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MMC Corporation Bhd

“Bags PDP Role for MRT2”

Latest Development

- **Bags PDP roles for MRT2.** MMC Corporation Berhad (MMC) announced that its joint venture between Gamuda Bhd and MMC has been appointed as the project delivery partnership (PDP) for MRT2, which will link Sungai Buloh to Putrajaya. MMC and Gamuda will each hold 50% stake in the JV. The project is expected to commence by tender work by end of this year, and the award contracts are expected to be as early as 2H16. The project is scheduled for completion on in July 2022.
- **PDP fee and roles.** Of note, the MMC-Gamuda JV had also bagged similar roles for MRT1. As a PDP, the JV primary function is to ensure the successful completion of MRT2 within the budget and time frame. Additionally, the JV will be paid a fee of 6% from the actual cost or RM1.68 billion against the project total cost of RM28 billion. Should the JV misses the key performance indicators set by government, the PDP fees will be in jeopardy.
- **Potential to boost MMC orderbook.** Although the PDP fees are not incorporated in the orderbook (PDP fee: RM1.68 billion) but the fees are still counted in MMC and Gamuda financials. That said, MMC and Gamuda will potentially to book RM850 million each for a period of 6 years or RM142 million annually starting from FY17-FY22. The bigger impact with the PDP roles is that MMC and Gamuda are eyeing for the tunnelling portion in MRT2, estimated estimated to worth RM12 billion - RM13 billion.
- **Potential to win tunnelling job.** Based on our analysis, we believe the tender job for the underground tunnel will be called early next year due to additional track alignment and cost analysis. Based on RM12 billion - RM13 billion tunnelling

Wednesday, July 15, 2015

BUY (TP:RM3.00)

Current Price (RM)	RM2.37
New Fair Value (RM)	RM3.00
Previous Fair Value (RM)	RM3.00
Previous Recommend.	BUY
Upside To Fair Value	26%
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)	7,216	
YTD Chg In Share Price	-0.84%	
Beta (x)	1.03	
52-week Hi/Lo (RM)	RM2.87	RM2.16
3M Average Volume (shrs)	775.3	
Estimated Free Float	22%	

Major Shareholders		
Seaport Terminal	51.7%	
ASB	20.2%	
Tabung Haji	6.0%	

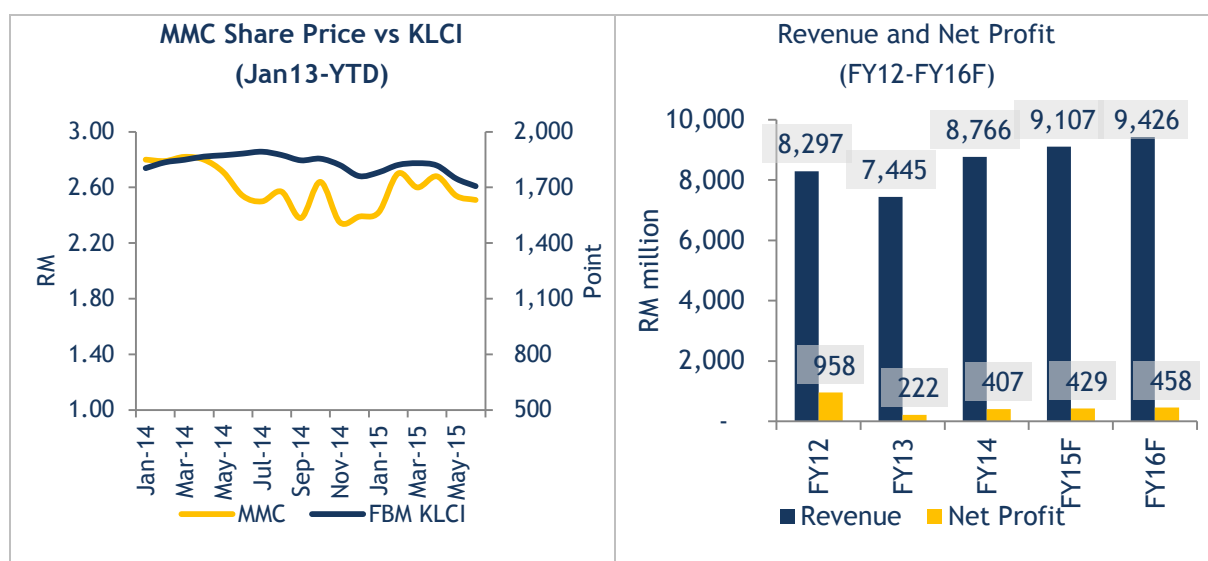
job, we estimate MMC and Gamuda may bag RM6 billion - RM6.5 billion each. That said, this will boost MMC current order book to RM11 billion which will last them until FY20. The big chunk of its orderbook is still from the KVMRT1 tunnelling project.

- **Outlook.** We are positive on the announcement as this will potentially boost MMC orderbook in the future and hence, this shows MMC commitment to further grow its engineering division. Moving forward, we expect the Economic Transformation Programme (ETP), now into its fifth year, will progress swiftly with more contracts announcement in the plate. We expect MMC to continue bag more government related projects due to its good track record in completing the projects in hands.
- **Change to forecast.** We maintain our FY15 forecast and FY16 forecast as we expect the job will only start to contribute in FY17. Nonetheless, 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 KVMRT1 project; and ii) higher contribution from PTP due to expanding capacity.
- **Valuation.** We maintain our TP of RM3.00 on MMC and reiterate our **BUY** call on the stock. At this TP, upside potential is 19%. At RM3.00, MMC is trading at PER of 17.5x, 18% discount from its 3-year average PER of 20.8x. Re-rating catalyst on MMC could emanate from 1) listing of port segment; and 2) securing more construction and engineering contract from government.

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	2.37	0.1	0.2	18.9	16.1	1.0	0.9	3.2	3.00	Buy
TNB	Aug	12.52	1.2	1.2	12.7	12.2	1.8	1.6	14.1	15.20	Buy
Gas Malaysia	Dec	2.55	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Buy
Petronas Gas	Dec	21.40	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Hold
Petronas Chemical	Dec	6.36	0.3	0.4	15.1	13.4	1.7	1.6	15.0	5.80	Hold
Malakoff	Dec	1.78	NA	NA	NA	NA	NA	NA	8.68	2.30	Buy
YTL Power	Dec	1.55	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



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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