

MMC Corporation Bhd

“Lean and Light”

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

**New appearance.** Pre-Malakoff deconsolidation from MMC, MMC business was anchored by energy segment which consist of power generation business. With the successful listing of Malakoff into Bursa Malaysia on 14<sup>th</sup> May 2015, MMC business segment is now left with 3 namely construction, airport and ports.

**The priority?** Post-Malakoff deconsolidation from MMC, we believe MMC will prioritize its construction segment over airport and ports due to massive RM5 billion orderbook on the back of contribution from 3 projects namely Langat Centralized Sewerage Treatment Plat (RM1.5 billion), Langat 2 Water Treatment Plant (RM994 million) and Pengerang coal generation power plant (RM300 million). MMC’s prominent track record in managing MRT1 has enabled the Group to secure similar role for MRT2 project with Gamuda. Additionally, MMC is eyeing the tunnelling portion of MRT2 given the group’s track record in managing several domestic and overseas projects that proved successful.

**Port division will grow along.** To cater its growing volume, Pelabuhan Tanjung Pelepas (PTP) has completed its second phase expansion plan in 2014 and hence, raising its annual handling capacity by 25% to 10.5 million TEUs. The expansion plan includes increasing number of berths - two new berths and three blocks of container yards as well as purchase of new cranes for electrifying existing rubber-tyred gantries crane (E-RTGS). Moving

BUY (TP:RM3.00)

Current Price (RM)	RM2.51
New Fair Value (RM)	RM3.00
Previous Fair Value (RM)	RM3.00
Previous Recommend.	BUY
Upside To Fair Value	19%
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	4.61%	
Beta (x)	1.06	
52-week Hi/Low (RM)	RM2.87	RM2.16
3M Average Volume (shrs)	1,001	
Estimated Free Float	22%	

Major Shareholders

Seaport Terminal	51.7%
ASB	20.3%
Tabung Haji	6.0%

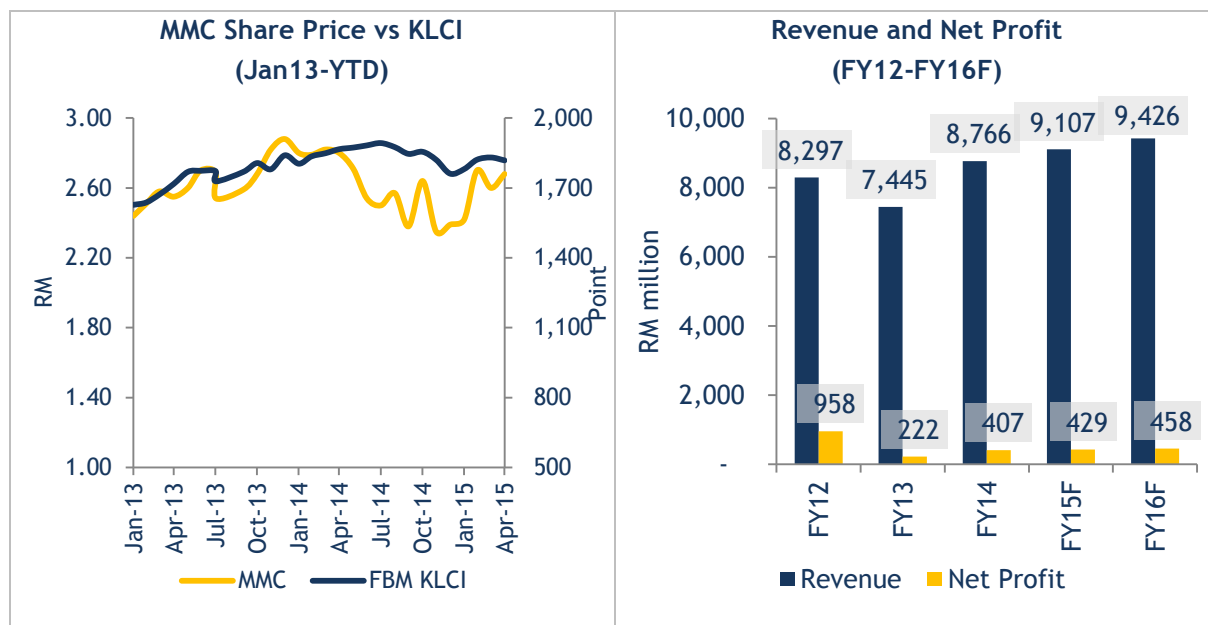
forward, PTP is looking to increase in annual handling capacity to 12.5 million TEUs in third phase expansion plan that will be running until 2019 to accommodate additional volumes projection.

**Possibility to list ports?** Recently, management reignites its stance to list its port business that consist of Pelabuhan Tanjung Pelepas, Northport and Southport in Port Klang, stating that a study is currently being conducted to assess the value of these assets so as to unlock its value.

**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. 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; and ii) higher contribution from PTP due to expanding capacity.

**Valuation and recommendation.** We maintain our TP of RM3.00 on MMC and hence, reiterate our **BUY** call with 19% upside potential. At RM3.00, MMC is trading at PER of 17.5x, a 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.



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	2.51	0.1	0.2	18.9	16.1	1.0	0.9	3.2	3.00	Buy
TNB	Aug	12.64	1.2	1.2	12.7	12.2	1.8	1.6	14.1	15.20	Buy
Gas Malaysia	Dec	2.51	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Hold
Petronas Gas	Dec	21.26	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Hold
Petronas Chemical	Dec	6.32	0.3	0.4	15.1	13.4	1.7	1.6	15.0	5.80	Hold
Malakoff	Dec	1.75	NA	NA	NA	NA	NA	NA	8.68	2.30	Buy
YTL Power	Dec	1.60	0.1	0.1	11.2	11.8	1.1	1.0	12.1	NA	NA
Average					19.4	17.3	2.3	2.2			

Source: Bursa Malaysia. M&amp;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&amp;A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

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

## SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	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](http://www.mnaonline.com.my)