

25 May 2021

MMC Corporation Bhd

1QFY21 Within Our Expectation

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1QFY21 Core Net Profit (CNP) of RM105.9m (+83% YoY, -26% QoQ) came in at 29%/31% of our/consensus full-year estimate. We deemed the results broadly within our expectation with possible negative impacts, going forward, from the re-imposition of lockdown in several countries especially Malaysia starting mid-May 2021 as well as higher O&M costs and lower associates' income from Malakoff. Maintain MP with unchanged TP of RM1.05.

1QFY21 Within our expectation. 1QFY21 Core Net Profit (CNP) of RM105.9m (+83% YoY, -26% QoQ) came in at 29%/31% of our/consensus full-year estimate. We deemed the results broadly within our expectation with possible negative impacts, going forward, from the re-imposition of lockdown in several countries especially Malaysia starting mid-May 2021 as well as higher O&M costs and lower associates' income from Malakoff. No dividend was declared for the quarter as they typically announce final dividend before the release of the annual report.

YoY, 1QFY21 core CNP excluding one-off sublease PTP land gain sale (RM18.7m) rose 83% to RM105.9m, mainly due to stronger volume handled at PTP and NMB which coincided with the gradual re-opening of the world economy since the pandemic early last year, as well as lower effective tax rate at 27.6% compared to 36.4% in 1QFY20. These mitigated the lower profit from associates (-8%) namely Malakoff, primarily driven by the higher O&M costs for planned outages and lower fuel margin at a total of RM23m for TBE and TBP plants as well as the lower associates' income by 32% or RM13.0m, which were hit by planned outages at Shuaibah and HPC plants netted off by higher earnings from Alam Flora. Additionally, Engineering segment recorded lower revenue (-13%) from lower work progress from KVMRT-SSP line due to completion of tunneling works in 4QFY20 and impact of Covid-19.

QoQ, 1QFY21 core CNP decreased by 26% with overall weak sales (-12%) and higher effective tax rate at 27.6% compared to 24.6% in 4QFY20. Overall weaker QoQ results was from weaker associates (-5%), and significantly lower Engineering segment contribution (-35%) as mentioned above. There was no sale of Senai Airport City land recognized during the quarter.

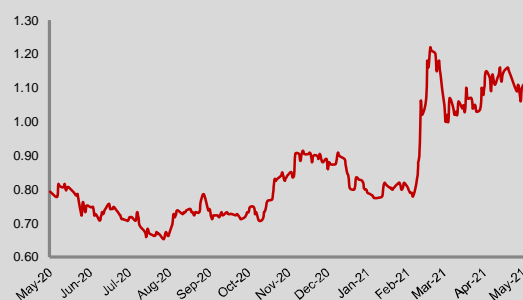
Outlook. The Port and Logistics division has been showing improvement in performance, underpinned by economic recovery momentum since the resumption of the global and domestic trade activities. Currently, its ports portfolio consists of PTP, Johor Port, Northport, Penang Port and Tanjung Bruas Port. 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. We gathered that while its construction order-book is currently at c.RM4.9b (90% from MRT Line 2, expected to be completed by 2022), management is actively bidding for new projects in order to meet its targeted order-book replenishment of c.RM500m p.a.

Maintain MP with unchanged SoP-derived TP of RM1.05. Risks to our call include: (i) lower-than-expected ports activities, (ii) slower-than-expected construction progress, and (iii) lower-than-expected associates' contribution.

MARKET PERFORM ↔

Price : RM1.12
Target Price : RM1.05 ↔

Share Price Performance



KLCI 1,571.82
YTD KLCI chg -3.4%
YTD stock price chg 24.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MMC MK EQUITY
Market Cap (RM m)	3,410.5
Shares Outstanding	3,045.1
52-week range (H)	1.26
52-week range (L)	0.66
3-mth avg daily vol:	23,685,920
Free Float	20%
Beta	1.5

Major Shareholders

Seaport Terminal Johore Sdn Bhd	51.8%
Amanah Saham Nasional	20.3%
Urusharta Jamaah Sdn Bhd	3.4%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Revenue	4,489.4	4,446.3	4,703.5
PBT	645.5	528.6	553.6
Net Profit (NP)	375.3	370.0	387.5
Core NP (CNP)	334.0	370.0	387.5
Consensus (CNP)	-	339	357
Earnings Revision	-	-	-
Core EPS (sen)	11.0	12.2	12.7
CNP growth (%)	76.9	10.8	4.7
DPS (sen)	5.5	4.0	4.0
BVPS (RM)	3.12	3.22	3.32
Core PER (x)	10.2	9.2	8.8
Price/BV (x)	0.4	0.3	0.3
Net Gearing (x)	1.0	0.8	0.8
Div. Yield (%)	4.9	3.6	3.6

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Result Highlight

FY Dec (RM m)	1QFY21	4QFY20	QoQ	1QFY20	YoY	3MFY21	3MFY20	YoY
Revenue	1,143.7	1,293.4	-12%	1,086.8	5%	1,143.7	1,086.8	5%
Gross Profit (GP)	563.5	597.7	-6%	475.9	18%	563.5	475.9	18%
Other operating Income	39.4	68.7	-43%	49.3	-20%	39.4	49.3	-20%
Administrative Expenses	(216.3)	(218.5)	-1%	(223.5)	-3%	(216.3)	(223.5)	-3%
Other operating Expenses	(81.2)	(207.9)	-61%	(87.1)	-7%	(81.2)	(87.1)	-7%
Finance Costs	(145.0)	(111.2)	30%	(172.0)	-16%	(145.0)	(172.0)	-16%
Associates	36.7	38.5	-5%	40.0	-8%	36.7	40.0	-8%
Joint Venture	23.9	111.6	-79%	32.2	-26%	23.9	32.2	-26%
Profit Before Tax (PBT)	221.0	278.8	-21%	114.8	92%	221.0	114.8	92%
Tax Expenses	(61.0)	(68.7)	-11%	(41.8)	46%	(61.0)	(41.8)	46%
Net Profit (NP)	124.7	179.1	-30%	57.9	115%	124.7	57.9	115%
Core Net Profit (CNP)	105.9	142.5	-26%	57.9	83%	105.9	57.9	83%
GP Margin	49.3%	46.2%		43.8%		49.3%	43.8%	
PBT Margin	19.3%	3.0%		3.7%		3.2%	3.7%	
CNP Margin	9.3%	11.0%		5.3%		9.3%	5.3%	
Effective Tax Rate	27.6%	24.6%		36.4%		27.6%	36.4%	

Source: Company, Bursa Malaysia, Kenanga Research

Segmental Breakdown

FY Dec (RM m)	1QFY21	4QFY20	QoQ	1QFY20	YoY	3MFY21	3MFY20	YoY
Revenue	1,144.0	1,293.0	-12%	1,087.0	5%	1,144.0	1,087.0	5%
Ports & Logistics	904.0	901.0	0%	801.0	13%	904.0	801.0	13%
Engineering & construction	229.0	350.0	-35%	264.0	-13%	229.0	264.0	-13%
Corporate & Others	5.0	36.0	-86%	22.0	-77%	5.0	22.0	-77%
Profit Before Tax	221.0	279.0	-21%	115.0	92%	221.0	115.0	92%
Ports & Logistics	237.0	251.0	-6%	123.0	93%	237.0	123.0	93%
Energy & utilities (Associates)	34.0	33.0	3%	41.0	-17%	34.0	41.0	-17%
Engineering & construction	50.0	146.0	-66%	61.0	-18%	50.0	61.0	-18%
Corporate & Others	(100.0)	(151.0)	-34%	(110.0)	-9%	(100.0)	(110.0)	-9%
PBT Margins								
Ports & Logistics	26.2%	27.9%		15.4%		26.2%	15.4%	
Engineering & construction	21.8%	41.7%		23.1%		21.8%	23.1%	

Source: Company, Bursa Malaysia, Kenanga Research

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Sum-of-Parts Valuation

Sum-of-parts	Stake	Valuation	Value
<u>Ports & Logistics</u>			
Port of Tanjung Pelepas (PTP)	70%	DCF	2,054
Northport (NCB Holdings Bhd)	100%	DCF	860
Johor Port	99%	DCF	390
Penang Port	100%	DCF	227
Senai Airport	100%	2009 Effective Acquisition Price	580
<u>Energy & Utilities</u>			
Malakoff	38%	Based on in-house TP of RM1.05	1,974
Gas Malaysia	31%	Based on in-house TP of RM2.91	1,155
Aliran Ihsan Resources Bhd	100%	2009 Effective Acquisition Price	240
<u>Engineering & Construction</u>			
		PER of 7x	893
<u>Others</u>			
Senai Development Land (Airport City)		2718 acres @ RM0.74m/acres	2,011
Tanjung Bin Land		2255 acres @ RM0.74m/acres	1,669
Subtotal			12,051
Less: Net Cash/ (debt)-Group Level			(8,070)
Holding co. discount (20%)			(796)
Total			3,185
No of Shares			3,045
SOP/share (TP)			1.05

Source: Kenanga Research

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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	1.12	3,410.5	Y	12/2021	-1.0%	5.8%	10.8%	4.7%	10.2	9.2	8.8	0.4	0.3	3.8%	3.6%	1.05	MP
PERAK TRANSIT BERHAD	0.685	434.8	Y	12/2021	13.9%	6.3%	17.5%	6.3%	10.4	8.9	8.3	0.9	0.9	10.1%	3.9%	1.15	OP
POS MALAYSIA BHD	0.820	641.9	Y	12/2021	-3.1%	3.5%	-147.6%	13.2%	N.A.	N.A.	9.4	0.5	0.5	-4.7%	4.9%	0.880	MP
WESTPORTS HOLDINGS BHD	4.35	14,833.5	Y	12/2021	-1.6%	4.4%	6.1%	4.9%	22.9	21.6	20.6	5.2	4.9	23.6%	3.5%	4.20	MP
Simple Average					8.3%	19.9%	-113.3%	29.2%	43.5	39.7	47.1	7.0	6.7	32.8%	15.9%		

Source: Bloomberg, Bursa Malaysia, Kenanga Research

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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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