

26 February 2020

# MMC Corporation Bhd

## FY19 Broadly Within

By Raymond Choo Ping Khoo | [pkchoo@kenanga.com.my](mailto:pkchoo@kenanga.com.my)

**FY19 Core Net Profit (CNP) of RM201m (+36% YoY) came in within our estimate at 105%, but below consensus at 90%, of forecast. 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 and TP of RM0.970 based on 0.31x FY20E BVPS which is in-line with its 5-year historical trough levels.**

**Within our, but below consensus, estimate.** FY19 Core Net Profit (CNP) of RM201m (+36% YoY) came in within our estimate at 105%, but below consensus at 90%, of forecast. We remain cautious of a potentially weaker 1H 2020 performance for the group's ports segment, against the backdrop of the current global uncertainties. No dividend was announced, as expected. However a decision on the final dividend has yet to be finalised.

**QoQ**, excluding one-off disposal gain (RM9m), 4QFY19 core CNP rose 57% to RM59m, thanks to higher volume handled at Port of Tanjung Pelepas (PTP) and lower operating expenses at Penang Port Sdn Bhd (PPSB).

**YoY**, excluding one-off disposal gain (RM36m) and negative goodwill due to fair value gain following an acquisition of a subsidiary (RM18.3m), FY19 CNP came in at RM201m (+36% YoY) largely led by stronger performance from its ports and logistics segment (PBT: +11%), thanks to: (i) higher volume from Port of Tanjung Pelepas, full consolidation of PPSB's revenue, and (ii) higher contribution from Malakoff attributed to improved contribution from its coal plants, and lower barging and demurrage cost. This is further boosted by higher contribution from its construction business (+2% PBT) thanks to higher work progress for KVMRT-SSP Line. And a much lowered overheads - corporate & others - helped lift the bottom-line growth.

**Ports and MRT 2 the main earnings contributors.** Going forward, MMCCORP's earnings are anticipated to be largely buoyed by its ports operation and the construction and tunneling works for MRT Line 2. However, we remain cautious of a potentially weaker 1H 2020 for the group's ports segment, against the backdrop of the current global uncertainties. 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 their profile as the largest port operator in the country. Meanwhile, the construction progress for MRT Line 2 is at 58% for the elevated portion, and 65% 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 RM0.970** based on 0.31x FY20E BV/share which is in-line with its 5-year historical trough levels. Post-result, we made no changes to our earnings estimates. At this juncture, we deem our valuations to be fair as we seek for more earnings visibility and margin improvement in coming quarters.

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

# MARKET PERFORM ↔

**Price :** RM0.900  
**Target Price :** RM0.970 ↔

## Share Price Performance



KLCI	1,500.88
YTD KLCI chg	-5.5%
YTD stock price chg	-8.6%

## Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MMC MK Equity
Market Cap (RM m)	2,740.6
Shares Outstanding	3,045.1
52-week range (H)	1.25
52-week range (L)	0.84
3-mth avg daily vol:	2,452,811
Free Float	12%
Beta	1.2

## Major Shareholders

Seaport Terminal Johore Sdn Bhd	51.8%
Skim Amanah Saham Bumiputera	19.1%
Urusharta Jamaah Sdn Bhd	7.7%

## Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Revenue	4,717.3	4,478.7	4,575.4
PBT	532.8	304.8	310.6
<b>Net Profit (NP)</b>	<b>255.2</b>	<b>188.6</b>	<b>192.9</b>
<b>Core NP (CNP)</b>	<b>201.4</b>	<b>188.6</b>	<b>192.9</b>
Consensus (CNP)		250.0	309.0
Earnings Revision(%)	-	-	-
Core EPS (sen)	6.6	6.2	6.3
CNP growth (%)	31.4	-6.4	2.3
DPS (sen)	1.5	1.5	1.5
BVPS (RM)	3.04	3.09	3.14
Core PER (x)	13.6	14.5	14.2
Price/BV (x)	0.3	0.3	0.3
Net Gearing (x)	0.9	0.9	0.9
Div. Yield (%)	1.7	1.7	1.7

26 February 2020

<b>Result Highlight</b>								
<b>FY Dec (RM m)</b>	<b>4Q19</b>	<b>3Q19</b>	<b>QoQ</b>	<b>4Q18</b>	<b>YoY</b>	<b>12M19</b>	<b>12M18</b>	<b>YoY</b>
Revenue	1,098.1	1,245.8	-12%	1,559.2	-30%	4,717.3	4,983.8	-5%
Cost of Sales	(557.5)	(798.5)	-30%	(1,059.4)	-47%	(2,814.1)	(3,324.4)	-15%
<b>Gross profit</b>	<b>540.6</b>	<b>447.3</b>	<b>21%</b>	<b>499.8</b>	<b>8%</b>	<b>1,903.1</b>	<b>1,659.3</b>	<b>15%</b>
Investment income	0.0	0.0	-	0.0	-	-	65.7	NM
Other operating income	54.7	65.5	-16%	81.0	-32%	212.4	165.7	28%
Administrative expenses	(213.0)	(224.0)	-5%	(204.0)	4%	(845.8)	(768.0)	10%
Other operating expenses	(113.4)	(86.9)	31%	(81.2)	40%	(361.7)	(381.6)	-5%
Finance costs	(163.8)	(166.0)	-1%	(146.4)	12%	(677.1)	(545.1)	24%
Associates	48.8	49.6	-1%	59.3	-18%	167.8	144.3	16%
Joint Ventures	38.2	34.7	10%	1.3	2770%	134.1	62.5	115%
Profit before tax	192.2	120.2	60%	209.8	-8%	532.8	402.9	32%
Net profit	68.1	66.3	3%	119.7	-43%	255.2	220.1	16%
Core Net Profit	59.0	37.5	57%	119.7	-43%	201.4	148.4	36%
PBT margin	17.5%	9.7%		13.5%		11.3%	7.8%	
Net margin	6.2%	5.3%		7.7%		5.4%	4.4%	
Core net margin	6.2%	5.3%		7.7%		4.5%	3.1%	
Effective tax rate	58.6%	35.2%		35.9%		43.0%	30.3%	

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>								
<b>FY Dec (RM m)</b>	<b>4Q19</b>	<b>3Q19</b>	<b>QoQ</b>	<b>4Q18</b>	<b>YoY</b>	<b>FY19</b>	<b>FY18</b>	<b>YoY</b>
<b>Revenue</b>								
Ports & Logistics	825.0	782.0	5%	814.0	1%	3,189.0	2,997.0	6%
Energy & utilities*	0.0	0.0	-	0.0	-	0.0	0.0	-
Engineering & construction	242.0	438.0	-45%	717.0	-66%	1,421.0	1,892.0	-25%
Corporate & Others	31.0	26.0	19%	28.0	11%	107.0	95.0	13%
<b>Profit Before Tax</b>								
Ports & Logistics	144.0	92.0	57%	127.0	13%	460.0	413.0	11%
Energy & utilities*	53.0	46.0	15%	53.0	0%	160.0	146.0	10%
Engineering & construction	106.0	73.0	45%	119.0	-11%	298.0	292.0	2%
Corporate & Others	(111.0)	(91.0)	22%	(89.0)	25%	(385.0)	(448.0)	-14%
<b>PBT Margins</b>								
Ports & Logistics	17%	12%		16%		14%	14%	
Engineering & construction	44%	17%		17%		21%	15%	
Corporate & Others	44%	NM		-318%		NM	NM	

Source: Company, Kenanga Research

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

26 February 2020

## 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)	
MMC CORP BHD	0.900	2,740.6	Y	12/2020	-5.1%	2.2%	-6.4%	2.3%	13.6	14.5	14.2	0.3	0.3	2.0%	1.7%	0.970	MP
POS MALAYSIA BERHAD	1.33	1,041.1	Y	12/2019	36.8%	6.0%	110.4%	12.7%	N.A.	12.4	11.0	0.7	0.7	5.7%	3.0%	1.95	OP
WESTPORTS HOLDINGS BHD	3.62	12,344.2	Y	12/2020	7.9%	4.1%	4.6%	4.5%	19.2	18.3	17.5	4.8	4.5	25.5%	4.1%	4.05	MP
<b>Simple Average</b>					<b>13.2%</b>	<b>4.1%</b>	<b>36.2%</b>	<b>6.5%</b>	<b>16.4</b>	<b>15.1</b>	<b>14.2</b>	<b>1.9</b>	<b>1.8</b>	<b>11.1%</b>	<b>2.9%</b>		

Source: Bloomberg, Kenanga Research

*This section is intentionally left blank*

26 February 2020

**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.**

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

