

MMC Corporation Berhad

(2194 | MMC MK) Transportation & Logistics | Industrials

PTP volumes still holding up well so far

KEY INVESTMENT HIGHLIGHTS

- Container throughput at PTP still holding up well on a year-to-date basis
- Demand for reefer container storage handling will help to partially buffer any impact from Covid-19 outbreak
- Gradually replenishing its construction orderbook with small projects
- MMC Corp could potentially unlock >RM100m worth of land sale
- Earnings estimates unchanged
- Maintain BUY with an unchanged TP of RM1.27

Container throughput at PTP still holding up thus far. MMC Corp guided that year-to-date container throughput at PTP is still good, registering a growth of +11.0%yoy despite concerns of the Covid-19 outbreak. Factors of the positive performance in PTP's container throughput was partly due to: (i) spill over effect from the seasonally strong month of December 2019, and (ii) shippers transiting to quarantine cargo containing perishables via reefer containers especially the outbound China cargo. Financially, the fees for handling reefer containers are higher than that of normal transshipment cargo which stands at RM200 per TEU while having around 6,000 reefer points in PTP. Henceforth, we believe that this will partially cushion any incoming impact from the Covid-19 outbreak.

Slowly replenishing construction orderbook. MMC Corp has been slowly replenishing its construction orderbook, i.e. the PGU-I Gas pipeline project from PETRONAS Gas Berhad worth RM131.4m. Aside from that, MMC Corp's construction segment has been awarded with in-house construction contracts worth approximately RM45.0m in total (Refer Table 1). Although these contracts are relatively small in value, we view this award as MMC Corp's ongoing efforts to ensure a sustainable construction orderbook. With an orderbook of RM6.6b as of 31 Dec 2019, we believe that this could provide earnings visibility for the segment until 2022.

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

Maintain BUY
Unchanged Target Price: RM1.27

RETURN STATISTICS

Price @ 27 th Feb 2020 (RM)	0.90
Expected share price return (%)	+43.50
Expected dividend yield (%)	+4.50
Expected total return (%)	+48.00

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-6.2	-1.8
3 months	-8.6	-3.6
12 months	-10.0	3.4

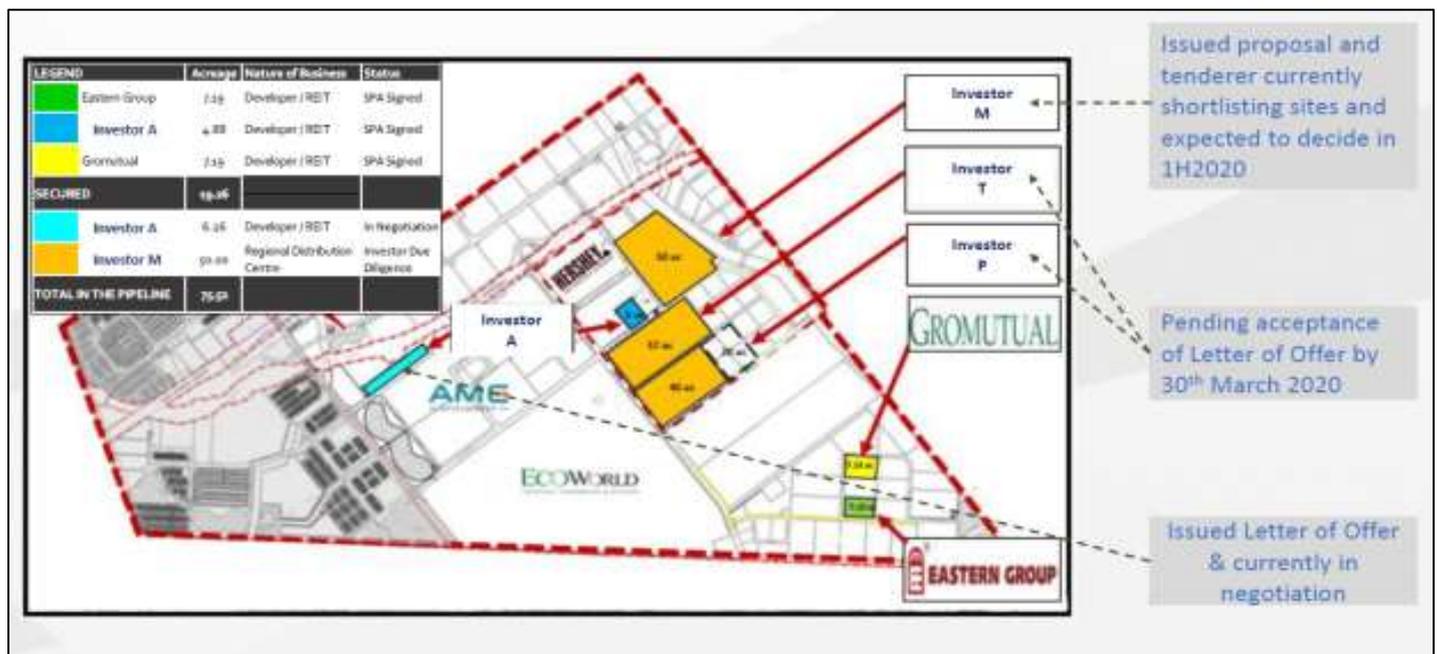
KEY STATISTICS

FBM KLCI	1,505.59
Syariah compliant	Yes
Issue shares (m)	3045.06
Estimated free float (%)	12.20
Market Capitalisation (RM'm)	2,694.88
52-wk price range	RM0.84 - RM1.25
Beta vs FBM KLCI (x)	1.22
Monthly velocity (%)	30.60
Monthly volatility (%)	21.54
3-mth average daily volume (m)	2.37
3-mth average daily value (RM'm)	2.29
Top Shareholders (%)	
Seaport Terminal Johore Sdn Bhd	51.76
Skim Amanah Saham Bumiputera	19.06
Urusharta Jamaah Sdn Bhd	7.68

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Unlocking the value of land in SAC. To recap, MMC Corp had started 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. 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. Lately, SAC managed to secure 19.3 acres of land to three parties while another 56.3 acres in the pipeline with another two parties are pending acceptance of Letter of Offer by 30th March 2020. Assuming a price of RM50 per sqft, MMC Corp will potentially unlock revenue of around RM164.5m from sale of lands in SAC. 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.

Figure 1: Senai Airport City Layout



Source: MMC Corp

Earnings estimates. Initially, MMC Corp was projecting an average +3-5%yoy growth for its total container throughput at its ports. With the Covid-19 issues lingering, we opine that MMC Corp will revise its projection for the total container throughput lower. Likewise, we have previously revised our container throughput growth forecast for MMC Corp's ports. For instance, we have adjusted the container throughput growth for PTP from +5.0%yoy to +2.5%yoy for FY20 in our 4QFY19 results review. Hence, we make no changes to our earnings estimates.

Target price. As no adjustments were made to our earnings estimates, we are maintaining our target price at **RM1.27 per share** based on sum-of-the-parts valuation.

Maintain BUY. We continue to favour MMC Corp as we view sea ports to be more resilient compared to air freight (*refer Table 2*). With Maersk owning a 30.0% stake in PTP, we believe that the shipping company will ensure to maintain PTP as its regional transshipment hub in the wake of the Covid-19 outbreak. It is also notable that MMC Corp's ports other than PTP such as Johor Port, Penang Port have a high concentration of gateway cargo of more than 90.0% of total container throughput. The increasing prevalence of intra-ASEAN trade following the emergence of regional distribution hubs in ASEAN especially Malaysia will bode well for these two ports. A further rerating catalyst for MMC Corp would be 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 associates. All factors considered, we reiterate our **BUY** call on MMC Corp with a revised **target price of RM1.27 per share.** 

Table 2: DHL Global Trade Barometer

Month	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
World Trade	48	49	47	46	45	45
Air Trade	48	48	45	43	42	43
Ocean Trade	48	49	48	48	46	47

Source: DHL

INVESTMENT STATISTICS

Financial year ending 31 st December (in RM'm, unless otherwise stated)	2018A	2019A	2020F	2021F	2022F
Revenue (RM' m)	4,983.8	4,717.3	4,739.3	5,189.6	5,452.3
EBIT (RM' m)	741.2	908.1	818.2	915.5	892.1
Pretax Profit (RM' m)	402.9	532.8	520.4	570.9	626.4
Normalised Net Profit (RM'm)	157.6	256.7	265.4	291.1	319.5
EPS (sen)	5.2	8.4	8.7	9.6	10.5
EPS growth (%)	(24.5)	63.0	3.4	9.7	9.7
PER (x)	17.2	10.6	10.2	9.3	8.5
Net Dividend (sen)	3.5	4.0	4.0	4.0	4.0
Net Dividend Yield (%)	3.9	4.5	4.5	4.5	4.5

Source: Company, MIDFR

MMC CORPORATION BERHAD: SOTP VALUATION

Assets	Total Value (RM mil)	% Stake	Value	Value per share	Remarks
Energy & Utilities					
Malakoff	5,100.00	37.6	1,917.60	0.63	Consensus TP of RM1.02
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	832.75	70	582.92	0.19	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)			(3020.96)	(0.99)	Company level debt
Total Value (RM mil)	16,111.30		6,447.29	2.12	
No of shares				3,045.10	
Value per Share				2.12	
Discount (%)				40%	Conglomerate discount
Fair Value per Share (RM)				1.27	

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.