

MMC Corporation Berhad

(2194 | MMC MK) Transportation & Logistics | Industrials

PTP to remain resilient in light of the pandemic

KEY INVESTMENT HIGHLIGHTS

- **PTP to strengthen position as a transshipment hub by providing storage facilities to newly launched services by shipping liners**
- **As such, this should prevent MMC Corp's overall container throughput from declining by more than 10% annually**
- **Major construction projects such as KVMRT-SSP line on track to be completed on time**
- **SAC received a lot of enquiries for sale of land during MCO period**
- **Earnings estimates unchanged**
- **Maintain BUY with an unchanged TP of RM1.17 per share**

PTP, a strategic location for temporarily storing containers.

Management noted that the year-to-date container throughput at Port of Tanjung Pelepas (PTP) is approximately +2.0%yoy higher. With more than 90% of its container throughput coming from transshipment, PTP has appeared to be a strategic location for the temporary storage of containers by shipping liners. For instance, while Europe was under lockdown restrictions, containers heading from North Asia to Europe carried by shipping liners would search for locations to store the containers until it was time for shipment. As a result, major shipping liners namely, Maersk, CMA CGM and MSC have collaborated to offer a service called 'delay-in-transit', enabling shippers to delay shipment to the point of destination with a certain fee. To strengthen its position as a transshipment hub, PTP has taken opportunity to leverage on this service by promoting their container yard for storage space. All in, this should partially cushion the impact coming from the economic slowdown seen in other parts of the world.

Idle TBMs post completion of KVMRT-SSP line to possibly spur upcoming projects in the Klang Valley.

During the initial MCO period, tunnelling works on the KVMRT-SSP line were granted an approval to continue in addition to other essential works categorised by MITI. Therefore, the management guided that the completion of the KVMRT-SSP line would be in time around 2QCY22 and 3QCY22. Post-completion of the KVMRT-SSP line, the tunnel boring machines (TBM) (costs around RM10-15m per machine) used for the project will be idle. As the TBMs deployed by the MMC-Gamuda JV are designed to handle the soil type found mainly in Klang Valley, the usage of these TBMs in other states is far-fetched. Therefore, it would be economical for the TBMs to be re-deployed in possible mega projects in the Klang Valley, such as the KVMRT 3.

Unlocking the value of land in SAC. To recap, MMC Corp had established its Senai Airport City (SAC) not too long ago. The last sale of land took place in August 2015 whereby three parcels of land totalling 188.7 acres (76.4ha) was sold to I-Park Sdn Bhd for RM370.0m cash, a price that is more than double its original purchase price of RM140.5m.

Maintain BUY

Unchanged Target Price: RM1.17

RETURN STATISTICS

Price @ 21 st May 2020 (RM)	0.81
Expected share price return (%)	+45.34
Expected dividend yield (%)	+5.00
Expected total return (%)	+50.34

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	25.8	19.7
3 months	33.1	-9.7
12 months	-20.3	-12.0

KEY STATISTICS

FBM KLCI	1,452.11
Syariah compliant	Yes
Issue shares (m)	3045.06
Estimated free float (%)	20.27
Market Capitalisation (RM'm)	2,451.27
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

Other occupants/tenants of the SAC include Fuji Oil, Hershey's Chocolate and EcoWorld. According to the management, there are 1,221 acres of remaining land bank in SAC. SAC has managed to sign SPAs with three parties covering 19.3 acres of land while another circa 82.6 acres in the pipeline. Assuming a price of RM50 per sqft, MMC Corp will potentially unlock revenue of around RM221.9m from sale of lands in SAC covering a total of 101.9 acres of land. Looking ahead, we do not discount the possibility of the potential land sale to take place in the coming years due to the limited land availability in Singapore, prompting businesses to shift part of their distribution or manufacturing hubs to SAC. In addition, SAC has been receiving enquiries regarding the sale of land during the MCO period.

Earnings estimates. We are maintaining our earnings estimates for FY20E/FY21F/FY20F.

Target price. As no adjustments were made to our earnings estimates, we are maintaining our target price at **RM1.17 per share** based on sum-of-the-parts valuation.

Maintain BUY. Although 2QFY20 will be a sluggish quarter amidst impact of lower consumption due to the Covid-19 pandemic, 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 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). 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 associate. All factors considered, we reiterate our **BUY** call on MMC Corp with an unchanged 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)	15.6	9.6	11.2	9.2	8.3
Net Dividend (sen)	3.5	4.5	4.0	4.0	4.0
Net Dividend Yield (%)	4.3	5.6	5.0	5.0	5.0

Source: Company, MIDFR

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

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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.
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.