

# Malaysia Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 Aug 2020

## MMC Corporation (MMC MK) : BUY

**Mkt. Cap:** US\$517m | **3m Avg. Daily Val:** US\$1.1m

**Last Traded Price ( 24 Aug 2020):** RM0.71

**Price Target 12-mth:** RM1.35 (90% upside) (Prev RM1.35)

### Analyst

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### Recovery beckons

- 2Q20 performance above expectations due to better earnings for Malakoff and PTP, and land sale gain
- Overall 2Q Port earnings was still steady, down 5% y-o-y
- Beneficiary of construction newsflow expected in Budget 2021
- Raise FY20-22F earnings by 2-13%; Maintain BUY with SOP-based TP of RM1.35

### Forecasts and Valuation

FY Dec (RMm)	2019A	2020F	2021F	2022F
Revenue	4,717	5,160	5,997	6,958
EBITDA	1,895	1,562	1,649	1,705
Pre-tax Profit	533	390	482	547
Net Profit	255	227	284	339
Net Pft (Pre Ex.)	255	227	284	339
Net Pft Gth (Pre-ex) (%)	27.5	(10.8)	24.9	19.4
EPS (sen)	8.38	7.47	9.33	11.1
EPS Pre Ex. (sen)	8.38	7.47	9.33	11.1
EPS Gth Pre Ex (%)	28	(11)	25	19
Diluted EPS (sen)	8.38	7.47	9.33	11.1
Net DPS (sen)	4.50	4.50	4.50	4.50
BV Per Share (sen)	304	307	312	319
PE (X)	8.5	9.5	7.6	6.4
PE Pre Ex. (X)	8.5	9.5	7.6	6.4
P/Cash Flow (X)	1.0	3.5	2.2	2.0
EV/EBITDA (X)	5.7	7.0	6.5	6.0
Net Div Yield (%)	6.3	6.3	6.3	6.3
P/Book Value (X)	0.2	0.2	0.2	0.2
Net Debt/Equity (X)	0.8	0.8	0.7	0.7
ROAE (%)	2.7	2.4	3.0	3.5

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

## Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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### What's New

**2Q20 results above expectations.** MMC booked a 2Q20 headline net profit of RM77m (+15% y-o-y and +34% q-o-q), bringing 1H20 net profit to RM135m (+12% y-o-y). This was on the back of a 12% decline in 1H20 revenue to RM2,077m. While the full impact of the movement control order (MCO) had impacted most of its businesses (in particular ports, Senai airport and progress of MRT 2), this was offset by better performance at Malakoff, still good performance at PTP and gain from sale of land in Senai. We understand the land sale gain was c.RM5m and we deem the results to be above our and consensus estimates.

**Softer port earnings in 2Q20.** For transport & logistics, 2Q20 turnover fell by 9% y-o-y to RM728m with pretax profit also easing by 5% y-o-y to RM208m. Overall, the weaker profit numbers y-o-y was due to lower contribution from Kontena Nasional, Northport and Penang Port but this was offset by higher volume handled at PTP and gain on disposal of an asset held for sale at Johor Port.

**Energy & utilities.** 2Q20 pretax profit from energy & utilities jumped 66% y-o-y to RM48m. This was due to higher contribution from Malakoff as a result of the acquisition of Alam Flora, higher contributions from its associates, lower operations and maintenance costs and higher contribution from Tanjung Bin Energy, following the shorter duration of plant outage and settlement agreement reached with its contractor.



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**Construction.** Its construction division's revenue slid by 40% y-o-y in 2Q20 to RM242m due to lower progress of works for the aboveground and tunnelling portion of MRT 2 due to the MCO. 2Q20 construction pretax profit was flat q-o-q but retreated 12% y-o-y to RM60m.

### Outlook

**Port throughput already normalising.** We understand PTP's throughput in April plunged 17% y-o-y after an increase of 5% in 1Q20. This has shown a gradual recovery post April and is already close to the pre-Covid-19 levels. The listing of its port business is likely in 2021 but the situation could also be more fluid now. The current focus would be to ensure stronger earnings recovery for its port business.

**Raising earnings.** We raise our FY20/21/22F earnings by 13%/3%/2% respectively to take into account the better-than-expected earnings for Malakoff and also higher progress billings for construction where we had been overly conservative.

### Valuation and recommendation

**BUY rating and SOP-based TP maintained at RM1.35.** MMC remains a deep value conglomerate which will be an excellent proxy to an overall recovery in the Malaysian economy. The most immediate catalyst for the stock would be infrastructure flows with the upcoming Budget 2021 in November with a potential revival of MRT 3 and HSR.

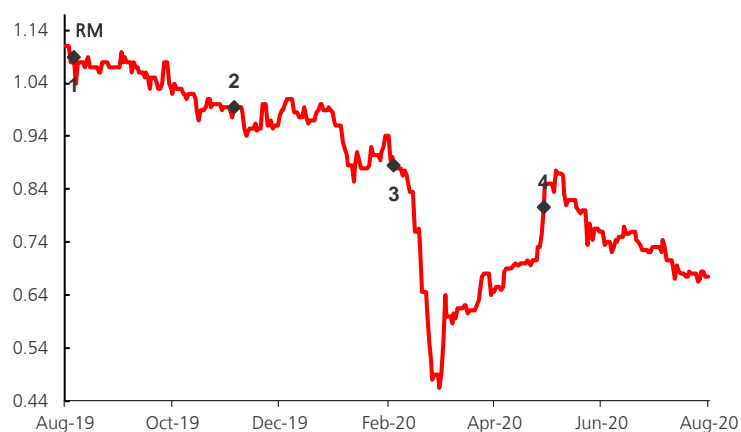
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### Quarterly Income Statement (RMm)

FY Dec	2Q2019	1Q2020	2Q2020	% chg yoy	% chg qoq
Revenue	1,230	1,087	991	(19.5)	(8.8)
Cost of Goods Sold	(753)	(611)	(511)	(32.1)	(16.4)
<b>Gross Profit</b>	<b>478</b>	<b>476</b>	<b>480</b>	<b>0.5</b>	<b>0.9</b>
Other Oper. (Exp)/Inc	(236)	(261)	(248)	5.0	(5.1)
<b>Operating Profit</b>	<b>241</b>	<b>215</b>	<b>232</b>	<b>(3.9)</b>	<b>8.0</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	67.0	72.2	69.7	4.1	(3.4)
Net Interest (Exp)/Inc	(176)	(172)	(174)	1.6	(0.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
<b>Pre-tax Profit</b>	<b>132</b>	<b>115</b>	<b>128</b>	<b>(2.9)</b>	<b>11.6</b>
Tax	(50.3)	(41.8)	(38.2)	(23.9)	(8.5)
Minority Interest	(14.4)	(15.1)	(12.5)	13.4	(17.5)
<b>Net Profit</b>	<b>67.2</b>	<b>57.9</b>	<b>77.4</b>	<b>15.1</b>	<b>33.7</b>
Net profit bef Except.	67.2	57.9	77.4	15.1	33.7
EBITDA	308	287	302	(2.2)	5.2
<b>Margins (%)</b>					
Gross Margins	38.8	43.8	48.4		
Opg Profit Margins	19.6	19.7	23.4		
Net Profit Margins	5.5	5.3	7.8		

Source of all data: Company, AllianceDBS

### Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Aug 19	1.09	1.49	BUY
2:	27 Nov 19	1.00	1.49	BUY
3:	26 Feb 20	0.89	1.49	BUY
4:	21 May 20	0.81	1.35	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Malaysian Research Team

## Flash Note

AllianceDBS recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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