MMC stake buy draws mixed responses

MIDF positive but UOB Kay Hian negative on company's Penang Port investment

By SHARIDAN M. ALI
sharidan@thestar.com.my

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PETALING JAYA: MMC Corp Bhd's move to acquire a 49% stake in Penang Port for RM200mil from Seaport Terminal (Johor) Sdn Bhd is not a surprise to analysts who believe that the utilities and infrastructure company may use the acquisition to boost plans for a listing of the port business.

Both MMC and Seaport have the same major shareholder.

MIDF Research considers the price tag for the stake as fair as it values the port at RM400mil, translating into a price-to-earnings ratio of 18 times based on normalised financial year ended Dec 31, 2015 profit after tax of RM22mil (excluding the ferrying business that has been estimated to have made losses of RM20mil) and price-to-net tangible assets of 0.93 times.

"In addition, further enhancements are being carried out at the port and possible synergies to be derived by MMC from holding three port assets strategically located at the northern, central and southern points along the Straits of Malacca," it said, maintaining a "buy" call on the stock with target price of RM3.11.

"We are not surprised by the acquisition as we had previous highlighted that the inclusion of Penang Port is possible to increase the appeal of MMC's port division which we believe would be listed in 2017," said MIDF in a report.

Considered the third largest port in the country by container throughput volume, Penang Port handles 1.3 million twenty-foot equivalent units in 2015 representing a 5.6% share of total containers in Malaysia, behind only Port Klang and Port of Tanjung Pelepas. The port handles mostly gateway cargo, with 93% of the containers from this cargo category.

According to the latest reports, Penang Port recorded healthy growth in volume in the first quarter of this year with 10% year-on-year (y-o-y) increase riding on the robust electrical and electronics sector for exports and hinterland consumption growth for imports.

However, UOB Kay Hian viewed the transaction as negative given the nature of the related party transaction as well as paltry earnings contribution.

"That said, MMC 'sideways' share price performance year-to-date indicates that investors have priced in the potential risk of Penang Port's injection by major shareholder, as we have previously guided as a key risk for the stock.

"It is the aim of MMC to consolidate its port businesses in Malaysia to eventually seek a listing on the main board of Bursa Malaysia," said UOB KayHian in another report yesterday.

The research house said the acquisition could be earnings dilutive before considering potential synergies, assuming that the acquisition is mainly funded by debt.

It added that the acquisition price translates into a price to book value of close to 1 time but a historical price-to-earnings ratio in excess of 184 times of 2015's paltry net profit of RM2.2mil.

"That said, we understand that that there is room for improvement in terms of port handle efficiency, and economies of scale within the enlarged MMC port business," said UOB Kay Hian, which maintains a "hold" call on MMC with target price of RM2.30.

MMC closed 1 sen or 0.45% higher at RM2.23 yesterday.