MMC's price tag for Penang Port 'fair'

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PETALING JAYA: Analysts are of the view that MMC Corp Bhd's acquisition of a 49% stake in Penang Port for RM200 million is fair, as it is lower compared with its earlier purchase of NCB Holdings Bhd.

Kenanga Research said the Penang Port buy only implies to a historical price-to-book ratio of 0.95 times, lower compared with NCB at 1.47 times.

RHB Research estimates believes the purchase, which is to be completed in Q1 2017, to enhance MMC's bottom line by 2% from FY17 onwards and MMC Ports' earnings by 3%. It has reiterated a "buy" call on MMC with a higher target price of RM3.55.

MMC share rose 1 sen to RM2.23 yesterday on some 1.82 million shares done.

MIDF Research said 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.

Penang Port is the third largest port in Malaysia by container throughput volume, behind only Port Klang and Port of Tanjung Pelepas, having handled 1.3 million TEUs in 2015 representing a 5.6% share of total containers in Malaysia.

However, in terms of profitability, Kenanga Research said Penang Port is less attractive compared with NCB.

Kenanga Research said it is keeping the earnings estimate for MMC and is yet to impute any potential earnings contribution from Penang Port as it hinges on the Penang Port's ability to dispose off its ferry business, which is part of the condition precedent set in the sales and purchase agreement for the 49% stake.

Nonetheless, the research house expects MMC's FY17 net gearing to inch up to 0.77 times from 0.75 times should the acquisition be successful in FY17 as per the guided timeline.

It is maintaining an "outperform" call on MMC with a target price of RM2.67 on the back of its growing port business, coupled with a steady contribution from its construction division being a project delivery partner for MRT2 and the Sabah Pan Borneo project.

Kenanga Research foresees MMC's near-to-medium term prospects remain bright, backed by its steady port business as well as the commencement of the tunnelling works for MRT2 amounting to RM15.5 billion, which will provide steady earnings contribution to the group for the next five years.