

25 August 2020

MMC Corporation Bhd

A Slower Second Half

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1HFY20 Core Net Profit (CNP) of RM130m (+25% YoY) came in at 59%/62% of our/consensus full-year estimate. The results are within our expectation because we expect a slower 2H20 as we anticipate a slowdown in ports due to the pandemic, and there are no new key projects in engineering. Correspondingly, we downgrade our TP from RM0.775 to RM0.695 based on 0.22x FY21E BVPS.

1HFY20 Core Net Profit (CNP) of RM130m (+25% YoY) came in at 59%/61% of our/consensus full-year estimate. The result is within our expectation because we envisage a slower 2H20 on a slowdown in ports due to the pandemic and the absence of new key projects in engineering. No dividend was announced, as expected.

QoQ, 2QFY20 core CNP excluding gains from land sale at Senai Airport City (RM5m) came in at RM72m (+25%) due to higher contribution from 37.6%-owned associate (Malakoff) which reported a doubling of net profit to RM105m in the 2QFY20 from a year ago and lower other operating expenses (-11%) and administrative expenses (-7%).

YoY, 1HFY20 core CNP rose 25% to RM130m, thanks to higher contributions from PTP and associates namely Malakoff, (attributed to maiden contribution from newly acquired Alam Flora, absence of losses from KEV and higher earnings from an additional 12% stake in Shuaibah), lower operations and maintenance costs, and higher contribution from its subsidiary, Tanjung Bin Energy Sdn Bhd, following shorter duration of plant outage and settlement agreement reached with its contractor. However, lower volume handled at Northport Malaysia and lower contribution from logistics services (Kontena Nasional) offset a potentially better set of results.

Ports and utilities were the main earnings contributors. Looking ahead, we expect a slower 2H20 as we anticipate a slowdown in ports due to the pandemic and no new key projects in engineering. Going forward, MMCCORP's earnings are anticipated to be largely buoyed by its ports operation and utilities namely Malakoff. However, we remain cautious of a market de-rating on the back of a bleaker economic outlook, both globally and for Malaysia. Currently, its ports portfolio consists of 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 about 77%, with expected completion in FY20. We gathered that while its construction order-book is currently at c.RM4.9b (90% from MRT Line 2), management is actively bidding for new projects in order to meet its targeted order-book replenishment of c.RM500m p.a.

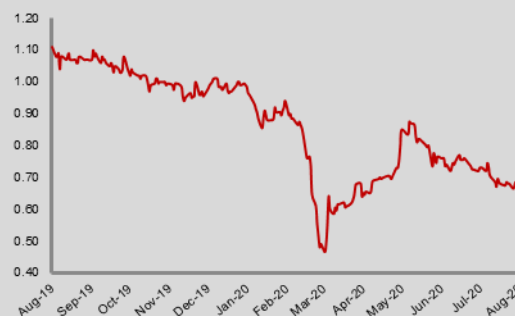
Maintain MARKET PERFORM. We downgrade our TP from RM0.775 to RM0.695 based on 0.22x FY21E BVPS (previously 0.25x) (-2.0SD below 5-year historical forward average) to reflect market de-rating due to a bleaker economic outlook, both globally and for Malaysia. We roll forward our valuation from FY20E to FY21E. The saving grace is a 5.6% dividend yield.

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

MARKET PERFORM ↔

Price : RM0.710
Target Price : RM0.695 ↓

Share Price Performance



KLCI 1,568.58
YTD KLCI chg -1.3%
YTD stock price chg -27.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MMC MK Equity
Market Cap (RM m)	2,162.0
Shares Outstanding	3,045.1
52-week range (H)	1.16
52-week range (L)	0.45
3-mth avg daily vol:	5,656,647
Free Float	20%
Beta	1.5

Major Shareholders

Seaport Terminal Johore Sdn Bhd	51.8%
Skim Amanah Saham Bumiputera	19.5%
Urusharta Jamaah Sdn Bhd	3.4%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Revenue	4,717.3	4,478.7	4,575.4
PBT	532.8	345.5	352.8
Net Profit (NP)	255.2	219.2	224.6
Core NP (CNP)	201.4	219.2	224.6
Consensus (CNP)		211.8	253.0
Earnings Revision	-	-	-
Core EPS (sen)	6.6	7.2	7.4
CNP growth (%)	31.4	8.8	2.5
DPS (sen)	4.5	4.0	4.0
BVPS (RM)	3.04	3.10	3.16
Core PER (x)	10.7	9.9	9.6
Price/BV (x)	0.2	0.2	0.2
Net Gearing (x)	0.9	0.9	0.9
Div. Yield (%)	6.3	5.6	5.6

25 August 2020

Result Highlight								
FY Dec (RM m)	2QFY20	1QFY20	QoQ	2QFY19	YoY	6MFY20	6MFY19	YoY
Revenue	990.7	1,086.8	-9%	1,230.2	-19%	2,077.5	2,373.4	-12%
Cost of Sales	(510.7)	(610.9)	-16%	(752.5)	-32%	(1,121.6)	(1,458.2)	-23%
Gross profit	480.0	475.9	1%	477.6	0%	955.9	915.2	4%
Other operating income	37.2	49.3	-24%	56.9	-34%	86.6	92.2	-6%
Administrative expenses	(207.9)	(223.5)	-7%	(212.3)	-2%	(431.4)	(408.8)	6%
Other operating expenses	(77.7)	(87.1)	-11%	(80.9)	-4%	(164.8)	(161.5)	2%
Finance costs	(173.5)	(172.0)	1%	(176.3)	-2%	(345.5)	(347.2)	0%
Associates	54.4	40.0	36%	34.4	58%	94.4	69.3	36%
Joint Ventures	15.6	32.2	-51%	32.7	-52%	47.8	61.2	-22%
Profit before tax	128.1	114.8	12%	131.9	-3%	242.9	220.4	10%
Net profit	77.4	57.9	34%	67.2	15%	135.2	120.7	12%
Core Net Profit	72.4	57.9	25%	50.8	42%	130.2	104.3	25%
PBT margin	12.9%	10.6%		5.5%		11.7%	5.1%	
Net margin	7.8%	5.3%		4.1%		6.5%	4.4%	
Core net margin	7.3%	5.3%		38.1%		6.3%	33.5%	
Effective tax rate	29.9%	36.4%		38.1%		32.9%	33.5%	

Source: Company, Bursa Malaysia, Kenanga Research

Segmental Breakdown								
FY Dec (RM m)	2QFY20	1QFY20	QoQ	2QFY19	YoY	6MFY20	6MFY19	YoY
Revenue								
Ports & Logistics	728.0	801.0	-9%	802.0	-9%	1,529.0	1,582.0	-3%
Energy & utilities*	0.0	0.0	-	0.0	-	0.0	0.0	-
Engineering & construction	242.0	264.0	-8%	402.0	-40%	506.0	742.0	-32%
Corporate & Others	21.0	22.0	-5%	26.0	-19%	43.0	51.0	-16%
Profit Before Tax								
Ports & Logistics	96.0	123.0	-22%	119.0	-19%	219.0	222.0	-1%
Energy & utilities*	48.0	41.0	17%	29.0	66%	89.0	60.0	48%
Engineering & construction	60.0	61.0	-2%	68.0	-12%	121.0	119.0	2%
Corporate & Others	(76.0)	(110.0)	-31%	(84.0)	-10%	(186.0)	(181.0)	3%
PBT Margins								
Ports & Logistics	13%	15%		15%		14%	14%	
Engineering & construction	25%	23%		17%		24%	16%	

Source: Company, Bursa Malaysia, Kenanga Research

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

25 August 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	0.710	2,162.0	Y	12/2020	-5.1%	2.2%	8.8%	2.5%	10.7	9.9	9.6	0.2	0.2	2.3%	5.6%	0.695	MP
POS MALAYSIA BERHAD	0.920	720.2	Y	12/2020	34.4%	16.7%	-20.0%	7.0%	N.A.	11.0	10.2	0.5	0.5	4.5%	4.3%	0.900	MP
WESTPORTS HOLDINGS BHD	3.82	13,026.2	Y	12/2020	2.5%	4.1%	-3.0%	4.4%	20.2	20.8	20.0	5.1	4.8	23.7%	3.7%	3.65	MP

Source: Bloomberg, Bursa Malaysia, Kenanga Research

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25 August 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.**

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