

# MMC Corp's port business will weather the pandemic

*Once the pandemic is over, MMC's ports and logistics segment will continue benefitting from the resilient outlook in the region's port sector*

by SHAHEERA AZNAM SHAH

THE world's largest container ship MSC Gulsun was called at the Port of Tanjung Pelepas (PTP) on its maiden voyage in July last year. The arrival of the 23,756 twenty-foot-equivalent units (TEUs) mega ship — stretching 400m in length, 63m longer than the US aircraft carrier USS Enterprise and can accommodate 16 tennis matches at any one time — was a major milestone for the port.

PTP became the first port in the world to hit back-to-back record for the highest utilisation of a container vessel when MSC Gulsun left the port with a record load of 19,574 TEUs.

Weeks earlier, another mega ship, the Monaco Maersk, one of Maersk's second-generation Triple-E vessels, left the port with a load of 19,284 TEUs, another significant achievement for the port which only received its first vessel on Oct 10, 1999.

"PTP has the capacity and capability to accommodate mega size vessels because it is fitted out with the right facilities and equipment.

"The port is designed for the latest generation of container vessels to handle huge volumes," said PTP chairman and MMC group MD Datuk Seri Che Khalib Mohamad Noh on the MSC Gulsun call at PTP.

Pelabuhan Tanjung Pelepas Sdn Bhd is one MMC Group's crown jewels in its ports and logistics empire.

The port, located on the western part of Johor, has been giving neighbouring Singapore a run for its money as a leading regional port since it opened about 20 years ago.

MMC's venture into the port business had diversified the engineering group's revenue stream and freed the company from being overly dependent on the engineering sector, although the latter continued to contribute to the overall business.

Last year, MMC Corp Bhd revenues and profit before zakat and taxation for its ports and logistics segment rose by 6.4% and 11.4% respectively to RM3.19 billion and



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RM460 million compared to 2018, boosted by the higher volume handled at PTP, Johor Port and other ports.

MMC Corp-owned ports handled a combined 14.3 million TEUs last year and about 55% of Malaysia's total container volume in the first half of last year with 7.1 million TEUs.

"The sterling performance of the ports and logistics business helped MMC to register core net profit of RM248 million (adjusted for an oil spill incident compensation and disposal gains) which came in within our expectations but beat consensus estimates by 7%," AmInvestment Bank Bhd said in a report.

The investment bank added that

the ports and logistics segment posted a stronger performance due to higher volume handled at PTP and Johor Port, and consolidation of Penang Port (first full-year earnings).

Besides PTP, MMC's other ports are Johor Port, Penang Port, Northport and Tanjung Bruas Port which made MMC one of the 10 largest port operators in the world based on 2018's TEU figures.

AmInvestment had valued MMC's port assets at RM5.78 billion and RM160 million for the Senai Airport.

Others had put a higher value of above RM8 billion, considering the long-term value of these assets.

MIDF Amanah Investment Bank

Bhd Research (MIDF Research) said MMC's normalised financial year 2019 (FY19) earnings surged by more than 30%. MMC Corp recorded an FY19 net profit of RM255.2 million, and excluding exceptional items such as compensation received for the oil spill at PTP in 2016 and gain on disposals for assets, MMC Corp recorded a normalised net profit of RM256.7 million, 62.9% higher year-on-year (YoY).

"This came in above ours and consensus' full-year estimates at more than 110%," said MIDF Research.

Container throughput at PTP and Johor Port, which grew 1.3% and 10.8% YoY respectively helped the overall contribution.

"In fact, PTP contributed more than 70% to the absolute net growth in container throughput during the period under review," said MIDF Research.

Despite the global coronavirus pandemic which had stuttered global trades, the port industry is expected to come out unscathed.

The pandemic had disrupted the world's supply chain after China, the world's second-biggest economy, locked down a few key cities. But the return to normalcy would further boost the port business.

Earlier this month, throughput at China's eight major ports recorded a 9.1% increase, while the number of container-related calls at the

major hubs in Shanghai and Yangshan has picked up, signalling a sharp recovery in the country's manufacturing production.

MIDF Research said shipping liners are anticipating a possible recovery starting from April 2020 as factories in China begin to ramp up capacity to 90% this month.

"Maersk, which makes MMC Corp's PTP as its regional transshipment hub, had cancelled around 50 sailings out of China since late January 2020 amid the extended factory closures and delayed resumption of work due to the Covid-19 outbreak.

"The shipping line is looking towards April for a possible recovery from what it admits to be a weak first quarter of calendar year 2020 (1QCY20).

"Factories are slowly returning to production, but we estimate that they are operating at 50% to 60% of capacity, which will be ramping up to around 90% of capacity by the first week of March, provided there is no major surge in Covid-19 cases," it said.

Following China's offer of exemption to the additional tariffs on about 700 types of goods from the US, the positive development is expected to offset the decline in Malaysia's container throughput, particularly for the transshipment bulk.

"With the trade deal, it will partially offset declining container throughput, especially for transshipment throughput," MIDF Research added.

AmInvestment Bank said it continued to like MMC due to its cheap implied valuation for the group's port business (14 times forward price-earnings).

"We also believe that when the Covid-19 outbreak is over, MMC's ports and logistics segment will continue benefitting from the resilient outlook in the region's ports sector, underpinned by investments in the manufacturing sector that generates tremendous inbound and outbound throughput.

"The weak currency and cheaper port charges are also positive for the port operator as shipping lines are seeking ways to rationalise their cost structures amid a tough operating environment," said AmInvestment.

MIDF Research, DBS Group Research and AmInvestment have maintained a 'Buy' call with target prices of RM1.27, RM1.49 and RM1.50 respectively.