

27 November 2019

# MMC Corporation Bhd

## 9MFY19 Broadly Within Expectations

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**9MFY19 Core Net Profit (CNP) of RM142m (+200% YoY) came in within our estimate at 75%, but below consensus at 62%, of full-year 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 0.3x FY20E BVPS which is in-line with its 5-year historical trough levels.**

**Within our, but below consensus, estimate.** 9MY19 Core Net Profit (CNP) of RM142m (+200% YoY) came in within our estimate at 74%, but below consensus at 62%, of full-year forecast. 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.

**QoQ, 3QFY19** excluding one-off disposal gain (RM10.5m) and negative goodwill due to fair value gain following an acquisition of a subsidiary (RM18.3m), core CNP fell 26% to RM34.5m, no thanks to lower volume handled at Port of Tanjung Pelepas (PTP) and Johor Port Berhad (JPB), and higher operating expenses at Penang Port Sdn Bhd (PPSB).

**YoY, 9MFY19** excluding one-off disposal gain (RM26.9m) and negative goodwill due to fair value gain following an acquisition of a subsidiary (RM18.3m), CNP came in at RM142m (+200% YoY) largely led by stronger performance from its ports and logistics segment (PBT: +10%), thanks to: (i) higher volume from Port of Tanjung Pelepas (+3% throughput growth), and full consolidation of PPSB's revenue, and (ii) higher contribution from Malakoff attributed by improved contribution from its coal plants, lower barging and demurrage cost. This is further boosted by higher contribution from its construction business (+11% PBT) thanks to higher work progress for KVMRT-SSP Line.

**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. 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 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.

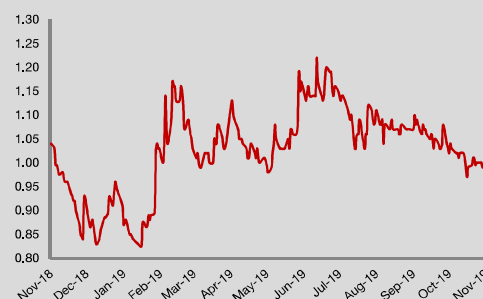
**Maintain MARKET PERFORM with an unchanged TP of RM0.970** based on 0.3x FY20E BV/share of RM3.24 which is in-line with its 5-year historical trough levels. Post-result, we made no changes to our earnings estimates. At this juncture, we deem our valuations to be fair as we await more earnings visibility 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 : **RM0.975**  
Target Price : **RM0.970** ↔

### Share Price Performance



|                     |          |
|---------------------|----------|
| KLCI                | 1,583.87 |
| YTD KLCI chg        | -6.3%    |
| YTD stock price chg | 17.5%    |

### Stock Information

|                      |               |
|----------------------|---------------|
| Shariah Compliant    | Yes           |
| Bloomberg Ticker     | MMC MK Equity |
| Market Cap (RM m)    | 2,968.9       |
| Shares Outstanding   | 3,045.1       |
| 52-week range (H)    | 1.25          |
| 52-week range (L)    | 0.81          |
| 3-mth avg daily vol: | 1,354,529     |
| Free Float           | 8%            |
| 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        |
| <b>Net Profit (NP)</b> | <b>220.1</b> | <b>187.0</b> | <b>188.6</b> |
| <b>Core NP (CNP)</b>   | <b>153.3</b> | <b>187.0</b> | <b>188.6</b> |
| Consensus (CNP)        |              | 230.8        | 252.0        |
| Earnings Revision (%)  | -            | -            | -            |
| 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)              | 3.14         | 3.19         | 3.24         |
| Core PER (x)           | 19.4         | 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          |

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| <b>Result Highlight</b>  |              |              |             |              |            |                |                |             |
|--------------------------|--------------|--------------|-------------|--------------|------------|----------------|----------------|-------------|
| <b>FY Dec (RM m)</b>     | <b>3Q19</b>  | <b>2Q19</b>  | <b>QoQ</b>  | <b>3Q18</b>  | <b>YoY</b> | <b>9M19</b>    | <b>9M18</b>    | <b>YoY</b>  |
| Revenue                  | 1,245.8      | 1,230.2      | 1%          | 944.1        | 32%        | 3,619.2        | 3,424.6        | 6%          |
| Cost of Sales            | (798.5)      | (752.5)      | 6%          | (560.3)      | 42%        | (2,256.6)      | (2,265.0)      | 0%          |
| <b>Gross profit</b>      | <b>447.3</b> | <b>477.6</b> | <b>-6%</b>  | <b>383.7</b> | <b>17%</b> | <b>1,362.5</b> | <b>1,159.6</b> | <b>18%</b>  |
| Investment income        | 0.0          | 0.0          | -           | 50.5         | -          | 0.0            | 65.7           | NM          |
| Other operating income   | 65.5         | 56.9         | 15%         | 23.2         | 182%       | 157.7          | 84.7           | 86%         |
| Administrative expenses  | (224.0)      | (212.3)      | 6%          | (206.7)      | 8%         | (632.8)        | (563.9)        | 12%         |
| Other operating expenses | (86.9)       | (80.9)       | 7%          | (73.4)       | 18%        | (248.3)        | (300.4)        | -17%        |
| Finance costs            | (166.0)      | (176.3)      | -6%         | (139.5)      | 19%        | (513.3)        | (398.7)        | 29%         |
| Associates               | 49.6         | 34.4         | 44%         | 31.1         | 59%        | 118.9          | 85.1           | 40%         |
| Joint Ventures           | 34.7         | 32.7         | 6%          | 19.8         | 75%        | 95.9           | 61.2           | 57%         |
| <b>Profit before tax</b> | <b>120.2</b> | <b>131.9</b> | <b>-9%</b>  | <b>88.8</b>  | <b>35%</b> | <b>340.6</b>   | <b>193.1</b>   | <b>76%</b>  |
| Tax expense              | (42.4)       | (50.3)       | -16%        | (36.5)       | 16%        | (116.2)        | (55.9)         | 108%        |
| Non-controlling interest | (11.5)       | 14.4         | -180%       | (13.3)       | -14%       | (37.3)         | (36.8)         | 1%          |
| <b>Net profit</b>        | <b>66.3</b>  | <b>67.2</b>  | <b>-1%</b>  | <b>38.9</b>  | <b>70%</b> | <b>187.1</b>   | <b>100.4</b>   | <b>86%</b>  |
| <b>Core Net Profit</b>   | <b>37.5</b>  | <b>50.8</b>  | <b>-26%</b> | <b>(0.6)</b> | <b>NM</b>  | <b>141.9</b>   | <b>43.6</b>    | <b>226%</b> |
| PBT margin               | 9.7%         | 10.7%        |             | 9.4%         |            | 9.4%           | 5.6%           |             |
| Net margin               | 5.3%         | 5.5%         |             | 4.1%         |            | 5.2%           | 2.9%           |             |
| Core net margin          | 5.3%         | 4.1%         |             | 4.1%         |            | 4.7%           | 2.9%           |             |
| Effective tax rate       | 35.2%        | 38.1%        |             | 41.1%        |            | 34.1%          | 29.0%          |             |

Source: Company, Kenanga Research

| <b>Segmental Breakdown</b> |             |             |            |             |            |             |             |            |
|----------------------------|-------------|-------------|------------|-------------|------------|-------------|-------------|------------|
| <b>FY Dec (RM m)</b>       | <b>3Q19</b> | <b>2Q19</b> | <b>QoQ</b> | <b>3Q18</b> | <b>YoY</b> | <b>9M19</b> | <b>9M18</b> | <b>YoY</b> |
| <b>Revenue</b>             |             |             |            |             |            |             |             |            |
| Ports & Logistics          | 782.0       | 802.0       | -2%        | 789.0       | -1%        | 2,364.0     | 2,183.0     | 8%         |
| Energy & utilities*        | 0.0         | 0.0         | 0.0        | 0.0         | 0.0        | 0.0         | 0.0         | -          |
| Engineering & construction | 438.0       | 402.0       | 9%         | 131.0       | 234%       | 1,179.0     | 1,175.0     | 0%         |
| Corporate & Others         | 26.0        | 26.0        | 0%         | 24.0        | 8%         | 76.0        | 67.0        | 13%        |
| <b>Profit Before Tax</b>   |             |             |            |             |            |             |             |            |
| Ports & Logistics          | 92.0        | 119.0       | -23%       | 137.0       | -33%       | 315.0       | 286.0       | 10%        |
| Energy & utilities*        | 46.0        | 29.0        | 59%        | 29.0        | 59%        | 107.0       | 93.0        | 15%        |
| Engineering & construction | 73.0        | 68.0        | 7%         | 21.0        | 248%       | 192.0       | 173.0       | 11%        |
| Corporate & Others         | (91.0)      | (84.0)      | 8%         | (98.0)      | -7%        | (273.0)     | (359.0)     | -24%       |
| <b>PBT Margins</b>         |             |             |            |             |            |             |             |            |
| Ports & Logistics          | 12%         | 13%         |            | 17%         |            | 13%         | 13%         |            |
| Engineering & construction | 17%         | 13%         |            | 16%         |            | 16%         | 15%         |            |
| Corporate & Others         | NM          | NM          |            | NM          |            | NM          | NM          |            |

Source: Company, Kenanga Research

\*Energy &amp; 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)         |        |
| MMC CORP BHD           | 0.975      | 2,968.9    | Y         | 12/2019 | -14.3%         | 4.8%       | 22.0%                | 0.9%       | 19.4                    | 17.6       | 17.4       | 0.3     | 0.3        | 1.9%       | 1.5%              | 0.970        | MP     |
| POS MALAYSIA BERHAD    | 1.45       | 1,135.0    | Y         | 12/2019 | -7.3%          | 5.5%       | -156.1%              | -97.0%     | N.A.                    | N.A.       | N.A.       | 0.7     | 0.7        | -3.1%      | 2.8%              | 1.25         | UP     |
| WESTPORTS HOLDINGS BHD | 4.16       | 14,185.6   | Y         | 12/2019 | 11.4%          | 8.2%       | 15.2%                | 11.0%      | 26.2                    | 22.7       | 20.5       | 5.9     | 6.0        | 26.1%      | 3.3%              | 4.15         | MP     |

Source: Bloomberg, Kenanga Research

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**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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Published and printed by:

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