



## MMC Corporation (MMC MK) : BUY

Mkt. Cap: US\$783m | 3m Avg. Daily Val: US\$0.61m

Last Traded Price ( 27 Aug 2019): RM1.08

Price Target 12-mth: RM1.49 (38% upside) (Prev RM1.49)

### Analyst

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### Significant pick-up in port earnings

- 2Q19 earnings within expectations
- Ports business showed strong improvement across all entities
- Revival of MRT 3 and ports listing are key catalysts
- Maintain BUY with SOP-derived TP of RM1.49

#### Forecasts and Valuation

FY Dec (RMm)	2018A	2019F	2020F	2021F
Revenue	5,010	5,592	5,781	7,047
EBITDA	1,606	1,586	1,661	1,740
Pre-tax Profit	390	394	476	558
Net Profit	220	232	282	340
Net Pft (Pre Ex.)	200	232	282	340
Net Pft Gth (Pre-ex) (%)	(20.1)	16.0	21.7	20.5
EPS (sen)	7.23	7.62	9.27	11.2
EPS Pre Ex. (sen)	6.57	7.62	9.27	11.2
EPS Gth Pre Ex (%)	(20)	16	22	20
Diluted EPS (sen)	7.23	7.62	9.27	11.2
Net DPS (sen)	4.50	4.50	4.50	4.50
BV Per Share (sen)	314	317	322	329
PE (X)	14.9	14.2	11.6	9.7
PE Pre Ex. (X)	16.4	14.2	11.6	9.7
P/Cash Flow (X)	2.8	3.9	3.6	2.8
EV/EBITDA (X)	8.2	8.2	7.7	7.1
Net Div Yield (%)	4.2	4.2	4.2	4.2
P/Book Value (X)	0.3	0.3	0.3	0.3
Net Debt/Equity (X)	0.9	0.8	0.8	0.7
ROAE (%)	2.3	2.4	2.9	3.4

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

### What's New

**2Q19 results within expectations.** MMC booked a 2Q19 headline net profit of RM67m (+235% y-o-y, +26% q-o-q), bringing 1H19 net profit to RM121m (+98% y-o-y). This was driven by better contribution from its port business and gain from disposal of an asset (old factory and office in Nilai) held for sale of RM16m. Stripping this out, 2Q19 net profit was within our and consensus estimates. 2Q19 revenue was largely flat y-o-y at RM1.23bn.

**Strong overall showing for ports.** For transport & logistics, 1H19 turnover increased by 13% y-o-y to RM1,582m with pretax profit rising by 62% y-o-y to RM222m. Overall, the higher y-o-y profit numbers were due to higher contribution from Port of Tanjung Pelepas, lower cost for Johor Port and Northport, higher share of profit from Red Sea Gateway Terminal and also the consolidation of Penang Port.

**Lifted by higher throughput.** PTP registered a 7% increase in 1H19 pretax profit to RM106m. This roughly tracked the 5% increase in throughput to 4.6m TEU for 1H19. Johor Port and Northport showed significant y-o-y throughput improvement. For 1H19, Johor Port made RM37m in pretax profit (vs RM1m in 1H19). It also showed a 7% increase in container volume to 0.48m TEU while conventional volume growth declined by 2% to 9.371m FWT. Northport posted RM36m in pretax profit for 1H19 (vs RM14m in 1H18). 1H19 container volume at Northport declined by 3% to 1.336m TEU but this was compensated by a 10% increase in



conventional cargo to 4.551m FWT. Penang Port showed a 1% decline in container volume to 0.735m TEU and an 11% decline in conventional volume to 4.811m FWT.

**Relatively resilient energy earnings.** Energy & utilities' 1H19 pretax profit came in at RM60m (vs RM64m in 1H18). Malakoff's earnings were buoyed by its Tanjung Bin Energy coal plant as there was no unplanned plant outage during the quarter. Gas Malaysia recorded steady y-o-y profit growth on the back of higher volume of gas sold.

**Construction: Lower contribution from MRT 2.** 1H19 pretax profit for the construction division stood at RM119m (-22% y-o-y) due to lower contribution from KV MRT 2 following the revision of the contract in November 2018 and also lower contribution from the Langat 2 Sewerage plant. The elevated and tunnelling portions of MRT Line 2 have reached 51% and 57% progress completion, respectively, as at 30 June 2019.

### Outlook

**Listing of ports on-going.** We understand that the company is still actively pursuing the listing but the timeline is less pressing given the restructuring of debt. The current focus would be to ensure a stronger earnings recovery for its port business. A potential listing will likely involve paring down its debt at the MMC Ports level that will generate interest savings, thus boosting its net profit.

### Valuation and Recommendation

**BUY rating and TP maintained.** The potential revival of MRT 3 and HSR will be positive for its infrastructure business. We maintain our BUY rating and SOP-derived TP of RM1.49. We believe its ability to deliver steady earnings growth on a consistent basis will lead to a re-rating of its share price.

## Flash Note

### Quarterly Income Statement (RMm)

FY Dec	2Q2018	1Q2019	2Q2019	% chg yoy	% chg qoq
Revenue	1,201	1,143	1,230	2.4	7.6
Cost of Goods Sold	(812)	(706)	(753)	(7.3)	6.6
<b>Gross Profit</b>	<b>389</b>	<b>438</b>	<b>478</b>	<b>22.9</b>	<b>9.1</b>
Other Oper. (Exp)/Inc	(264)	(242)	(236)	(10.5)	(2.2)
<b>Operating Profit</b>	<b>125</b>	<b>196</b>	<b>241</b>	<b>93.5</b>	<b>23.2</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	45.5	63.5	67.0	47.3	5.5
Net Interest (Exp)/Inc	(130)	(171)	(176)	(35.6)	(3.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
<b>Pre-tax Profit</b>	<b>40.1</b>	<b>88.5</b>	<b>132</b>	<b>229.0</b>	<b>49.1</b>
Tax	(10.7)	(23.6)	(50.3)	370.2	113.2
Minority Interest	(9.3)	(11.4)	(14.4)	(54.6)	26.6
<b>Net Profit</b>	<b>20.1</b>	<b>53.5</b>	<b>67.2</b>	<b>234.9</b>	<b>25.6</b>
Net profit bef Except.	20.1	53.5	67.2	234.9	25.6
EBITDA	170	259	308	81.2	18.8
<b>Margins (%)</b>					
Gross Margins	32.4	38.3	38.8		
Opg Profit Margins	10.4	17.1	19.6		
Net Profit Margins	1.7	4.7	5.5		

Source of all data: Company, AllianceDBS

### Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	27 Aug 18	1.40	2.22	BUY
2:	29 Oct 18	1.10	1.81	BUY
3:	28 Nov 18	1.00	1.49	BUY
4:	04 Jan 19	0.86	1.49	BUY
5:	28 Feb 19	1.07	1.49	BUY
6:	15 Apr 19	1.06	1.49	BUY
7:	25 Apr 19	1.10	1.49	BUY
8:	06 May 19	1.03	1.49	BUY
9:	29 May 19	1.04	1.49	BUY
10:	27 Jun 19	1.16	1.49	BUY
11:	25 Jul 19	1.14	1.49	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Tjen San CHONG

### DISCLOSURE

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#### Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

#### Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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