

UOBK HIGHLIGHTS

MMC Corporation (MMC MK/HOLD/RM0.975/Target: RM1.20)

3Q19: Excluding Land Sale, Results Below Expectations

Year to 31 Dec	3Q19 (RMm)	3Q18 (RMm)	qoq % chg	yoy % chg	9M19 (RMm)	yoy % chg	Year	EPS (sen)	Revision (%)	PE (x)
Revenue	1,246.8	944.1	1.4	32.1	3,619.2	5.7	2019F	6.9	-12.0	14.0
EBITDA	499.0	370.0	7.1	34.9	1,388.0	41.2	2020F	8.1	-	12.1
EBIT	191.5	187.5	(20.6)	(5.5)	612.2	39.0	2021F	8.7	-	11.3
Associates	84.3	50.9	25.8	65.6	214.8	46.9				
Pretax Profit	120.2	88.8	(8.9)	35.4	340.6	76.4				
Tax	(42.4)	(36.5)	(15.7)	16.0	(116.2)	107.8				
Net Profit	66.3	38.9	(1.3)	70.3	187.1	86.4				
Core Net Profit	55.8	49.0	(16.9)	13.9	160.2	68.1				
	(%)	(%)	+/- ppt	+/- ppt	(%)	+/- ppt				
EBIT Margins (%)	16.2	19.9	(3.4)	(3.7)	17.7	4.8				
Core Net Profit Margins (%)	5.3	5.2	(0.1)	0.1	5.2	2.4				

Source: MMC, UOB Kay Hian

RESULTS

- **9M19 earnings below expectations.** MMC Corporation (MMC) reported 3Q19 core net profit (stripping out gains on disposal of asset held for sale amounting to RM10.5m) of RM55.8m. This reflects growth of 14% yoy but a contraction of 17% qoq on the back of higher Penang Port opex sequentially. This brings 9M19 core net profit to RM160.2m (+68% yoy). We deem the earnings to be below expectations; 9M19 net profit accounts for 67% of our full-year 2019 net profit forecast of RM240.3m.
- **3Q19 revenue rose 1% qoq and 32% yoy to RM1,246.8m** on higher volumes handled at PTP and higher progress billings recognised in the construction unit. The higher revenue base together with Malakoff's turnaround in the quarter (no unplanned outage and rectification cost for Tanjung Bin Energy) and lower administrative costs drove 3Q19 PBT to RM120m (+35% yoy, -9% qoq).

3Q19: SEGMENTAL BREAKDOWN

Year to 31 Dec	3Q19 (RMm)	3Q18 (RMm)	qoq % chg	yoy % chg	9M19 (RMm)	yoy % chg	Comment
Transport & Logistics	782	789	(2.5)	(0.9)	2,364	8.3	9M19 Container Volume Trend:
Engineering & Construction	438	131	9.0	234.4	1,179	0.3	PTP 6.8m TEUs (+3% yoy)
Others	26	24	0.0	8.3	76	13.4	JPort 0.8m TEUs (+9% yoy)
Group Revenue	1,246	944	1.4	32.1	3,619	5.7	Northport 2M TEUs (-3% yoy) Penang Port 1.1m TEUs (-2% yoy)
Transport & Logistics	92	137	(22.7)	(32.8)	315	10.1	
Energy & Utilities	46	29	58.6	58.6	107	15.1	
Engineering & Construction	73	21	7.4	247.6	192	11.0	
Others	(91)	(98)	8.3	(7.1)	(273)	(24.0)	
Pre-tax Profit	120	89	(9.1)	34.8	341	76.7	

Source: MMC, UOB Kay Hian

STOCK IMPACT

- Downgrade 2019 net profit forecast by 12% to account for lower-than-expected ports and logistics earnings base (due to higher opex in 3Q19 for Penang Port).

RECOMMENDATION

- **Maintain HOLD with a SOTP-based target price of RM1.20**, based on a 60% discount to our SOTP valuation of RM9.2b, or RM3.00/share. Our target price factors in: a) a 60% holding company discount due to the lack of re-rating catalyst as the port listing is likely to be deferred to beyond 2019; and b) minimal earnings contribution from the MRT2 contract. The port assets account for the bulk of our valuation and earnings as the engineering segment accounts for only 10% of our SOTP-based valuation. Entry price: RM0.90.

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