

MMC CORPORATION

(MMC MK EQUITY, MMCB.KL)

26 Feb 2020



Company report

AmInvestment Bank

www.amequities.com.my

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Rationale for report: Company results

BUY

(Maintained)

Price	RM0.90
Fair Value	RM1.50
52-week High/Low	RM1.25/RM0.84

Key Changes

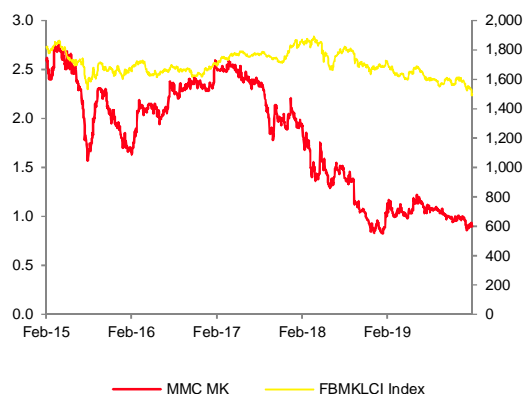
Fair value	U
EPS	U

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	4,717.3	4,932.0	5,839.2	6,609.1
Core net profit (RM mil)	248.0	263.4	290.0	310.4
FD Core EPS (sen)	10.1	8.6	9.5	10.2
FD Core EPS growth (%)	4.6	(14.4)	10.1	7.0
Consensus Net Profit (RM mil)	-	250.0	309.0	-
DPS (sen)	4.6	4.8	5.2	5.6
PE (x)	8.9	10.4	9.5	8.8
EV/EBITDA (x)	10.1	16.2	15.1	16.8
Div yield (%)	5.1	5.3	5.8	6.2
ROE (%)	2.7	2.7	2.9	3.1
Net Gearing (%)	82.6	82.9	84.0	106.2

Stock and Financial Data

Shares Outstanding (million)	3,045.1
Market Cap (RM mil)	2,740.6
Book Value (RM/share)	3.18
P/BV (x)	0.3
ROE (%)	2.7
Net Gearing (%)	82.6
Major Shareholders	Seaport Terminal (Johore) Sdn Bhd(51.8%) Amanahraya Trustees Berhad(18.2%) Urusharla Jamaah Sdn Bhd(7.7%)
Free Float	22.4
Avg Daily Value (RM mil)	2.4

Price performance	3mth	6mth	12mth
Absolute (%)	(9.1)	(18.9)	(10.0)
Relative (%)	(3.6)	(13.1)	3.4



Investment Highlights

- We reduce our FY20F net profit forecast by 6% and trim our FV by 5% to RM1.50 (from RM1.58) based on sum-of-parts (SOP) valuations (Exhibit 2), applying an FY20F PE of 18x for its ports division (at 20% discount compared with its peer to reflect its lower margins). However, we maintain our BUY call.
- The earnings downgrade is to reflect the weakened outlook for the logistic sector on the back of the Covid-19 outbreak, which has wreaked havoc across global supply chains and the shipping trade. We reduce our FY20F total container throughput growth assumption to 1% (vs. 4% previously).
- MMC's FY19 core net profit of RM248.0mil (adjusted for an oil spill incident compensation and disposal gains) came in within our expectations but beat consensus estimates by 7%.
- MMC's FY19 core net profit surged by 28% YoY. The ports & logistics segment posted a stronger performance due to higher volume handled at PTP and Johor Port and consolidation of Penang Port [first full-year earnings. It is also boosted by its associate Malakoff (due to a one-off gain on the disposal of investment in its subsidiary, lower barging and demurrage costs and lower net finance costs) and Senai Airport (due to higher passenger and cargo volumes handled). All these contributions more than offset the weaker showing by the construction segment that was hit by lower work progress from the MRT2 project and the Langat sewerage project. Also helping, were lower finance and administrative costs.
- Moving forward, the group plans to continue investing in its ports infrastructure to improve operational and cost efficiencies. On the construction side, the group will continue to bid for new jobs, particularly the rail projects announced under Budget 2020.
- We continue to like MMC due to its cheap implied valuation for the group's port business (14x forward PE). We also believe that when the Covid-19 outbreak is over, MMC's ports & logistics segment will continue benefiting from the resilient outlook in the region's port sector, underpinned by investments in the manufacturing sector that generates tremendous inbound and outbound throughput.
- The weak currency and cheaper port charges are also positive for the port operator as shipping lines are seeking ways to rationalize their cost structures amidst a tough operating environment.

EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM mil)	FY19 3Q	FY19 4Q	QoQ Chg	FY18 12M	FY19 12M	YoY Chg
Revenue	1245.8	1098.1	-12%	4983.8	4717.3	-5%
Cost of sales	-798.5	-557.5	-30%	-3338.1	-2814.1	-16%
Gross profit	447.3	540.6	21%	1645.6	1903.1	16%
Other income	65.5	54.7	-16%	231.4	212.4	-8%
Administrative expenses	-224.0	-213.0	-5%	-754.3	-845.8	12%
Other expenses	-86.9	-113.4	31%	-381.6	-361.7	-5%
Profit from operations	202.0	269.0	33%	741.2	908.1	23%
Finance costs	-166.0	-163.8	-1%	-545.1	-677.1	24%
Shares of results of associates	49.6	48.8	-1%	144.3	167.8	16%
Shares of results of JV	34.7	38.2	10%	62.5	134.1	115%
PBT	120.2	192.2	60%	402.9	532.8	32%
Zakat	0.0	-3.5	nm	-4.6	-3.5	nm
Tax	-42.4	-112.7	166%	-131.3	-228.9	74%
PAT	77.9	76.0	-2%	267.0	300.4	13%
Attributable to:						
Owners of the Parent	66.3	68.1	3%	220.1	255.2	16%
NCI (-)	-11.5	-7.9	-31%	-47.0	-45.3	-4%
Net Profit	77.9	76.0	-2%	267.0	300.4	13%
EI	-28.8	-7.2	-75%	-73.9	-52.4	-29%
Core net profit	49.1	68.8	40%	193.1	248.0	28%
EPS	2.6	2.5	-2%	8.8	9.9	13%
Core EPS	1.6	2.3	40%	6.3	8.1	28%
<u>Margins</u>			<u>ppt</u>			<u>ppt</u>
Gross profit	36%	49%	13	33%	40%	7
EBITDA	33%	44%	10	26%	35%	9
EBIT	16%	24%	8	15%	19%	4
PBT	10%	18%	8	8%	11%	3
Net profit	6%	7%	1	5%	6%	1
Core net profit	4%	6%	2	4%	5%	1
Segmental breakdown						
Revenue						
Port and logistics operations	782	825	5%	2998	3189	6%
Engineering	438	242	-45%	1891	1420	-25%
Others	26	31	19%	95	108	14%
Total	1246	1098	-12%	4984	4717	-5%
EBIT						
Port and logistics operations	191	236	24%	622	846	36%
Energy & utilities (Gas)	13	18	38%	60	59	-2%
Energy & utilities (Energy)	33	35	6%	86	101	17%
Engineering	73	106	45%	293	296	1%
Others	-24	-39	63%	-114	-93	-18%
Total	286	356	24%	947	1209	28%
<u>Operating margin by segment</u>			<u>ppt</u>			<u>ppt</u>
Port and logistics operations	24%	29%	4	21%	27%	6
Engineering	17%	44%	27	15%	21%	5
Others	-92%	-126%	-33	-120%	-86%	34
Total	23%	32%	9	19%	26%	7

EXHIBIT 2: SOP VALUATION

FYE Dec	Value (RM mil)	Basis
Ports & Logistics		
Ports	5,784.7	18x FY20F earnings, a slight discount to 22x of its' peers
Senai Airport	160.0	Book value as at Dec 2018
Engineering & Construction	406.5	Net profit from outstanding orderbook (Exhibit 2), discounted to NPV at a 10% discount rate
Energy & Utilities		
Malakoff (37.7%)	1,696.5	AmBank's FV @ RM1.00 with 10% discount
Gas Malaysia (30.9%)	1,071.2	Consensus FV @ RM3.00 with 10% discount
Aliran Ihsan Resources Berhad	487.0	Takeover price
Net Cash/(Debt)	(5,047.3)	As at 31 Dec 2019, excluding project finance
Total Value (RM mil)	4,558.7	
No of shares	3,045.1	
FV per share	1.50	

Source: Company, AmInvestment Bank Bhd

EXHIBIT 3: OUTSTANDING CONSTRUCTION ORDER BOOK (AS AT DEC 2019)

No	Project	JV Partner	Value (RM mil)	Effective Remaining Order Book	Award Date	Progress	Target Completion
1	Langat sewerage project	N/A	1,505.0	302.0	Nov-15	85.4%	Feb-23
2	Langat 2 water treatment plant	Salcon	497.0	18.8	Apr-14	99.3%	Stage 1: Sept-19 Stage 2: Dec-19
3	MRT2: Sg Buloh-Serdang-Putrajaya (38.7km – elevated)	Gamuda	8,710.0	4,040.7	Jul-15	69.5%	Jul-22
4	MRT2: Sg Buloh-Serdang-Putrajaya (13.5km – underground)	Gamuda	6,555.0	1,801.5	Mar-16	72.0%	May-22
5	Sungai Pulai Bridge	CHEC	339.0	237.7	Oct-17	26.9%	Dec-21
6	Upgrading North Butterworth Container Terminal for Penang Port	-	155.0	39.3	Dec-18	75.3%	Oct-20
	Total project value		17,761.0				
	MMC effective remaining orderbook			6,440.0			

Source: Company, AmInvestment Bank Bhd

EXHIBIT 4: PB BAND CHART



EXHIBIT 5: PE BAND CHART



EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	4,983.8	4,717.3	4,932.0	5,839.2	6,609.1
EBITDA	900.4	1,058.7	670.2	735.1	799.0
Depreciation/Amortisation	(159.2)	(150.7)	(157.5)	(186.5)	(211.1)
Operating income (EBIT)	741.2	908.1	512.7	548.6	587.9
Other income & associates	206.8	301.8	290.0	297.2	297.2
Net interest	(545.1)	(677.1)	(402.6)	(411.2)	(424.1)
Exceptional items	-	-	-	-	-
Pretax profit	402.9	532.8	400.1	434.6	461.0
Taxation	(135.9)	(232.4)	(91.4)	(99.3)	(105.4)
Minorities/pref dividends	47.0	45.3	45.3	45.3	45.3
Net profit	220.1	255.2	263.4	290.0	310.4
Core net profit	294.0	248.0	263.4	290.0	310.4
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	9,481.9	10,038.8	10,621.0	11,310.4	12,090.6
Intangible assets	2,652.0	2,786.1	2,920.1	3,054.2	3,188.3
Other long-term assets	8,502.0	8,669.8	8,825.7	8,988.8	9,152.0
Total non-current assets	20,635.9	21,494.6	22,366.8	23,353.4	24,430.9
Cash & equivalent	1,055.7	2,696.0	2,567.5	2,351.1	-
Stock	104.7	104.7	104.7	104.7	104.7
Trade debtors	2,225.0	2,225.0	2,225.0	2,225.0	2,225.0
Other current assets	1,283.7	1,283.7	1,283.7	1,283.7	1,283.7
Total current assets	4,669.1	6,309.4	6,180.9	5,964.5	3,613.4
Trade creditors	1,882.5	1,882.5	1,882.5	1,882.5	1,882.5
Short-term borrowings	2,537.2	2,537.2	2,537.2	2,537.2	2,537.2
Other current liabilities	863.2	863.2	863.2	863.2	863.2
Total current liabilities	5,282.9	5,282.9	5,282.9	5,282.9	5,282.9
Long-term borrowings	8,146.2	8,146.2	8,146.2	8,146.2	8,146.2
Other long-term liabilities	1,583.0	1,583.0	1,583.0	1,583.0	1,583.0
Total long-term liabilities	9,729.2	9,729.2	9,729.2	9,729.2	9,729.2
Shareholders' funds	9,559.7	9,674.5	9,793.0	9,923.5	10,063.2
Minority interests	733.2	733.2	733.2	733.2	733.2
BV/share (RM)	3.14	3.18	3.22	3.26	3.30
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	402.9	532.8	400.1	434.6	461.0
Depreciation/Amortisation	159.2	150.7	157.5	186.5	211.1
Net change in working capital	(15.3)	-	-	-	-
Others	581.3	746.5	601.1	609.1	615.9
Cash flow from operations	1,128.2	1,430.1	1,158.7	1,230.2	1,288.0
Capital expenditure	(1.5)	-	-	-	-
Net investments & sale of fixed assets	(927.8)	(707.6)	(739.8)	(875.9)	(991.4)
Others	467.2	-	-	-	-
Cash flow from investing	(462.1)	(707.6)	(739.8)	(875.9)	(991.4)
Debt raised/(repaid)	833.4	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(152.7)	(140.3)	(144.8)	(159.5)	(170.7)
Others	(558.0)	(677.1)	(402.6)	(411.2)	(424.1)
Cash flow from financing	122.6	(817.4)	(547.4)	(570.7)	(594.8)
Net cash flow	788.7	(95.0)	(128.5)	(216.4)	(298.1)
Net cash/(debt) b/f	558.0	(22.8)	802.7	674.2	457.8
Net cash/(debt) c/f	1,354.8	(117.8)	674.2	457.8	159.7
Key Ratios (YE31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	19.8	(5.3)	4.6	18.4	13.2
EBITDA growth (%)	7.4	17.6	(36.7)	9.7	8.7
Pretax margin (%)	8.1	11.3	8.1	7.4	7.0
Net profit margin (%)	4.4	5.4	5.3	5.0	4.7
Interest cover (x)	1.4	1.3	1.3	1.3	1.4
Effective tax rate (%)	33.7	43.6	22.9	22.9	22.9
Dividend payout (%)	42.1	41.8	41.8	41.8	41.8
Debtors turnover (days)	163	172	165	139	123
Stock turnover (days)	9	10	9	7	7
Creditors turnover (days)	168	188	161	135	118

Source: Company, AmInvestment Bank Bhd estimates

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