

28 August 2019 | 2QFY19 Results Review

MMC Corporation Berhad

Port entities continue to demonstrate strength

INVESTMENT HIGHLIGHTS

- 1HFY19 earnings within estimates
- Ports and logistics segment supported container throughput growth in PTP and lower operating cost at JPB and Northport
- Minimal disruption to earnings in energy and utilities moving forward backed by acquisition of Alam Flora and MSCSB
- Earnings visibility for engineering and construction to remain intact as the company continues to actively bid for new projects
- Earnings estimates unchanged
- Maintain BUY with a revised TP of RM1.30 per share

Earnings within expectations. In 2QFY19, normalised earnings of MMC Corporation Berhad (MMC Corp) rose by more than +100%yoy to RM50.8m. This brings MMC Corp's 1HFY19 normalised earnings to RM104.3m (>+100%yoy) which met ours and consensus' full year estimates at 46.0% and 50.0% respectively.

Higher volumes at PTP and lower cost boosted ports performance. 1HFY19 Revenue and PBT for the ports and logistics segment increased by +13.4%yoy and +62.8%yoy. Performance of the segment was underpinned by the +5.0%yoy increase in container throughput at Port of Tanjung Pelepas (PTP) and better cost management at Johor Port (JPB) and Northport in 1HFY19. This helped offset the small decline in container throughput at Penang Port (PPSB) and Northport during the same period.

Steady performance in energy and utilities. Malakoff Corporation Berhad (Malakoff) (NON-RATED) recorded a +7.7%yoy increase in PATAMI for 1HFY19 due to: (i) improved contribution from Tanjung Bin Energy coal plan given the shorter plant outage duration, (ii) lower barging and demurrage costs following timely completion of coal unloading jetty; and (iii) lower net finance costs. Meanwhile, **Gas Malaysia Berhad (BUY; TP: RM3.11)** posted a +2.1%yoy increase in PATAMI due to the increase in volume of gas sold coupled with higher natural gas tariff.

Earnings visibility in construction segment. PBT for engineering and construction (E&C) posted a -23.0%yoy decline in 1HFY19 as expected. The drop was largely attributable to the: (i) value revision of the KVMRT2 contract in November 2018 and (ii) lower contribution from the KVMRT2 project and Langat Sewerage Project. The segment's orderbook stood around RM8.0b as of 30 June 2019 which is 5x the construction revenue recorded in FY17. Looking ahead, the company is actively bidding for a few marine infrastructure related projects with a price tag of RM300-500m. As such, we believe that this could provide earnings visibility for the segment as the KVMRT2 reaches completion in 2022.

Maintain BUY

Revised Target Price (TP): RM1.30
(Previously: RM1.31)

RETURN STATS	
Price (27 August 2019)	RM1.08
Target Price	RM1.30
Expected Share Price Return	+20.4%
Expected Dividend Yield	+3.7%
Expected Total Return	24.1%

STOCK INFO	
KLCI	1,590.84
Bursa / Bloomberg	2194/ MMC MK
Board / Sector	Main/ Transportation & Logistics
Syariah Compliant	Yes
Issued shares (mil)	3045.06
Market cap. (RM'm)	3,288.66
Price over NA	0.36
52-wk price Range	RM0.81-RM1.48
Beta (against KLCI)	1.30
3-mth Avg Daily Vol	2.29m
3-mth Avg Daily Value	RM2.29m
Major Shareholders (%)	
Seaport Terminal Johor SB	51.76
PNB	20.21
Urusharta Jamaah SB	7.68
EPF	5.24


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Outlook. Moving forward, we note that Port of Tanjung Pelepas's (PTP) role as a transshipment hub would not be directly susceptible to the trade war between U.S and China as it mainly caters for intra-Asia trade lanes. Moreover, the impending IMO 2020 sulphur cap in January next year could spur support the transshipment volumes especially at PTP as shipping liners will want to mitigate higher operating expenses from more expensive fuel. For energy and utilities, the acquisition of Alam Flora and Malaysia Shoaiba Consortium Sdn Bhd (MSCSB) by Malakoff would better address the potential earnings gap from the expiry of the power purchase agreement for Kapar Energy Ventures and PD Power. The reason being is that the performance of Alam Flora has been commendable in the past few years with a 5-year PBT CAGR of 12.0% and PBT margins remaining above 10.0%. Meanwhile, earnings accretion to Malakoff are expected to be derived from remaining contract periods of approximately 10 years under Shuaibah Water & Electricity Co. Ltd's (SWEC) Power and Water Purchase Agreement(PWPA) and Shuaibah Expansion Project Company Limited(SEPCO's) Water Purchase Agreement indirectly owned by MSCSB.

Earnings forecast. No changes to our earnings forecast as earnings came within expectations.

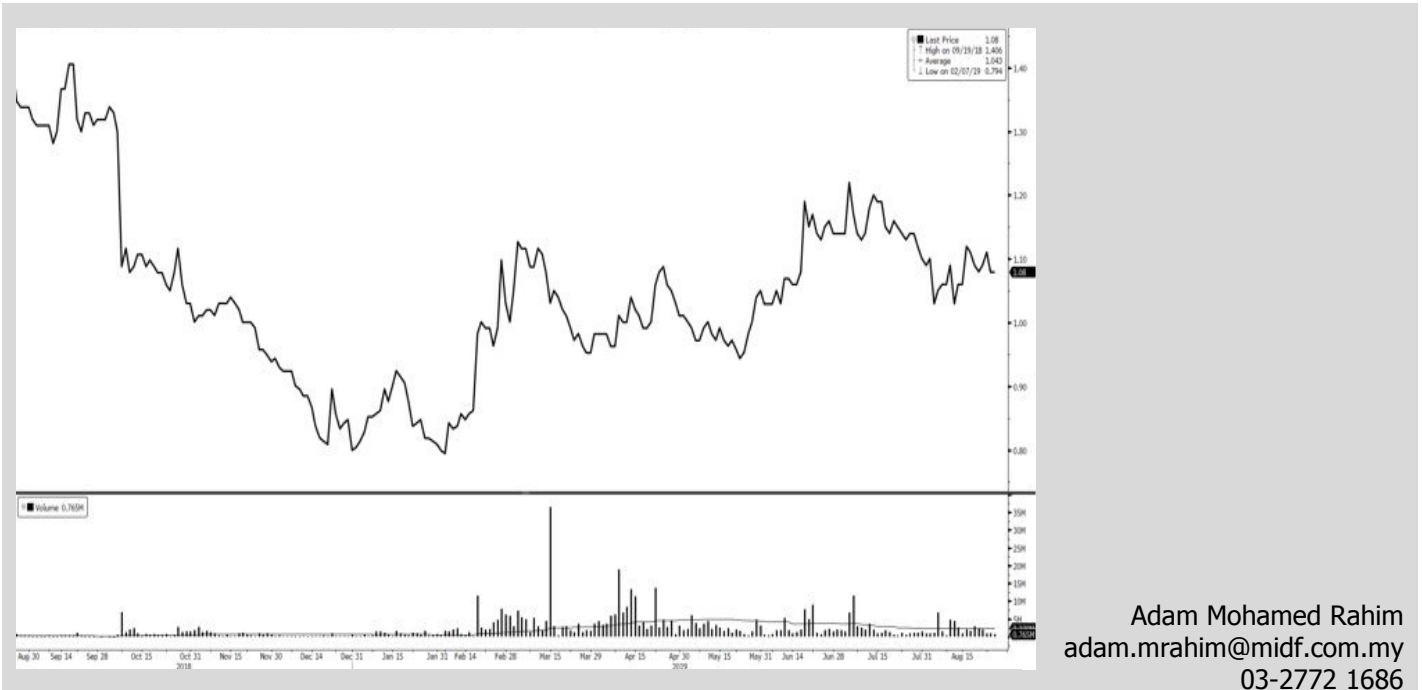
Target price. While our earnings are unchanged, we are revising our **target price** to **RM1.30 per share** (previously RM1.31 per share) to reflect change of the consensus target price for Malakoff and our fair value of Gas Malaysia. Our target price is based on sum-of-the-parts valuation.

Maintain BUY. We continue to favour MMC Corp due to the: (i) valuations supported by the market capitalisation of its listed associates; Malakoff and Gas Malaysia; and (ii) synergies from the full acquisition of Penang Ports supported by the container terminal business and the cruise terminal operations, in collaboration with Royal Caribbean Cruises Ltd., which will be driven by the growth in tourism in Penang. Other catalysts for MMC Corp include the possible reinstatement of the KVMRT3 project at a revised cost (possibly half the original price tag of RM45b). Moreover, we are confident that MMC Corp will be able to clinch new construction projects which will act as a buffer for its construction orderbook. Key downside risks to our call include: (i) prolonged global trade tensions; (ii) weak container volumes of MMC Corp's ports; and (iii) downward revision of its listed associates. All factors considered, we reiterate out **BUY** call on MMC Corp with a revised **target price** of **RM1.30 per share**. 

INVESTMENT STATISTICS

FYE Dec	FY16A	FY17A	FY18A	FY19F	FY20F
Revenue (RM' m)	4,627.4	4,160.1	4,983.8	4,955.9	4,901.8
EBIT (RM' m)	911.7	710.9	741.2	733.8	746.4
Pretax Profit (RM' m)	672.7	451.7	402.9	299.4	321.4
Net Profit (RM' m)	312.4	208.7	157.6	227.5	244.3
EPS (sen)	10.3	6.9	5.2	7.5	8.0
EPS growth (%)	(70.0)	(62.0)	(25.0)	44.0	7.0
PER (x)	10.5	15.8	20.9	14.5	13.5
Net Dividend (sen)	4.0	4.0	3.5	4.0	4.0
Net Dividend Yield (%)	3.7	3.7	3.2	3.7	3.7

DAILY PRICE CHART



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Source: Bloomberg

MMC CORPORATION BHD: 2QFY19 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	2QFY19	%YoY	%QoQ	1HFY19	%YoY
Revenue	1,230.2	2.4	7.6	2,373.4	-4.3
COGS	(752.5)	-7.3	6.6	(1,458.2)	-15.1
Gross profit	477.612	22.9	9.1	915.2	20.1
Operating expenses	(236.4)	-10.5	-2.2	(478.1)	-3.2
EBIT	241.3	93.5	23.2	437.1	63.0
Finance expenses	(176.3)	35.6	-3.2	(347.2)	33.9
Share of results from JV and Associates	67.0	47.3	5.5	130.5	36.9
PBT	131.929	>100	49.1	220.4	>100
Tax expense	(50.3)	>100	>100	(73.9)	>100
PAT	81.7	>100	25.8	146.6	72.5
PATAMI	67.2	>100	25.6	120.7	96.6
Normalised PATAMI	50.8	>100	-5.0	104.3	>100

Segmental Breakdown	Quarterly Results			Cumulative	
	2QFY19	%YoY	%QoQ	1HFY19	%YoY
Ports & Logistics					
Revenue	802.0	8.4	2.8	1,582.0	13.4
PBT	119.0	70.0	14.4	223.0	62.8

Malakoff (37.6% associate)	2QFY19	%YoY	%QoQ	1HFY19	%YoY
	Revenue	1,814.8	-6.6	-9.6	3,822.1
PATAMI	52.3	-0.6	-22.0	119.3	13.1

Gas Malaysia (30.9% associate)	2QFY19	%YoY	%QoQ	1HFY19	%YoY
	Revenue	1,736.7	15.5	1.2	3,452.3
PATAMI	49.0	1.9	19.0	90.2	2.1

Engineering & Construction	2QFY19	%YoY	%QoQ	1HFY19	%YoY
	Revenue	489.0	11.4	44.7	827.0
PBT	68.0	-12.8	38.8	117.0	-23.0

MMC CORPORATION BERHAD: SOTP VALUATION

Assets	Total Value (RM mil)	% Stake	Value	Value per share	Remarks
Energy & Utilities					
Malakoff	4,950.00	37.6	1,861.20	0.61	Consensus TP of RM0.99
Gas Malaysia	3,993.24	30.9	1233.91	0.41	MIDF Fair Value of RM3.11
Aliran Ihsan Resources Berhad	487.00	100	487.00	0.16	Takeover price
Ports & Logistics					
PTP	1,120.58	70	784.40	0.26	DCF @ WACC: 11%, Perpetual Growth: 1%
Johor Port	513.99	100	513.99	0.17	DCF @ WACC: 11%, Perpetual Growth: 1%
NCB Holdings Berhad	623.59	99	617.36	0.20	DCF @ WACC: 11%, Perpetual Growth: 1%
Penang Port	96.14	100	96.14	0.03	Acquisition price
Senai airport	580.00	100	580.00	0.19	Acquisition price @ 2009
Engineering & Construction					
Construction services	483.70	100	483.70	0.16	PER @ 7x FY20 PAT
MMC-Gamuda MRT2 (AG)	422.52	50	211.26	0.07	DCF
MMC-Gamuda MRT2 (UG)	468.37	50	234.19	0.08	DCF
Others					
Senai Development Land - Airport City	1,448.98	100	1,448.98	0.48	2,079 acres @ RM16 psf
Tanjung Bin Land	1,063.56	100	1,063.56	0.35	1,526 acres @ RM16 psf
Net Debt (Estimate)			(3020.96)	(0.99)	Company level debt
Total Value (RM mil)	16,251.67		6,594.73	2.17	
No of shares				3,045.10	
Value per Share				2.17	
Discount (%)				40%	Conglomerate discount
Fair Value per Share (RM)				1.30	

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.