BETTER EARNINGS DELIVERY

MMC CONTINUES TO BE HOT PICK

This is due to port sector's resilience amid Covid-19 pandemic, say analysts

DBS Group Research continues to keep its 'buy' rating on MMC Corp Bhd with a target price of RM1.49.

KUALA LUMPUR

MMC Corp Bhd remains one of the most favoured stocks for some research houses given the resilient port sector amid the Covid-19 pandemic.

Analysts said MMC's port logistics segment would continue to benefit from the resilient outlook in the region's port sector when the outbreak is over.

This will be underpinned by investments in the manufacturing sector that generates tremendous inbound and outbound throughput.

AmInvestment Bank Bhd said the weak ringgit and cheaper port charges were positives for the port operator as shipping lines were seeking ways to rationalise their cost structures amid the tough operating environment.

"We continue to like MMC due to its cheap implied valuation for the group's port business (14 times forward price-to-earnings ratio)," it added.

MMC is the largest domestic container terminal operator, according to Malaysian Rating Corp Bhd (MARC).

The status has been strengthened with the addition of Penang Port.

Its key port, Port of Tanjung Pelepas, in Johor remains one of world's top 20 busiest ports, MARC added.

MMC ports handled about 14.3 million twenty-foot equivalent units in financial year 2019, which made it the largest port operator in the country.

"Overall, the impact from shifts in global shipping alliances on the group has been offset by volume improvement in dry and liquid bulk handling, local container shipment for Northport and cargo handling for Johor Port and Penang Port," MARC said.

MIDF Research continues to favour MMC as it viewed sea ports to be more resilient than air freight. MMC's valuation is supported by the market capitalisation of its listed associates, Malakoff Corp Bhd and Gas Malaysia Bhd.

Malakoff's completion of its acquisition of Alam Flora Sdn Bhd (AFSB) in December last year had enabled a one-month revenue recognition in MMC's latest fourth-quarter results, MIDF Research added.

"On an annual basis, AFSB is expected to contribute a net profit of between RM70 million and RM90 million, mitigating the annual loss of income of RM40 million to RM60 million from the MacArthur Wind Farm disposal."

DBS Group Research said MMC's recently-released fourth-quarter results had beaten expectations.

MMC booked a fourth-quarter headline net profit of RM68 million, a 43 per cent contraction year-on-year and two per cent growth quarter-on-quarter. This brought the full-year net profit 16 per cent higher to RM255 million.

"Stripping out some one-offs, namely reversal of provisions for double-tracking project of RM18 million and provision for impairment of receivables for its Jazan project in Saudi Arabia of RM54 million and net gain from sale of asset of RM34 million, the resulting core net profit of RM253 million would have trounced our and consensus estimates."

DBS Research said MMC's ports continued to do well.

For transport and logistics, their full-year turnover increased six per cent to RM3.19 billion with pre-tax profit rising 11 per cent to RM460 million.

DBS Research said MMC was pursuing the port business listing but the timeline was likely next year.

"The focus would be to ensure stronger earnings recovery for its port business, which has been dragged down by the poorer financials for Northport," it added.

DBS Research kept its "buy" rating on MMC with a target price of RM1.49.

It said better earnings delivery would lead to a further re-rating.