

## MMC Corporation (MMC MK) : BUY

Mkt. Cap: US\$649m | 3m Avg. Daily Val: US\$0.54m

Last Traded Price ( 25 Feb 2020): RM0.90

Price Target 12-mth: RM1.49 (66% upside) (Prev RM1.49)

### Analyst

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### Better port earnings boost performance

- 4Q19 core earnings beat expectations
- Ports continued to do well
- Expect infrastructure flows to be a catalyst this year; port listing in 2021
- BUY with TP of RM1.49

#### Forecasts and Valuation

FY Dec (RMm)	2018A	2019A	2020F	2021F
Revenue	5,010	4,717	5,783	7,049
EBITDA	1,606	1,895	1,661	1,740
Pre-tax Profit	390	533	489	576
Net Profit	220	255	282	341
Net Pft (Pre Ex.)	200	255	282	341
Net Pft Gth (Pre-ex) (%)	(20.1)	27.5	10.5	21.1
EPS (sen)	7.23	8.38	9.26	11.2
EPS Pre Ex. (sen)	6.57	8.38	9.26	11.2
EPS Gth Pre Ex (%)	(20)	28	10	21
Diluted EPS (sen)	7.23	8.38	9.26	11.2
Net DPS (sen)	4.50	4.50	4.50	4.50
BV Per Share (sen)	314	304	309	316
PE (X)	12.5	10.7	9.7	8.0
PE Pre Ex. (X)	13.7	10.7	9.7	8.0
P/Cash Flow (X)	2.3	1.3	3.7	2.4
EV/EBITDA (X)	7.8	6.0	6.9	6.3
Net Div Yield (%)	5.0	5.0	5.0	5.0
P/Book Value (X)	0.3	0.3	0.3	0.3
Net Debt/Equity (X)	0.9	0.8	0.8	0.7
ROAE (%)	2.3	2.7	3.0	3.6

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

**4Q19 results beat expectations.** MMC booked a 4Q19 headline net profit of RM68m (-43% y-o-y and +2% q-o-q), bringing 12M19 net profit to RM255m (+16% y-o-y). Stripping out some one-offs namely i) reversal of provisions for double tracking project of RM18m, and ii) provision for impairment of receivables for its Jazan project in Saudi Arabia of RM54m and net gain from sale of asset of RM34m, the resulting core net profit of RM253m would have trounced our and consensus estimates. This was driven by overall better port earnings.

**Ports continued to do well.** For transport & logistics, 12M19 turnover increased by 6% y-o-y to RM3,189m with pretax profit rising by 11% y-o-y to RM460m. Overall, the higher profit numbers y-o-y was due to higher contribution from higher volume handled for Johor Port, oil spill compensation at PTP and gain on sale of asset held at Johor Port.

For 12M19, PTP showed a 1% increase in throughput to 9.1m TEU. For 12M19, Johor Port showed an 11% increase in container volume to 1.04m TEU while conventional volume growth declined by 4% to 18.2m FWT. For Northport, 12M19 container volumes declined by 2% to 2.7m TEU but this was compensated by a 7% increase in conventional cargo to 9.2m FWT. Penang Port showed a 1% decline in container volume to 1.5m TEU and a 10% decline in conventional volume to 9.3m FWT.

**Energy & utilities.** 12M19 pretax profit for energy & utilities came in at RM160m (vs. RM146m in 12M18). Malakoff's earnings improved due to a one-off gain from sale of



## Flash Note

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MacArthur Wind Farm but this was offset by higher share of losses and net impairment at Kapar Energy Ventures.

**Construction.** Its construction division's pretax profit for 12M19 was RM298m (+2% y-o-y) due to the reversal of provision for the double tracking project that was offset by lower contribution from KV MRT 2.

### Outlook

**Expect some impact from Covid-19; Listing of ports on-going.** A.P. Moller-Maersk A/S, the world's largest container shipping company and PTP's largest customer, said 2020 will be marred by "considerable uncertainties" due to the outbreak of the coronavirus and its impact on global trade. It said it is seeing a weak start to the year and the outbreak has significantly dampened visibility.

Still, we understand that the company is still actively pursuing the port business listing but the timeline is likely in 2021. The current focus would be to ensure stronger earnings recovery for its port business which has been dragged down by poorer financials for Northport.

### Valuation and Recommendation

**BUY rating and TP maintained.** The potential revival of MRT 3 and HSR will be positive for its infrastructure business. We maintain our BUY rating and TP of RM1.49. We believe better earnings delivery will lead to a further re-rating.

**Flash Note**
**Quarterly Income Statement (RMm)**

FY Dec	4Q2018	3Q2019	4Q2019	% chg yoy	% chg qoq
Revenue	1,586	1,246	1,098	(30.7)	(11.9)
Cost of Goods Sold	(1,082)	(798)	(557)	(48.5)	(30.2)
<b>Gross Profit</b>	<b>504</b>	<b>447</b>	<b>541</b>	<b>7.4</b>	<b>20.9</b>
Other Oper. (Exp)/Inc	(221)	(245)	(272)	23.1	10.7
<b>Operating Profit</b>	<b>283</b>	<b>202</b>	<b>269</b>	<b>(4.9)</b>	<b>33.1</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	58.0	84.3	87.1	50.1	3.3
Net Interest (Exp)/Inc	(144)	(166)	(164)	(13.4)	1.3
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
<b>Pre-tax Profit</b>	<b>196</b>	<b>120</b>	<b>192</b>	<b>(2.2)</b>	<b>59.9</b>
Tax	(66.6)	(42.4)	(116)	74.4	174.2
Minority Interest	(10.1)	(11.5)	(7.9)	21.5	(31.0)
<b>Net Profit</b>	<b>120</b>	<b>66.3</b>	<b>68.1</b>	<b>(43.1)</b>	<b>2.6</b>
Net profit bef Except.	120	66.3	68.1	(43.1)	2.6
EBITDA	341	286	356	4.4	24.4
<b>Margins (%)</b>					
Gross Margins	31.8	35.9	49.2		
Opg Profit Margins	17.8	16.2	24.5		
Net Profit Margins	7.5	5.3	6.2		

Source of all data: Company, AllianceDBS

**Target Price & Ratings History**


S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Feb 19	1.07	1.49	BUY
2:	15 Apr 19	1.06	1.49	BUY
3:	25 Apr 19	1.10	1.49	BUY
4:	06 May 19	1.03	1.49	BUY
5:	29 May 19	1.04	1.49	BUY
6:	27 Jun 19	1.16	1.49	BUY
7:	25 Jul 19	1.14	1.49	BUY
8:	28 Aug 19	1.09	1.49	BUY
9:	27 Nov 19	1.00	1.49	BUY

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

Source: AllianceDBS

Analyst: Tjen San CHONG

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**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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