3-mth average daily volume (m)	10.23
3-mth average daily value (RM'm)	6.78
Top Shareholders (%)	
Seaport Terminal Johore Sdn Bhd	51.76
Amanah Saham Nasional Bhd	19.46
Urusharta Jamaah Sdn Bhd	3.40

Analyst(s)
ADAM Mohamed Rahim
 adam.mrahim@midf.com.my
 03-2772 1686

Earnings visibility for the construction segment. PBT for engineering and construction (E&C) posted a +24.5%yoy increase in 1QFY20 to reach RM61.0m due to the higher interest income and lower operating expenses at KVMRT-SSP Line given the average completion rate of more than 70%. The segment's orderbook stood around RM6.3b as at 31 March 2020 which is roughly 4x the construction revenue recorded in FY19, providing earnings visibility until early 2023. Looking ahead, the division remains active in its effort to replenish its order-book by bidding for more PGU-I Gas pipeline project whilst focusing on the execution and timely completion of its existing internal projects (*refer Table 1*).

Table 1: In-house construction project awards

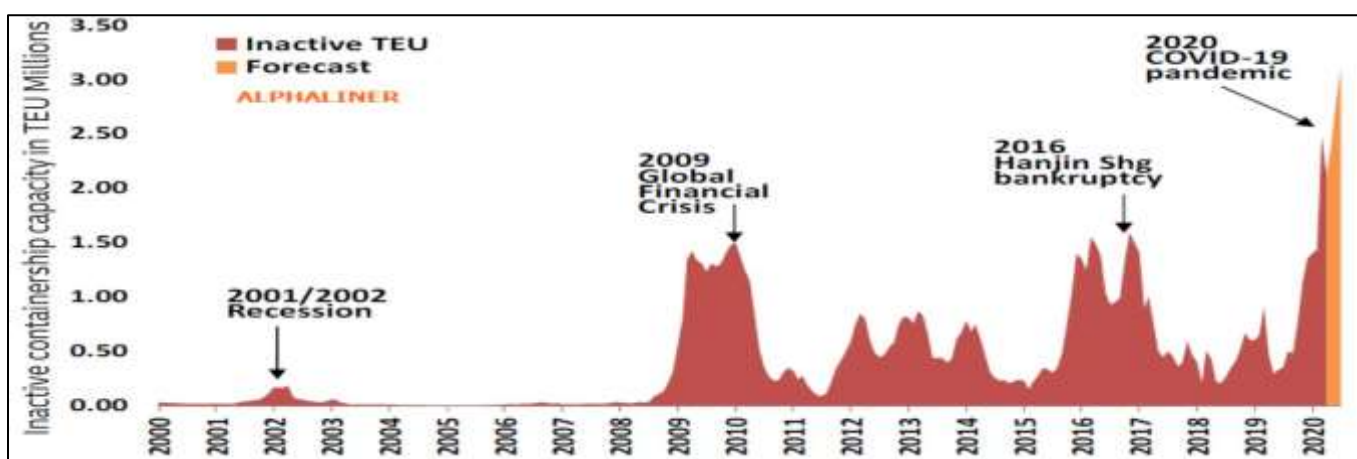
In-house construction project award	Value
Development of new container yard for the purpose of laden empty containers at Johor Port	RM45.0m
Rehabilitation works of the container yard and ancillary (RM7.2m) for Johor Port	RM7.2m
Design and build contractor for the proposed arrival hall expansion and construction of new passenger holding lounge for Senai Airport Terminal Services	Circa RM17.0m

Source: MMC Corp

Steady performance in energy and utilities. Malakoff Corporation Berhad (Malakoff) (NON-RATED) recorded a +33.1%yoy increase in PATAMI for 1QFY20 due to: (i) full three-month contribution from Alam Flora Sdn Bhd (AFSB), (ii) positive net impact of lower operating expense and higher contribution from investment in associates from the 12% additional interest in Shuaibah IWPP; and (ii) absence of share of losses from 40%-owned Kapar Energy Ventures. Meanwhile, **Gas Malaysia Berhad (GMB) (BUY; TP:RM3.11)** recorded a profit after tax of RM47.9m (+16.3%yoy) in 1QFY20 due to: (i) higher volume of natural gas sold during the quarter; (ii) higher finance income and; (iii) lower other cost of sales which include overhead and depreciation, recorded during the quarter. In our opinion, pressure from the Covid-19 pandemic on volume will be temporary in nature as many businesses have resumed operations since mid-April 2020. As such we reiterate our view that earnings growth for GMB going forward will mainly be driven by: (i) expansion of existing customers' volume and; (ii) better margins resulting from the recently implemented Third Party Access (TPA) regulation. Management also guided that FY20F will see growth coming in partially from the increase in volume of gas sold in-line with its recently acquired customers.

Prospects for MMC ports in the wake of Covid-19 outbreak. On a four-month basis from January to April 2020, PTP had recorded a container throughput growth of +4.5%yoy to reach 3.14m TEUs. Meanwhile, we noted that the month of April 2020 saw a -6.3%yoy drop. While factories in China have resumed operations, other parts of the world particularly the U.S which saw retail sales plunging the most in history by 16.4% in April, and the Eurozone had its consumer confidence reaching only -18.8 points in the same month, the lowest since the 2008 financial crisis, due to Covid-19. In short, the weak demand in other parts of the world (such as the U.S and Europe) will slow down manufacturing activity in China. As a result, more than 250 scheduled sailings will be withdrawn in 2QFY20 as carriers react to fading demand amidst the general shutdowns across many countries, causing inactive container ship capacity to peak. In the same vein, Maersk which makes PTP as its regional transshipment hub expects overall volumes to decline as much as 25% in the 2QFY20. That being said, the latest round easing of lockdown restrictions related to the Covid-19 pandemic in the U.S and Europe will gradually pave the way for a nascent recovery in demand for container shipping starting from 2HFY20.


Figure 2: Inactive containership capacity



Source:

Earnings estimates. Taking into consideration of a sluggish 2QFY20 amidst increased number of blank sailings, we have pencilled in a more conservative container throughput growth for MMC Corp's ports. We are now forecasting PTP to contract marginally by -0.5%yoy in FY20 (previously +2.5yoy). As such, the result is a lower earnings estimate for FY20E/FY21F/FY22F by -17.5%/-8.2%/-7.8% respectively

Target price. The downward revision in our container throughput has led to a lower value per share for the ports and logistics division in our sum-of-the-parts valuation. As such, we have arrived at a new target price of **RM1.17 per share** (previously RM1.27).

Maintain BUY. We continue to favour MMC Corp, due to its valuation is supported by the market capitalisation of its listed associates; Malakoff and Gas Malaysia. Malakoff's completed the acquisition of AFSB in December 2019 has enabled a full three-month revenue recognition in 1QFY20. On an annual basis, AFSB is expected to contribute net profit around RM70-90m, mitigating the annual loss of income of MR40-60m from MacArthur Wind Farm disposal. Recall that Alam Flora's PBT margins stood above 10.0% from FY14 to FY18. For ports, contribution from intra-Asia and Asia-Europe trade lanes may face temporary downward pressure from the coronavirus FY20. Nevertheless, we expect MMC Corp's container throughput to recover in FY21, in line with IMF's projection of Malaysia's GDP growth of 9% for the same year, the fastest amongst ASEAN-5. Other catalysts for MMC Corp include the possible reinstatement of the KVMRT3 project at a revised cost (possibly half the original price tag of RM45b). Moreover, we are confident that MMC Corp will be able to clinch new construction projects especially in railway projects which will act as a buffer for its construction orderbook. Key downside risks to our call include: (i) prolonged Covid-19 outbreak; (ii) weak 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 RM1.17 per share.** 

INVESTMENT STATISTICS

Financial year ending 31 st December (in RM'm, unless otherwise stated)	2018A	2019A	2020F	2021F	2022F
Revenue (RM' m)	4,983.6	4,717.3	4,691.3	5,140.0	5,400.9
EBIT (RM' m)	741.0	908.1	720.9	862.3	837.9
Pretax Profit (RM' m)	402.8	532.8	429.2	523.9	577.9
Normalised Net Profit (RM'm)	157.5	256.7	218.9	267.2	294.7
EPS (sen)	5.2	8.4	7.2	8.8	9.7
EPS growth (%)	(24.5)	63.0	(14.7)	22.1	10.3
PER (x)	14.6	9.0	10.5	8.6	7.8
Net Dividend (sen)	3.5	4.0	4.5	4.0	4.0
Net Dividend Yield (%)	4.6	5.3	6.0	5.3	5.3

Source: Company, MIDFR

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results				
	1Q20	4Q19	1Q19	%QoQ	%YoY
Revenue	1,086.8	1,098.1	1,143.2	-1.0	-4.9
COGS	(610.9)	(557.5)	(705.6)	-9.6	13.4
Gross profit	475.912	540.6	437.591	-12.0	8.8
Operating expenses	(261.3)	(271.7)	(241.7)	3.8	-8.1
EBIT	214.6	269.0	195.9	-20.2	9.6
Finance expenses	(172.0)	(163.8)	(170.9)	-5.0	-0.6
Share of results from JV and Associates	72.2	87.1	63.5	-17.1	13.6
PBT	114.806	192.1	88.487	-40.3	29.7
Tax expense	(41.8)	(116.2)	(23.6)	64.0	-77.2
PAT	73.0	76.0	64.9	-4.0	12.5
PATAMI	57.9	68.1	53.5	0.0	8.2
Normalised PATAMI	48.8	114.8	53.5	-53.4	-8.8

Segmental Breakdown	Quarterly Results				
	1Q20	4Q19	1Q19	%QoQ	%YoY
Ports & Logistics					
Revenue	801.0	825.0	780.0	-2.9	2.7
PBT	123.0	144.0	104.0	-14.6	18.3

Malakoff (37.6% associate)	1Q20	4Q19	1Q19	%QoQ	%YoY
	Revenue	1,774.0	1,715.5	1,967.6	3.4
PATAMI	89.2	98.5	67.0	-9.5	33.1

Gas Malaysia (30.9% associate)	1Q20	4Q19	1Q19	%QoQ	%YoY
	Revenue	1,606.2	1,678.3	1,715.6	-4.3
PATAMI	47.9	57.9	41.2	-17.4	16.3

Engineering & Construction	1Q20	4Q19	1Q19	%QoQ	%YoY
	Revenue	264.0	242.0	338.0	-4.3
PBT	61.0	106.0	49.0	-17.4	24.5

MMC CORPORATION BERHAD: SOTP VALUATION

Assets	Total Value (RM mil)	% Stake	Value	Value per share	Remarks
Energy & Utilities					
Malakoff	4,900.00	37.6	1,842.40	0.61	Consensus TP of RM0.98
Gas Malaysia	3,993.24	30.9	1,233.91	0.41	MIDF Fair Value of RM3.11
Aliran Ihsan Resources Berhad	487.00	100	487.00	0.16	Takeover price
Ports & Logistics					
PTP	385.16	70	269.61	0.09	DCF @ WACC: 11%, Perpetual Growth: 1%
Johor Port	518.55	100	518.55	0.17	DCF @ WACC: 11%, Perpetual Growth: 1%
NCB Holdings Berhad	605.27	99	599.22	0.20	DCF @ WACC: 11%, Perpetual Growth: 1%
Penang Port	85.04	100	85.04	0.03	Acquisition price
Senai airport	580.00	100	580.00	0.19	Acquisition price @ 2009
Engineering & Construction					
Construction services	488.60	100	488.60	0.16	PER @ 7x FY20 PAT
MMC-Gamuda MRT2 (AG)	422.52	50	211.26	0.07	DCF
MMC-Gamuda MRT2 (UG)	468.37	50	234.19	0.08	DCF
Others					
Senai Development Land - Airport City	1,466.40	100	1,466.40	0.48	2,104 acres @ RM16 psf
Tanjung Bin Land	1,063.56	100	1,063.56	0.35	1,526 acres @ RM16 psf
Net Debt (Estimate)			(3,142.7)	(1.03)	Company level debt
Total Value (RM mil)	15,463.72		5,937.04	1.95	
No of shares				3,045.10	
Value per Share				1.95	
Discount (%)				40%	Conglomerate discount
Fair Value per Share (RM)				1.17	

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

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.
NEUTRAL	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.