

29 May 2019 | 1QFY19 Results Review

## MMC Corporation Berhad

*Ports continue to be major growth contributor*

### INVESTMENT HIGHLIGHTS

- 1QFY19 normalised earnings well within expectations
- PTP continues to be contributor of ports and logistics segment despite MFRS 16 adoption
- Improvement seen in performance of listed associates
- Engineering and construction segment experienced a blip due to KVMRT2 contract value revision
- Earnings forecast maintained as results met expectations
- Maintain BUY with a revised TP of RM1.31 per share as we roll forward our valuation base year

**Earnings met expectations.** MMC Corp's 1QFY19 normalised PATAMI surged by more than +50%yoy to RM53.5m with better cost management being one of the factors for the substantial growth in the quarter under review. The results met ours and consensus' expectations, accounting for 23.5% and 21.6% of full year forecasts, respectively.

**PTP continues to be one of the growth factors for ports and logistics segment.** The revenue and PBT of the ports and logistics segment in 1QFY19 grew by +19.1%yoy and +55.2%yoy respectively. Much of the container throughput growth came from Port of Tanjung Pelepas (PTP) and Johor Port (JPB), both growing by more than +2.0%yoy. In addition, the full consolidation of Penang Port's (PPSB) revenue boosted the segment's performance. All of these factors helped offset the effects of higher finance costs and depreciation following the adoption of MFRS16 standard on "leases".

**Both of its listed associates recorded improvements.** Malakoff recorded a +26.6%yoy increase in PATAMI due to; (i) improved contribution from Tanjung Bin Energy coal plant with the absence of unplanned plant outages. Its other listed associate, **Gas Malaysia Berhad (BUY; TP: RM3.50)** remained strong, posting +2.4%yoy increase in PATAMI due to the increase in volume of gas sold coupled with higher natural gas tariff.

**Actively bidding for construction projects.** Meanwhile, PBT for engineering and construction (E&C) posted a decline of -33.8%yoy in 1QFY19. The yearly drop was largely attributable to the value revision of the KVMRT2 contract from RM16.7b to RM13.1b in November 2018. However, we understand that the company is actively bidding for a few large scale infrastructure projects which could act as a buffer for its construction orderbook. The target is one to two projects a year with an individual value ranging from RM250m to RM500m. It is also notable that its construction orderbook as of 31 March 2019 stood around RM9.0b (excluding Pan Borneo Highway) which is nearly 5.0x the construction revenue in FY18.

**Maintain BUY**

**Revised Target Price (TP): RM1.31**  
(Previously: RM1.37)

RETURN STATS	
Price (28 May 2019)	RM1.02
Target Price	RM1.31
Expected Share Price Return	+28.4%
Expected Dividend Yield	+3.9%
<b>Expected Total Return</b>	<b>+32.3%</b>

STOCK INFO	
KLCI	1,614.57
Bursa / Bloomberg	2194 / MMC MK
Board / Sector	Main/ Transportation & Logistics
Syariah Compliant	Yes
Issued shares (mil)	3,045.06
Market cap. (RM'm)	3,105.96
Price over NA	0.32
52-wk price Range	RM0.81 – RM1.61
Beta (against KLCI)	1.16
3-mth Avg Daily Vol	1.66m
3-mth Avg Daily Value	RM4.70m
Major Shareholders (%)	
Seaport Terminal	51.76
PNB	20.21
Urusharta Jamaah	7.68
LTH	7.60

**Earnings forecast.** As earnings were in line with our expectations, we are making no adjustments to our FY19 and FY20 forecasts.

**Target price.** While our earnings are unchanged, we are revising our **target price** to **RM1.31 per share** (previously RM1.37 per share) from as we roll forward our valuation base year to FY20. The lower target price is due to the majority of components in our sum-of-parts valuation, mainly ports and logistics which is valued using a discounted cash flow methodology. The change in target price also follows the change of the consensus target price for Malakoff Berhad.

**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. 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. 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). 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.

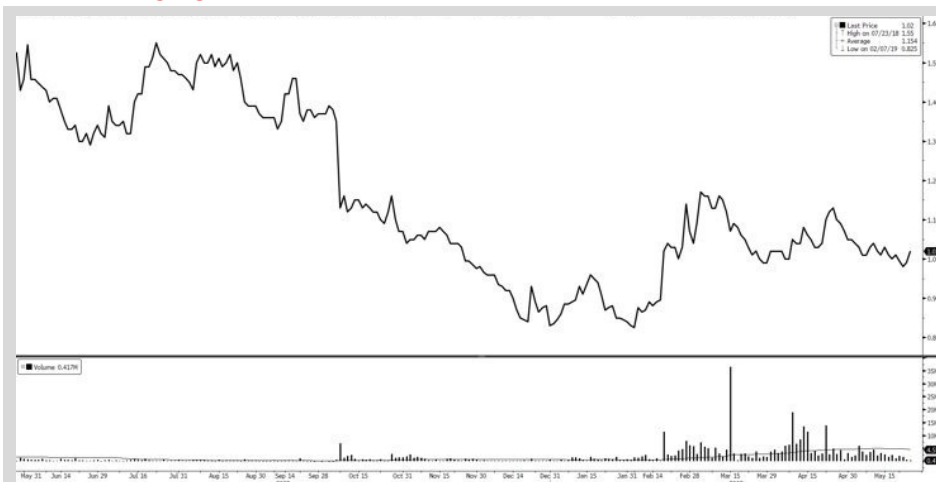


## INVESTMENT STATISTICS

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
Pre-tax Profit (RM'm)	672.7	451.7	402.9	299.4	321.4
Core PATAMI (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)	(62)	(24)	44	7
PER (x)	9.9	14.9	19.7	13.7	12.7
Net Dividend (sen)	4.0	4.0	3.5	4.0	4.0
Net Dividend Yield (%)	3.9	3.9	3.4	3.9	3.9

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## DAILY PRICE CHART



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Source: Bloomberg

**MMC CORP: 1QFY19 RESULTS SUMMARY**

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results					Comments
	1QFY19	4QFY18	1QFY18	%YoY	%QoQ	
Revenue	1,143.2	1,585.6	1,279.7	-10.7	-27.9	
COGS	(705.6)	(1,082.1)	(906.3)	-22.1	-34.8	
Gross profit	437.591	503.5	373.4	17.2	-13.1	
Operating expenses	(241.7)	(220.6)	(229.8)	5.2	9.6	
EBIT	195.9	282.9	143.6	36.4	-30.8	
Finance expenses	(170.9)	(144.4)	(129.2)	32.3	-18.3	
Share of results from JV and Associates	63.5	58.0	49.8	27.4	9.5	
PBT	88.487	196.430	64.2	37.7	-55.0	
Tax expense	(23.6)	(66.6)	(8.7)	170.9	-64.6	
PAT	64.9	129.8	55.542	16.9	-50.0	
PATAMI	53.5	119.7	41.3	29.4	-55.3	
Normalised PATAMI	53.5	109.0	26.1	>100	-50.9	

Segmental Breakdown	Quarterly Results					Comments
	1QFY19	4QFY18	1QFY18	%YoY	%QoQ	
<b>Ports &amp; Logistics</b>						
Revenue	780.0	805.0	655.0	19.1	-3.1	Full consolidation of Penang Port's revenue
PBT	104.0	130.0	67.0	55.2	-20.0	
<b>Malakoff (37.6% associate)</b>						
Revenue	2,007.3	1,887.3	1,604.2	25.1	6.4	Higher energy payment from TBP and TBE coal plants
PATAMI	67.0	85.5	52.9	26.6	-21.6	
<b>Gas Malaysia (30.9% associate)</b>						
Revenue	1,715.6	1,738.5	1,435.2	19.5	-1.3	High gas tariff and volume
PATAMI	41.2	51.1	40.2	2.4	-19.4	
<b>Engineering &amp; Construction</b>						
Revenue	338.0	752.0	604.0	-44.0	-55.1	Revised contract value of KVMRT2
PBT	49.0	122.0	74.0	-33.8	-59.8	

Assets	Total Value (RM mil)	% Stake	Value	Value per share	Remarks
<b>Energy &amp; Utilities</b>					
Malakoff	4,750.00	37.6	1,786.00	0.59	Consensus TP of RM0.95
Gas Malaysia	4,494.00	30.9	1,388.65	0.46	MIDF Fair Value of RM3.50
Aliran Ihsan Resources Berhad	487.00	100	487.00	0.16	Takeover price
<b>Ports &amp; Logistics</b>					
PTP	850.58	70	595.41	0.20	DCF @ WACC: 12%, Perpetual Growth: 1%
Johor Port	448.88	100	448.88	0.15	DCF @ WACC: 12%, Perpetual Growth: 1%
NCB Holdings Berhad	527.77	99	522.49	0.17	DCF @ WACC: 12%, Perpetual Growth: 1%
Penang Port	96.14	100	96.14	0.03	Acquisition price
SMART Tunnel	498.60	50	249.30	0.08	DCF @ WACC: 9%, Perpetual Growth: 2%
Senai airport	580.00	100	580.00	0.19	Acquisition price @ 2009
<b>Engineering &amp; Construction</b>					
Construction services	487.90	100	487.90	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
<b>Others</b>					
Senai Development Land - Airport City	1,431.56	100	1,431.56	0.47	2,054 acres @ RM16 psf
Tanjung Bin Land	1,063.56	100	1,063.56	0.35	1,526 acres @ RM16 psf
<b>Net Debt (Estimate)</b>			(3020.96)	(0.99)	Company level debt
<b>Total Value (RM mil)</b>	16,809.65		6,640.85	2.15	
<b>No of shares</b>				3,045.10	
<b>Value per Share</b>				<b>2.18</b>	
Discount (%)				<b>40%</b>	Conglomerate discount
<b>Fair Value per Share (RM)</b>				<b>1.31</b>	

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#### 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.