

UOBKH HIGHLIGHTS

MMC Corporation (MMC MK/HOLD/RM1.08/Target: RM1.20)

2Q19: Within Expectations

Year to 31 Dec	2Q19 (RMm)	2Q18 (RMm)	qoq % chg	yoy % chg	1H19 (RMm)	yoy % chg	Year	EPS (sen)	Revision (%)	PE (x)
Revenue	1,230.2	1,200.8	7.6	2.4	2,373.4	(4.3)	2019F	7.9	-	13.7
EBITDA	466.0	305.0	10.2	52.8	888.0	44.9	2020F	8.1	-	13.4
EBIT	241.3	176.4	23.2	36.8	437.1	72.7	2021F	8.9	-	12.1
Associates	67.0	45.5	5.5	47.3	130.5	36.9				
Pretax Profit	131.9	40.1	49.1	229.0	220.4	111.2				
Tax	(50.3)	(10.7)	113.2	370.2	(73.9)	280.8				
Net Profit	67.2	20.1	25.6	234.9	120.7	96.6				
Core Net Profit	50.8	71.8	(5.0)	(29.2)	104.3	125.7				
	(%)	(%)	+/- ppt	+/- ppt	(%)	+/- ppt				
EBIT Margins (%)	19.6	14.7	2.5	4.9	18.4	8.2				
Core Net Profit Margins (%)	5.5	6.0	0.8	(0.5)	5.1	3.2				

Source: MMC, UOB Kay Hian

RESULTS

- **1H19 earnings deemed within expectations.** MMC Corporation (MMC) reported a 2Q19 core net profit (stripping out gain on disposal of asset amounting to RM16.4m) of RM50.8m. This is a contraction of 5% qoq and 29% yoy on the back of lower construction earnings, higher finance charges and a higher effective tax rate. This brings 1H19 core net profit to RM104.3m (+125% yoy). We deem the earnings to be within expectations as we expect a stronger 2H19 for the utilities divisions, namely contribution from Gas Malaysia and Malakoff. To recap, Malakoff reported weak 2Q19 earnings given a 73-day planned outage of Tanjung Bin Energy coal-fired power plant. The rectification cost was booked in 2Q19 but management is confident the plant will perform satisfactorily in 2H19 and earnings will recover in 2H19.
- **2Q19 revenue rose 8% qoq and 2% yoy to RM1,230.2m** on higher volume handled at PTP and higher progress billings recognised in the engineering divisions. The higher revenue base together with lower operating cost at JPort and Northport and a RM16.4m gain on disposal of asset drove 2Q19 PBT to RM132m (+50% qoq; +230% yoy). Stripping out the gain on disposal of asset and higher effective tax rate, 2Q19 net profit declined 5% yoy and 29% qoq to RM50.8m.

2Q19: SEGMENTAL BREAKDOWN

Year to 31 Dec	2Q19 (RMm)	2Q18 (RMm)	qoq % chg	yoy % chg	1H19 (RMm)	yoy % chg	Comment
Transport & Logistics	802	740	2.8	8.4	1,582	13.4	<u>1H19 Container Volume Trend:</u>
Engineering & Construction	402	439	18.9	(8.4)	740	(29.1)	PTP +5% yoy
Others	26	22	4.0	18.2	51	18.6	JPort +6% yoy
Group Revenue	1,230	1,201	7.6	2.4	2,373	(4.4)	Northport -3% yoy Penang Port -1% yoy
Transport & Logistics	119	70	14.4	70.0	222	17.6	
Energy & Utilities	29	26	(9.4)	11.5	60	(6.3)	
Engineering & Construction	68	78	38.8	(12.8)	119	(21.7)	
Others	(84)	(134)	(13.4)	(37.3)	(181)	(27.3)	
Pretax Profit	132	92	50.0	230.0	220	41.3	

Source: MMC, UOB Kay Hian

STOCK IMPACT

- We project full-year 2019 net profit of RM240.3m (+56% yoy). No change to our earnings forecasts.

RECOMMENDATION

- **Maintain HOLD with a lower 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: RM1.00.

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