

PP14767/09/2012(030761)

MMC Corporation Bhd

“Going Light”

We are positive on MMC Corporation Berhad’s (MMC) bright outlook and advise investors to continue investing in MMC underpinned by 1) the potential listing of its ports segment and 2) potential securing of more construction and engineering contract from government. We value MMC at RM3.00 and the stock is a BUY.

- **New look of MMC Corp.** With the successful listing of Malakoff into Bursa Malaysia on 14 May 2015, MMC is now left with three major segments namely construction, airport and ports. Energy and utilities that consists Malakoff are now deconsolidated from MMC financials.
- **Major effect of Malakoff deconsolidation.** Pre-Malakoff IPO, MMC potential was limited due to Malakoff net gearing that reached 2.1x. Post-Malakoff IPO, MMC net gearing has improved to 0.6x with long term debt dropping substantially to only RM6.3 billion vs. RM24 billion in 4Q14. Additionally, MMC will receive RM270 million from the IPO proceeds of which MMC will utilize to further reduce its gearing level and to finance working capital.
- **Focus now on growing engineering and construction segment.** Post freeing-up its balance sheet, the primary focus is to ramp-up its construction arm as MMC is left with only three major businesses. Recently, MMC has secured project delivery partnership (PDP) roles for the MRT2 project and is now focusing to bid for the tunnelling job for the MRT2 project. MMC is positive with its potential in the bidding stage given the Group’s good track record in managing several domestic and local projects proved successful.
- **Listing port segment.** Recently, management reignites its stance to list its port business that consist of Pelabuhan Tanjung Pelepas, Northport and Southport in

Wednesday, June 10, 2015

BUY (TP:RM3.00)

Current Price (RM)	RM2.50
New Fair Value (RM)	RM3.00
Previous Fair Value (RM)	RM3.00
Previous Recommend.	BUY
Upside To Fair Value	20%
Dividend Yield (FY15)	-

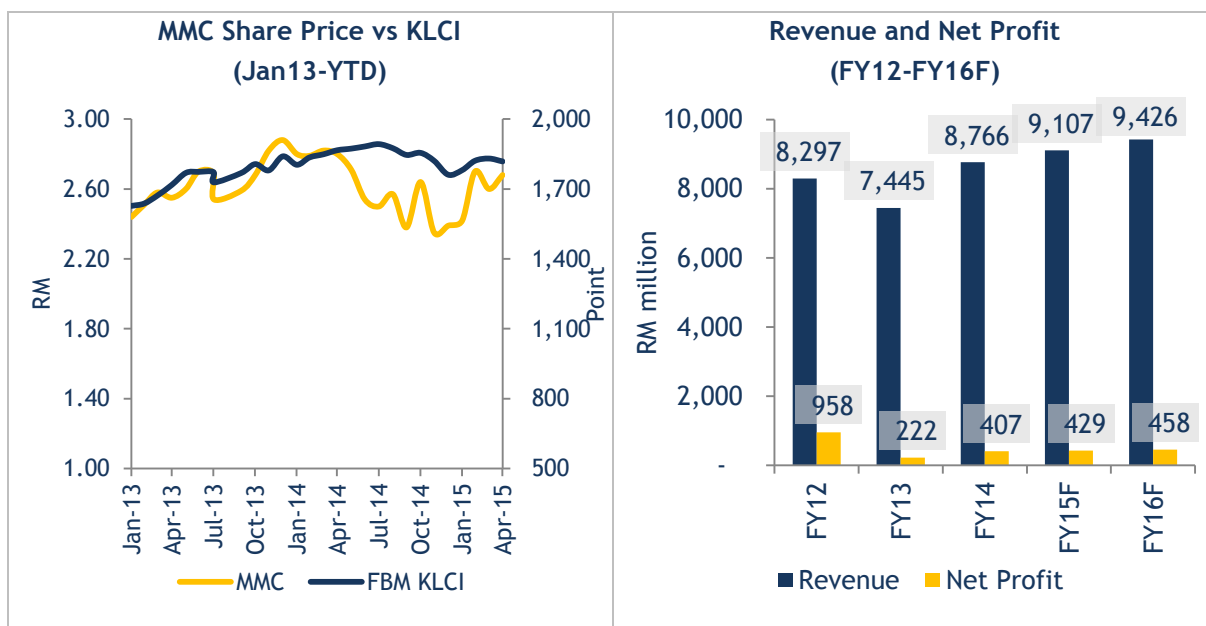
Stock Code	
Bloomberg	MMC MK

Stock & Market Data	
Listing	MAIN MARKET
Sector	Diversified
Shariah Compliance	Yes
Issued Shares (mn)	3,045.1
Market Cap (RM mn)	7,612
YTD Chg In Share Price	4.6%
Beta (x)	1.0
52-week Hi/Lo (RM)	RM2.87 RM2.16
3M Average Volume (shrs)	1.69 mil
Estimated Free Float	22%

Major Shareholders	
Seaport Terminal	51.7%
ASB	20.2%
LTH	5.9%

Port Klang, stating that a study is currently being conducted to assess the value of these assets so as to unlock its value.

- **Construction orderbook still solid.** Despite left with only 3 major projects (excluding KVMRT), however, the contract value is still huge at RM5 billion with the biggest coming from Langat Centralized Sewerage Treatment Plant worth approximately RM1.5 billion for a six-year contract. Second project is Langat 2 Water Treatment Plant worth RM994 million where MMC has stake of 34% together with Salcon and AZRB for 3 years contract. The least contributor to the orderbook is JV with Siemens worth RM300 million to construct Pengerang coal generation power plant where MMC is responsible to prepare the earth works. MMC is able to vault its orderbook to RM10 billion its wins the MRT2 tunnelling works.
- **Outlook.** Post-Malakoff IPO, MMC balance sheet will be light due to Malakoff deconsolidation and hence, will show the true colours of MMC potential with the reduction of gearing level. MMC is expected to leverage on its domestic construction experience to tender for more jobs given the government plan to step-up infrastructure spending boom. Hence, after the listing of Malakoff, we are positive that MMC will concentrate to grow its engineering division through KVMRT project which has entered its second year.
- **Earnings outlook.** FY15 and FY16 earnings are projected to grow by 1.3% y-o-y and 14% y-o-y driven by i) steady contribution from KVMRT project ii) higher contribution from PTP due to expanding capacity
- **Valuation.** We maintain our TP of RM3.00 on MMC and hence, maintain our **BUY** call with 20% upside potential. Re-rating catalyst on MMC could emanate from 1) listing of port segment 2) securing more construction and engineering contract from government.



Source: Bursa Malaysia, M&A Securities

Table 1: Peers Comparison

Company	Y/E Ended	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	TP	Call
			FY15	FY16	FY15	FY16	FY16	FY16			
MMC Corp	Dec	2.50	0.1	0.2	18.9	16.1	1.0	0.9	3.2	3.00	Buy
TNB	Aug	13.20	1.2	1.2	12.7	12.2	1.8	1.6	14.1	15.20	Buy
Gas Malaysia	Dec	2.83	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Hold
Petronas Gas	Dec	21.80	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Hold
Petronas Chemical	Dec	6.18	0.3	0.4	15.1	13.4	1.7	1.6	15.0	5.80	Hold
Malakoff	Dec	1.83	NA	NA	NA	NA	NA	NA	8.68	2.30	Buy
YTL Power	Dec	1.62	0.1	0.1	11.2	11.8	1.1	1.0	12.1	NA	NA
Average			0.5	0.6	19.4	17.3	2.3	2.2	13.8		

Source: Bursa Malaysia. M&A Securities

Table 2: Financial Summary

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	8,297	7,445	8,766	9,107	9,426
Cost of Sales	(5,859)	(5,302)	(6,006)	(6,156)	(6,372)
Gross Profit	2,438	2,144	2,759	2,951	3,054
Other income	1,350	305	389	424	435
Expenses	(742)	(770)	(770)	(794)	(770)
Associates/jointly controlled entity	246	193	180	240	300
PBT	1,809	261	886	1,159	1,239
PAT	1,546	450	804	877	929
Minorities	588	222	407	429	458
Core PAT	958	230	383	393	402
EPS (Sen)	30.3	13.4	13	14	15
PBT Margin	21.8%	3.5%	10.1%	12.7%	13.1%
PAT Margin	18.6%	6.0%	9.2%	8.9%	9.9%
PER (x)	83	9	38	21	21
P/BV (x)	1.4	1.1	1.17	1.12	1.07

Source: Bursa Malaysia. M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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