

28 August 2019

MMC Corporation Bhd

1H19 Broadly Within Expectations

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1H19 earnings which jumped 126% YoY to RM104.3m came in broadly within expectations, boosted by stronger performance from its ports & logistics segment. Moving forward, ports and MRT Line 2 remain as main earnings contributors. Nonetheless, as outlook remains clouded by the lack of earnings stability, we reiterate our MP call with unchanged TP of RM1.10 based on 0.3x PBV which is in-line with its 5-year historical trough levels.

Within expectations. 1H19 core net profit of RM104.3m (arrived at after stripping one-off disposal gain of RM16.4m) came in broadly within expectations at 56%/50% of our/consensus' estimates, as we remain cautious on a potentially weaker second half for the group's ports segment, against the backdrop of the current global uncertainties. No dividend was announced, as expected.

Lifted by better ports performances. YoY, 1H19 CNP of RM104.3m soared 126%, largely led by stronger performance from its ports and logistics segment (+62% PBT), thanks to: (i) higher volume from Port of Tanjung Pelepas (+5% throughput growth), and (ii) various operational cost savings initiatives, which saw overall PBT margins for the segment expanding 4ppt to 14%. Nonetheless, this was slightly dented by lower contribution from its construction business (-22% PBT) no thanks to slower work progress for MRT Line 2 and Langkat Sewerage project. For 2Q19, CNP was up by 153% to RM50.8m, similarly due to the aforementioned reasons.

QoQ, 2Q19 CNP slid 22%, largely attributed to higher tax (+113%) and adjustments for one-off disposal gain. Nonetheless, earnings were up by 4% at the net profit level as better performances from ports & logistics were slightly shadowed by weaker contributions from MALAKOF with its group earnings declining 22% QoQ.

Ports and MRT 2 as main earnings contributors. Going forward, MMCCORP's earnings are anticipated to be largely buoyed by its ports operation coupled with the construction and tunneling works for MRT Line 2. Currently, its ports portfolio consists of Port of Tanjung Pelepas (PTP), Johor Port, Northport, Penang Port and Tanjung Bruas Port. That said, we do not discount management continuing their pursuit to acquire additional ports to boost its profile as the largest port operator in the country. Meanwhile, the construction progress from MRT Line 2 is at 51% for the elevated portion, and 57% for tunneling portion as at June 2019, with expected completion in FY20. We gathered that while its construction order-book is currently at c.RM8.6b (90% from MRT Line 2), management is currently actively bidding for new projects in order to meet its targeted order-book replenishment of c.RM500m p.a.

Maintain MARKET PERFORM with an unchanged TP of RM1.10 based on FY20E BV/share of RM3.24, based on 0.3x PBV which is in-line with its 5-year historical trough levels. Post-result, we made no changes to our earnings. At this juncture, we deem our valuations to be fair as we await more earnings stability and margin improvement in coming quarters.

Risks to our call include: (i) lower-than-expected ports activities, and (ii) slower/faster-than-expected construction progress.

MARKET PERFORM ↔

Price : **RM1.08**
Target Price : **RM1.10** ↔

Share Price Performance



KLCI 1,590.84
YTD KLCI chg -5.9%
YTD stock price chg 30.1%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker MMC MK Equity
Market Cap (RM m) 3,288.7
Shares Outstanding 3,045.1
52-week range (H) 1.48
52-week range (L) 0.81
3-mth avg daily vol: 2,290,807
Free Float 22%
Beta 1.3

Major Shareholders

Seaport Terminal Johore Sdn Bhd 51.8%
Skim Amanah Saham Bumiputera 18.2%
Urusharta Jamaah Sdn Bhd 7.7%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Revenue	5,010.2	4,273.6	4,478.7
EBIT	662.8	752.6	754.8
PBT	389.6	302.6	304.8
Net Profit (NP)	220.1	187.0	188.6
Core NP (CNP)	153.3	187.0	188.6
Consensus (CNP)		208.5	232.5
Earnings Revision (%)		0%	0%
Core EPS (sen)	5.0	6.1	6.2
CNP growth (%)	-41.2	22.0	0.9
DPS (sen)	0.0	1.5	1.5
BVPS (RM)	3.1	3.2	3.2
Core PER (x)	21.5	17.6	17.4
Price/BV (x)	0.3	0.3	0.3
Net Gearing (x)	0.9	0.9	0.9
Div. Yield (%)	0.0	1.4	1.4

28 August 2019

Result Highlight

FY Dec (RM' m)	2Q19	1Q19	QoQ	2Q18	YoY	1H19	1H18	YoY
Revenue	1,230.2	1,143.2	8%	1,200.8	2%	2,373.4	2,480.5	-4%
Cost of Sales	(752.5)	(705.6)	7%	(812.1)	-7%	(1,458.2)	(1,718.4)	-15%
Gross profit	477.6	437.6	9%	388.7	23%	915.2	762.1	20%
Investment income	0.0	0.0	-	0.0	-	0.0	15.2	-100%
Other operating income	56.9	35.3	61%	31.5	80%	92.2	61.5	50%
Administrative expenses	(212.3)	(196.5)	8%	(174.9)	21%	(408.8)	(343.6)	19%
Other operating expenses	(80.9)	(80.6)	0%	(120.7)	-33%	(161.5)	(227.0)	-29%
Finance costs	(176.3)	(170.9)	3%	(130.0)	36%	(347.2)	(259.2)	34%
Associates	34.4	35.0	-2%	19.2	79%	69.3	53.9	29%
Joint Ventures	32.7	28.5	14%	26.3	24%	61.2	41.4	48%
Profit before tax	131.9	88.5	49%	40.1	229%	220.4	104.3	111%
Zakat expenses	0.0	0.0	-	0.0	-	0.0	0.0	-
Tax expense	(50.3)	(23.6)	113%	(10.7)	370%	(73.9)	(19.4)	281%
Non-controlling interest	14.4	11.4	27%	(9.3)	-255%	25.8	23.5	10%
Net profit	67.2	64.9	4%	20.1	234%	120.7	61.4	97%
Core Net Profit	50.8	64.9	-22%	20.1	153%	104.3	46.2	126%
PBT margin	10.7%	7.7%		3.3%		9.3%	4.2%	
Net margin	5.5%	5.7%		1.7%		5.1%	2.5%	
Core net margin	4.1%	5.7%		1.7%		4.4%	1.9%	
Effective tax rate	38.1%	26.6%		26.7%		33.5%	18.6%	

Source: Company, Kenanga Research

Segmental Breakdown

FY Dec (RM 'm)	2Q19	1Q19	QoQ	2Q18	YoY	6M19	6M18	YoY
Revenue								
Ports & Logistics	802.0	783.0	2%	740.0	8%	1,582.0	1,395.0	13%
Energy & utilities*	0.0	0.0	-	0.0	-	0.0	0.0	-
Engineering & construction	402.0	364.0	10%	439.0	-8%	740.0	1,043.0	-29%
Corporate & Others	26.0	25.0	4%	22.0	18%	51.0	43.0	19%
Profit Before Tax								
Ports & Logistics	119.0	104.0	14%	70.0	70%	222.0	137.0	62%
Energy & utilities*	29.0	32.0	-9%	26.0	12%	60.0	64.0	-6%
Engineering & construction	68.0	49.0	39%	78.0	-13%	119.0	152.0	-22%
Corporate & Others	(84.0)	(97.0)	-13%	(134.0)	-37%	(181.0)	(249.0)	-27%
PBT Margins								
Ports & Logistics	15%	13%		9%		14%	10%	
Energy & utilities*	-	-		-		-	-	
Engineering & construction	17%	13%		18%		16%	15%	
Corporate & Others	-323%	-388%		-609%		-355%	-579%	

Source: Company, Kenanga Research

*Energy & utilities segmental profits mainly derived from associates, thus no revenue is recognised.

Peer Comparison

Name	Last Price	Market Cap	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price	Rating
	(RM)	(RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	(RM)	
CJ CENTURY LOGISTICS HOLDINGS	0.390	152.2	Y	12/2019	6.4%	4.6%	-194.3%	-230.6%	18.2	N.A.	N.A.	0.5	0.5	-2.6%	0.0%	0.300	UP
MMC CORP BHD	1.08	3,288.7	Y	12/2019	-14.3%	4.8%	22.0%	0.9%	21.6	25.7	24.5	0.3	0.3	1.9%	1.4%	1.10	MP
POS MALAYSIA BERHAD	1.49	1,166.3	Y	12/2019	-24.3%	29.1%	-200.7%	-75.5%	N.A.	N.A.	N.A.	0.7	0.7	-2.4%	268.5%	1.25	UP
WESTPORTS HOLDINGS BHD	4.02	13,708.2	Y	12/2019	7.7%	4.5%	9.6%	5.6%	25.3	23.1	21.9	5.7	5.8	24.8%	3.3%	3.75	MP

Source: Bloomberg, Kenanga Research

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28 August 2019

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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