



AmInvestment Bank

## Company report

## MMC CORPORATION

(MMC MK EQUITY, MMCB.KL)

27 Nov 2019

9MFY19 net profit increases 36% YoY

BUY

(Maintained)

AmInvestment Bank

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Rationale for report: Company results

Price RM0.98  
Fair Value **RM1.58**  
52-week High/Low RM1.25/RM0.81

## Key Changes

Fair value **↑**  
EPS **↑**

YE to Dec	FY18	FY19F	FY20F	FY21F
Revenue (RM mil)	4,983.8	5,441.3	5,751.9	6,338.5
Core net profit (RM mil)	157.6	254.1	276.2	275.8
FD Core EPS (sen)	5.2	8.3	9.1	9.1
FD Core EPS growth (%)	(24.5)	61.2	8.7	(0.1)
Consensus Net Profit (RM mil)	-	230.8	252.0	331.0
DPS (sen)	4.0	4.6	5.0	5.0
PE (x)	18.8	11.7	10.7	10.8
EV/EBITDA (x)	14.0	15.3	14.8	14.8
Div yield (%)	4.1	4.7	5.1	5.1
ROE (%)	2.3	2.6	2.8	2.8
Net Gearing (%)	100.7	102.3	103.9	106.2

## Stock and Financial Data

Shares Outstanding (million) 3,045.1  
Market Cap (RM mil) 2,968.9  
Book Value (RM/share) 3.14  
P/BV (x) 0.3  
ROE (%) 2.3  
Net Gearing (%) 100.7

Major Shareholders  
Seaport Terminal (Johore) Sdn Bhd (51.8%)  
Amanahraya Trustees Berhad (18.2%)  
Urusharta Jamaah Sdn Bhd (7.7%)  
Free Float 22.4  
Avg Daily Value (RM mil) 1.4

Price performance	3mth	6mth	12mth
Absolute (%)	(9.7)	(0.5)	(5.3)
Relative (%)	(8.8)	0.4	1.7



— MMC MK — FBMKLCL Index

## Investment Highlights

- We maintain our BUY recommendation on MMC Corporation (MMC) with a slightly lower FV of RM1.58 (vs. RM1.66 previously) based on sum-of-parts (SOP) valuations (Exhibit 2), applying an FY20 PE of 18x for its ports division (at a 20% discount as compared with its peer to reflect its lower margins). We trim our FY19–21F forecasts by 8%, 6% and 14% respectively.
- MMC's 9MFY19 core net profit of RM179.2mil (adjusted for oil spill incident compensation and disposal gains) came in below our expectations but slightly above consensus estimates, making up 65% of our full-year forecasts and 78% of consensus estimate. We believe the variance against our forecast came mainly from higher-than-expected operating expenses.
- MMC's 9MFY19 core net profit surged by 36% YoY. Strong performance from the ports & logistics segment (due to higher volume handled at PTP and Johor Port (JPB), as well as higher contribution from Red Sea Gateway Terminal), construction (higher work progress at the MRT) and associate Malakoff (attributed to improved contribution from the Tanjung Bin Energy (TBE) coal plant, lower barging and demurrage costs and lower net finance costs), more than offset the weaker showing by associate Gas Malaysia (which we believe is due to higher operating expenditure). 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 P/E vs. over 20x of its peer). We also believe MMC's ports & logistics segment will benefit from the resilient outlook in the region's port sector, underpinned by investments in the manufacturing sector that generates tremendous inbound and outbound throughput. Maintain BUY.

## EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM mil)	FY19 2Q	FY19 3Q	QoQ Chg	FY18 9M	FY19 9M	YoY Chg
<b>Revenue</b>	<b>1230.2</b>	<b>1245.8</b>	<b>1%</b>	<b>3424.6</b>	<b>3619.2</b>	<b>6%</b>
Cost of sales	-752.5	-798.5	6%	-2278.7	-2256.6	-1%
<b>Gross profit</b>	<b>477.6</b>	<b>447.3</b>	<b>-6%</b>	<b>1145.9</b>	<b>1362.5</b>	<b>19%</b>
Other income	56.9	65.5	15%	150.4	157.7	5%
Administrative expenses	-212.3	-224.0	6%	-550.2	-632.8	15%
Other expenses	-80.9	-86.9	7%	-300.4	-248.3	-17%
<b>Profit from operations</b>	<b>241.3</b>	<b>202.0</b>	<b>-16%</b>	<b>445.6</b>	<b>639.1</b>	<b>43%</b>
Finance costs	-176.3	-166.0	-6%	-398.7	-513.3	29%
Shares of results of associates	34.4	49.6	44%	85.1	118.9	40%
Shares of results of JV	<b>32.7</b>	<b>34.7</b>	<b>6%</b>	<b>61.2</b>	<b>95.9</b>	<b>57%</b>
<b>PBT</b>	<b>131.9</b>	<b>120.2</b>	<b>-9%</b>	<b>193.1</b>	<b>340.6</b>	<b>76%</b>
Zakat	<b>0.0</b>	<b>0.0</b>	<b>nm</b>	<b>0.0</b>	<b>0.0</b>	<b>nm</b>
Tax	<b>-50.3</b>	<b>-42.4</b>	<b>-16%</b>	<b>-55.9</b>	<b>-116.2</b>	<b>108%</b>
<b>PAT</b>	<b>81.7</b>	<b>77.9</b>	<b>-5%</b>	<b>137.2</b>	<b>224.4</b>	<b>64%</b>
<b>Attributable to:</b>						
Owners of the Parent	67.2	66.3	-1%	100.4	187.1	86%
NCI (-)	-14.4	-11.5	-20%	-36.8	-37.3	1%
<b>Net Profit</b>	<b>81.7</b>	<b>77.9</b>	<b>-5%</b>	<b>137.2</b>	<b>224.4</b>	<b>64%</b>
EI	-16.4	-28.8	76%	-5.1	-45.2	786%
<b>Core net profit</b>	<b>65.3</b>	<b>49.1</b>	<b>-25%</b>	<b>132.1</b>	<b>179.2</b>	<b>36%</b>
EPS	2.7	2.6		4.5	7.4	
Core EPS	2.1	1.6		4.3	5.9	
<b>Margins</b>			<b>ppt</b>			<b>ppt</b>
Gross profit	39%	36%	-3	33%	38%	4
EBITDA	24%	16%	-8	13%	18%	5
EBIT	20%	16%	-3	13%	18%	5
PBT	11%	10%	-1	6%	9%	4
Net profit	7%	6%	0	4%	6%	2
Core net profit	5%	4%	-1	4%	5%	1
<b>Segmental breakdown</b>						
<b>Revenue</b>						
Port and logistics operations	802	782	-2%	2184	2364	8%
Engineering	402	438	9%	1174	1178	0%
Others	26	26	0%	67	77	15%
Total	1230	1246	1%	3425	3619	6%
<b>EBIT</b>						
Port and logistics operations	218	191	-12%	430	610	42%
Energy & utilities (Gas)	15	13	-13%	44	41	-7%
Energy & utilities (Energy)	14	33	136%	49	66	35%
Engineering	68	73	7%	174	190	9%
Others	-7	-24	243%	-106	-54	-49%
Total	308	286	-7%	591	853	44%
<b>Operating margin by segment</b>			<b>ppt</b>			<b>ppt</b>
Port and logistics operations	27%	24%	-3	20%	26%	6
Engineering	17%	17%	0	15%	16%	1
Others	-27%	-92%	-65	-158%	-70%	88
Total	25%	23%	-2	17%	24%	6

## EXHIBIT 2: SOP VALUATION

FYE Dec	Value (RM mil)	Basis
<b>Ports &amp; Logistics</b>		
Ports	7,568.5	18x FY20F earnings, a slight discount to 23x of its' peers
Senai Airport	160.0	Book value as at Dec 2018
<b>Engineering &amp; Construction</b>	523.6	Net profit from outstanding orderbook as @ Sept 2019 (Exhibit 3), discounted to NPV at a 10% discount rate
<b>Energy &amp; Utilities</b>		
Malakoff (37.7%)	1,696.5	AmBank's FV @ RM1.00 with 10% discount
Gas Malaysia (30.9%)	1,057.0	Consensus FV @ RM2.96 with 10% discount
Aliran Ihsan Resources Berhad	487.0	Takeover price
<b>Net Cash/(Debt)</b>	(6,687.7)	As at 31 Dec 2018, excluding project finance
<b>Total Value (RM mil)</b>	<b>4,804.9</b>	
<b>No of shares</b>	<b>3,045.1</b>	
<b>FV per share</b>	<b>1.58</b>	

Source: Company, AmlInvestment Bank Bhd

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

No	Project	JV Partner	Value	Effective Remaining		Progress	Target Completion
			(RM mil)	Order Book	Award Date		
1	Langat sewerage project	N/A	1,505.0	381.0	Nov-15	82.0%	Feb-23
2	Langat 2 water treatment plant	Salcon	497.0	31.4	Apr-14	99.0%	Stage 1: Sept-19 Stage 2: Dec-19
3	MRT2: Sg Buloh-Serdang-Putrajaya (38.7km – elevated)	Gamuda	8,710.0	4,160.0	Jul-15	61.2%	Jul-22
4	MRT2: Sg Buloh-Serdang-Putrajaya (13.5km – underground)	Gamuda	6,555.0	2,374.0	Mar-16	64.8%	May-22
5	Sungai Pulai Bridge	CHEC	339.0	262.2	Oct-17	20.8%	Dec-21
6	Upgrading North Butterworth Container Terminal for Penang Port	-	155.0	64.1	Dec-18	48.6%	Oct-20
<b>Total project value</b>			<b>17,761.0</b>				
<b>MMC effective remaining</b>				<b>7,992.0</b>			

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 4: PB BAND CHART

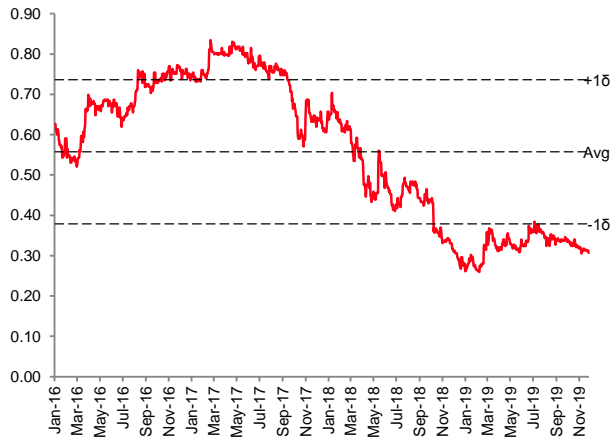


EXHIBIT 5: PE BAND CHART



## EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue	4,160.1	4,983.8	5,441.3	5,751.9	6,338.5
EBITDA	838.1	900.4	838.4	886.2	913.2
Depreciation/Amortisation	(127.1)	(159.2)	(173.8)	(183.7)	(202.5)
Operating income (EBIT)	710.9	741.2	664.6	702.5	710.7
Other income & associates	216.4	206.8	213.7	218.4	225.6
Net interest	(491.2)	(545.1)	(488.1)	(502.0)	(518.0)
<b>Exceptional items</b>	-	-	-	-	-
Pretax profit	436.1	402.9	390.2	418.9	418.4
Taxation	(184.3)	(135.9)	(89.2)	(95.7)	(95.6)
<b>Minorities/pref dividends</b>	<b>42.0</b>	<b>47.0</b>	<b>47.0</b>	<b>47.0</b>	<b>47.0</b>
Net profit	209.8	220.1	254.1	276.2	275.8
Core net profit	208.7	157.6	254.1	276.2	275.8
Balance Sheet (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Fixed assets	7,088.8	9,481.9	10,124.3	10,803.3	11,551.6
Intangible assets	3,518.4	2,652.0	2,714.5	2,777.0	2,839.4
<b>Other long-term assets</b>	<b>8,623.0</b>	<b>8,502.0</b>	<b>8,653.3</b>	<b>8,809.2</b>	<b>8,972.3</b>
Total non-current assets	19,230.1	20,635.9	21,492.0	22,389.4	23,363.4
Cash & equivalent	1,005.5	1,055.7	788.3	498.9	147.3
Stock	119.1	104.7	104.7	104.7	104.7
Trade debtors	1,963.6	2,225.0	2,225.0	2,225.0	2,225.0
<b>Other current assets</b>	<b>476.9</b>	<b>1,283.7</b>	<b>1,283.7</b>	<b>1,283.7</b>	<b>1,283.7</b>
Total current assets	3,565.1	4,669.1	4,401.7	4,112.3	3,760.7
Trade creditors	1,674.9	1,882.5	1,882.5	1,882.5	1,882.5
Short-term borrowings	1,350.0	2,537.2	2,537.2	2,537.2	2,537.2
<b>Other current liabilities</b>	<b>716.2</b>	<b>863.2</b>	<b>863.2</b>	<b>863.2</b>	<b>863.2</b>
Total current liabilities	3,741.1	5,282.9	5,282.9	5,282.9	5,282.9
Long-term borrowings	7,474.9	8,146.2	8,146.2	8,146.2	8,146.2
<b>Other long-term liabilities</b>	<b>1,371.3</b>	<b>1,583.0</b>	<b>1,583.0</b>	<b>1,583.0</b>	<b>1,583.0</b>
<b>Total long-term liabilities</b>	<b>8,846.2</b>	<b>9,729.2</b>	<b>9,729.2</b>	<b>9,729.2</b>	<b>9,729.2</b>
Shareholders' funds	9,490.2	9,559.7	9,674.0	9,798.3	9,922.4
Minority interests	717.8	733.2	733.2	733.2	733.2
BV/share (RM)	3.12	3.14	3.18	3.22	3.26
Cash Flow (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Pretax profit	436.1	402.9	390.2	418.9	418.4
Depreciation/Amortisation	127.1	159.2	173.8	183.7	202.5
Net change in working capital	202.1	(15.3)	-	-	-
<b>Others</b>	<b>375.8</b>	<b>581.3</b>	<b>612.6</b>	<b>624.6</b>	<b>648.0</b>
Cash flow from operations	1,141.2	1,128.2	1,176.7	1,227.3	1,268.8
Capital expenditure	(197.6)	(1.5)	-	-	-
Net investments & sale of fixed assets	(445.1)	(927.8)	(816.2)	(862.8)	(950.8)
<b>Others</b>	<b>210.4</b>	<b>467.2</b>	-	-	-
Cash flow from investing	(432.3)	(462.1)	(816.2)	(862.8)	(950.8)
Debt raised/(repaid)	(252.8)	833.4	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(153.0)	(152.7)	(139.8)	(151.9)	(151.7)
<b>Others</b>	<b>(502.8)</b>	<b>(558.0)</b>	<b>(488.1)</b>	<b>(502.0)</b>	<b>(518.0)</b>
<b>Cash flow from financing</b>	<b>(908.6)</b>	<b>122.6</b>	<b>(627.8)</b>	<b>(653.9)</b>	<b>(669.7)</b>
<b>Net cash flow</b>	<b>(199.7)</b>	<b>788.7</b>	<b>(267.3)</b>	<b>(289.4)</b>	<b>(351.6)</b>
<b>Net cash/(debt) b/f</b>	<b>790.9</b>	<b>558.0</b>	<b>(22.8)</b>	<b>(290.1)</b>	<b>(579.6)</b>
Net cash/(debt) c/f	558.0	1,354.8	(290.1)	(579.6)	(931.2)
Key Ratios (YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue growth (%)	(10.1)	19.8	9.2	5.7	10.2
EBITDA growth (%)	(17.4)	7.4	(6.9)	5.7	3.0
Pretax margin (%)	10.5	8.1	7.2	7.3	6.6
Net profit margin (%)	5.0	4.4	4.7	4.8	4.4
Interest cover (x)	1.4	1.4	1.4	1.4	1.4
Effective tax rate (%)	42.3	33.7	22.9	22.9	22.9
Dividend payout (%)	44.1	42.1	41.8	41.8	41.8
Debtors turnover (days)	172	163	149	141	128
Stock turnover (days)	13	9	8	8	7
Creditors turnover (days)	184	168	149	141	127

Source: Company, AmlInvestment Bank Bhd estimates

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