

UOBKH HIGHLIGHTS

MMC Corporation (MMC MK/HOLD/RM0.90/Target: RM1.20)

4Q19: In Line; Weak Earnings Due To Lower Construction Orderbook

Year to 31 Dec	4Q19 (RMm)	4Q18 (RMm)	qoq % chg	yoy % chg	2019 (RMm)	yoy % chg	Year	EPS (sen)	Revision (%)	PE (x)
Revenue	1,098.1	1,559.2	(11.9)	(29.6)	4,717.3	(5.3)	2020F	8.1	-	11.2
EBITDA	566.0	511.0	13.4	10.8	1,985.0	33.0	2021F	8.7	-	10.4
EBIT	315.7	294.5	64.8	7.2	909.6	32.7	2022F	9.0	-	10.0
Associates	87.1	60.6	3.3	43.7	301.8	45.9				
Pretax Profit	192.2	209.8	59.9	(8.4)	532.8	32.2				
Tax	(116.2)	(80.0)	174.2	45.2	(232.4)	71.0				
Net Profit	68.1	119.7	2.6	(43.1)	255.2	15.9				
Core Net Profit	114.8	118.6	105.6	(3.2)	256.7	56.1				
			<u>qoq ppt chg</u>	<u>yoy ppt chg</u>		<u>yoy ppt chg</u>				
EBIT Margins (%)	28.7	18.9	13.4	9.9	19.3	5.5				
Core Net Margin (%)	10.5	7.6	6.0	2.8	5.4	2.1				

Source: MMC, UOB Kay Hian

RESULTS

- **2019 earnings within expectations.** MMC Corporation (MMC) reported 4Q19 core net profit of RM115m (adding back RM54m impairment on receivables). This is a sequentially doubling of profits but a 3% yoy contraction on the back of higher volume handled at PTP and JohorPort, lower Penang Port opex and reversal of provision no longer required at a double-track project. 2019 core net profit of RM257m (+56% yoy) accounts for 100% of our net profit estimate.
- **4Q19 revenue fell 12% qoq and 30% yoy to RM1,098m** on lower contribution from KVMRT-SSP line and lower work progress from Langat Sewerage project. This was partly offset by higher volumes handled at PTP and JohorPort. Despite the lower revenue, 4Q19 PBT rose 60% qoq to RM192m on the back of lower Penang Port opex and reversal of provision no longer required at a double-track project, partly offset by provision of RM54m for impairment of receivables.

SEGMENTAL BREAKDOWN

Year to 31 Dec	4Q19 (RMm)	4Q18 (RMm)	qoq % chg	yoy % chg	2019 (RMm)	yoy % chg	Comment
Transport & logistics	825	814	5.5	1.4	3,189	6.4	Higher volume at PTP and JohorPort
Engineering & construction	242	717	(44.7)	(66.2)	1,421	(24.9)	Lower contribution from KVMRT-SSP line as well as lower work progress from Langat Sewerage project
Others	31	28	19.2	10.7	107	12.6	Higher passenger and cargo volumes at Senai Airport
Group Revenue	1,098	1,559	(11.9)	(29.6)	4,717	(5.4)	
Transport & logistics	144	127	56.5	13.4	460	11.4	Includes oil spill compensation at PTP and gains on disposal of an asset held at JohorPort, partly offset by higher finance cost and depreciation
Energy & utilities	53	53	15.2	0.0	160	9.6	
Engineering & construction	106	119	45.2	(10.9)	298	2.1	
Others	(111)	(89)	22.0	24.7	(385)	(14.1)	
Pre-tax Profit	192	210	60.0	(8.6)	533	32.3	

Source: MMC, UOB Kay Hian

STOCK IMPACT

- No change to our earnings forecasts.

RECOMMENDATION

- **Maintain HOLD and 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; 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 is RM0.85.

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