

PP14767/09/2012(030761)

MMC Corporation Bhd

“Bigger Ports”

Latest Development.

- Launch takeover bid.** It was reported in the news that MMC Corporation Bhd (MMC) is proposing to acquire a 53.42% equity interest in NCB Holdings Bhd (NCB) from Permodalan Nasional Bhd (PNB) and AmanahRaya Trustees Bhd for RM1.1 billion and hence, triggering a mandatory general offer (MGO) and lifting MMC’s interest in NCB from 30.13% to 83.55%. The offer price of RM4.40 represents a 1.38%, 2.56%, 6.28% and 18.6% to the five-day, one-month, three-month and six-month volume-weighted average prices of NCB shares up to Oct 16 of RM4.34, RM4.29, RM4.14 and RM3.71 respectively.
- About NCB Holdings.** NCB is the port operator in the Northport and Southport in the Port Klang. These ports handle import/export and transhipment container cargoes. Additionally these port offer storage, stevedoring and other ancillary services. NCB also has stake in Kontena Nasional, whose performance has been in the red for the past two years due to operational challenges.
- Price is at premium.** Based on RM4.40/share, we understand the offer price by MMC is pegged at 41.9x PE. We believe MMC is paying PNB and AmanahRaya Trustee at premium price if we were to compare with NCB last 3-year PE of only 29.2x PE. We understand that the willingness of MMC to pay a premium price is due to the bright outlook of dry bulk shipping and the ability of MMC to integrate NCB’s port into MMC’s stable ports including Pelabuhan Tanjung Pelepas and South and North Ports in Klang.
- Impact to MMC.** We understand that the deal will be fully satisfied via borrowings. That said MMC’s net gearing will soar to 78% from 69% currently. At 79% gearing, the level is still comfortable as it is backed by

Research Team
research@mna.com.my
03-22821820 ext. 257, 229,221,249,238

Wednesday, October 21, 2015

BUY (TP:RM2.84)

Current Price (RM)	RM2.27
New Fair Value (RM)	RM2.84
Previous Fair Value (RM)	RM2.70
Previous Recommend.	BUY
Upside To Fair Value	25.1%
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)	6912
YTD Chg In Share Price	-5.02%
Beta (x)	1.03
52-week Hi/Lo (RM)	RM2.80 RM1.49
3M Average Volume (shrs)	1.69 mil
Estimated Free Float	22%

Major Shareholders	
Seaport Terminal	51.7%
ASB	20.2%
LTH	6.0%

Market Access

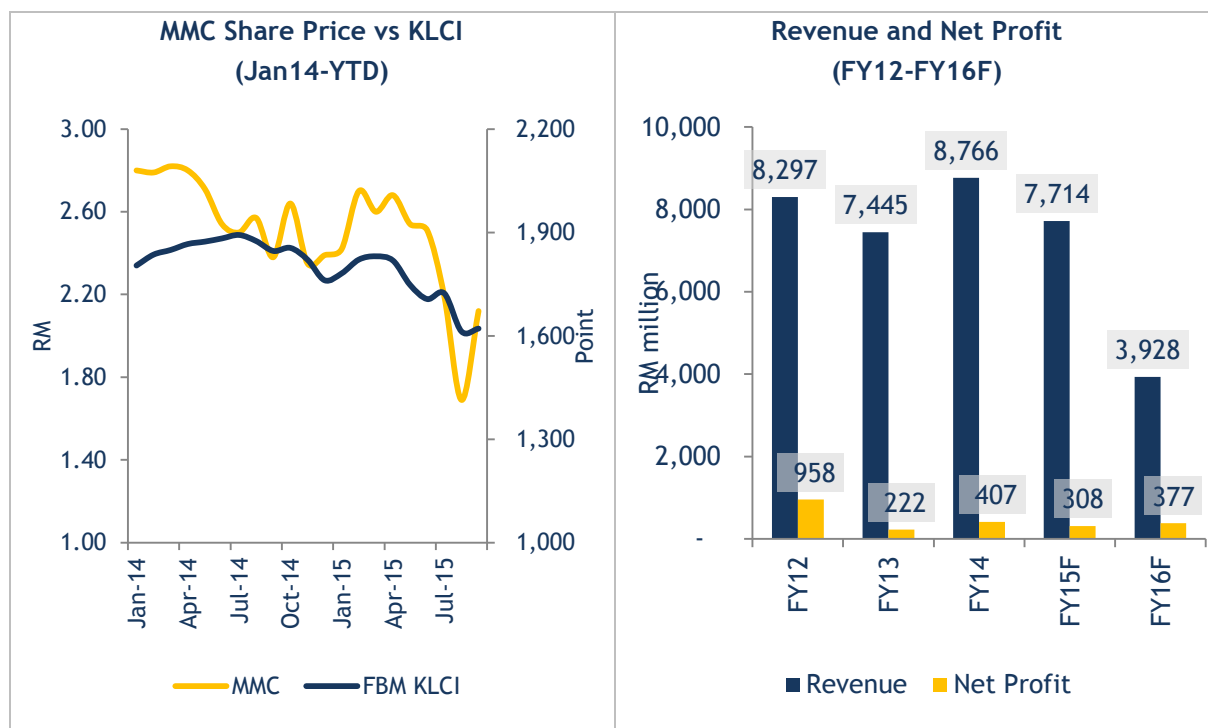
MMC's cash position of RM880million as at 2Q15.

- **Rationale for the takeover.** In our view, the takeover primary objective is non-financial purpose as we believe MMC is trying to create larger port company in Malaysia and ultimately to list it in the Bursa Malaysia covering 3 ports namely PTP, South and North Port. At this juncture, based on our estimates the financial contribution from NCB is likely to lift MMC bottomline by 6%-7% in FY16.
- **Outlook.** We are positive on the announcement as this will potentially boost MMC's port segment in the future and hence, this shows MMC commitment to further grow its port 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.
- **Earnings outlook.** We maintain our FY15 forecast as we believe the deal may take longer period to complete but we have raised our FY16 earnings projection by 6% in view of this new development. That said, FY15 and FY16 earnings are projected to grow by 1.3% y-o-y and 22% y-o-y driven by i) steady contribution from KVMRT1 project; and ii) higher contribution from PTP due to expanding capacity.
- **Valuation.** We raise our TP on MMC to RM2.84 based on SOTP valuation. That said, we reiterate our **BUY** call on MMC. 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	2.27	0.1	0.2	18.9	16.1	1.0	0.9	3.2	2.84	Buy
TNB	Aug	12.82	1.2	1.2	12.7	12.2	1.8	1.6	14.1	15.20	Buy
Gas Malaysia	Dec	2.42	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Buy
Petronas Gas	Dec	22.74	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Hold
Petronas Chemical	Dec	6.48	0.3	0.4	15.1	13.4	1.7	1.6	15.0	5.80	Hold
Malakoff	Dec	1.72	NA	NA	NA	NA	NA	NA	8.68	2.30	Buy
YTL Power	Dec	1.54	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	7,713	3,928
Cost of Sales	(5,859)	(5,302)	(6,006)	(6,246.54)	(2,746)
Gross Profit	2,438	2,144	2,759	1,467	552
Other income	1,350	305	389	369.54	280
Expenses	(742)	(770)	(770)	(794)	(873)
Associates/jointly controlled entity	246	193	180	240	944
PBT	1,809	261	886	686	491
PAT	1,546	450	804	308	377
Minorities	588	222	407	114	132
Core PAT	958	230	383	421	489
EPS (Sen)	30.3	13.4	13	10	12
PBT Margin	21.8%	3.5%	10.1%	6.1%	19.1%
PAT Margin	18.6%	6.0%	9.2%	4.0%	14.5%
PER (x)	83	9	38	16	13
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.

DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

M & A Securities SdnBhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: www.mnaonline.com.my

Research Team

research@mna.com.my

03-22821820 ext. 257,229,221,249,238