

21 May 2020

# MMC Corporation Bhd

## 1QFY20 Above Our Expectation

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**1QFY20 Core Net Profit (CNP) of RM58m (+8% YoY) came in above our estimate at 31%, but in line with consensus at 25%, of forecasts. The positive variance is due to higher-than-expected contribution from its associates Malakoff and Port of Tanjung Pelepas (PTP). Correspondingly, we raised our FY20E/FY21E net profit by 16% each. TP is also hiked from RM0.62 to RM0.775 based on 0.25x FY20E BVPS.**

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**QoQ, 1QFY20** core CNP fell 2% due to no reversal of provision for the Double Track project, lower volume handled at Northport Malaysia and Kontena Nasional, and lower contribution from associates, while mitigated by higher volume handled at PTP.

**YoY, 1QFY20** core CNP rose 8% to RM58m, thanks to higher contributions from PTP, Johor Port and associates namely Malakoff. However, lower volume handled at Northport Malaysia and lower contribution from logistics services (Kontena Nasional) offset a potentially better set of results.

**Ports and MRT 2 the main earnings contributors.** Going forward, MMCCORP's earnings are anticipated to be largely buoyed by its ports operation and the construction and tunneling works for MRT Line 2. However, we remain cautious of a market de-rating on the back of a bleaker economic outlook, both globally and for Malaysia. 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. Meanwhile, the construction progress for MRT Line 2 is about 60-70%, with expected completion in FY20. We gathered that while its construction order-book is currently at c.RM7b-8b (90% from MRT Line 2), management is actively bidding for new projects in order to meet its targeted order-book replenishment of c.RM500m p.a.

**FY20E/FY21E net profit enhanced by 16% each** due to better-than-expected contribution from Ports and associate Malakoff.

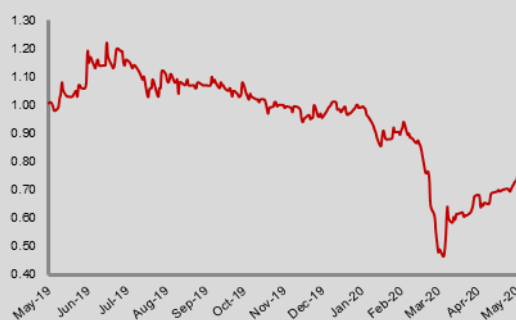
**Maintain MARKET PERFORM.** We upgrade our TP from RM0.62 to RM0.775 based on 0.25x FY20E book value (-2.0SD below 5-year historical forward average) to reflect market de-rating due to a bleaker economic outlook, both globally and for Malaysia.

**Risks to our call include:** (i) lower/higher-than-expected ports activities, and (ii) slower/faster-than-expected construction progress.

## MARKET PERFORM ↔

Price : RM0.755  
Target Price : RM0.775 ↑

### Share Price Performance



KLCI 1,435.12  
YTD KLCI chg -9.7%  
YTD stock price chg -23.4%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MMC MK Equity
Market Cap (RM m)	2,299.0
Shares Outstanding	3,045.1
52-week range (H)	1.25
52-week range (L)	0.45
3-mth avg daily vol:	10,091,380
Free Float	20%
Beta	1.7

### Major Shareholders

Seaport Terminal Johore Sdn Bhd	51.8%
Skim Amanah Saham Bumiputera	19.5%
Urusharta Jamaah Sdn Bhd	3.4%

### Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Revenue	4,717.3	4,478.7	4,575.4
PBT	532.8	345.5	352.8
<b>Net Profit (NP)</b>	<b>255.2</b>	<b>219.2</b>	<b>224.6</b>
<b>Core NP (CNP)</b>	<b>201.4</b>	<b>219.2</b>	<b>224.6</b>
Consensus (CNP)		236.0	267.3
Earnings Revision		+16%	+16%
Core EPS (sen)	6.6	7.2	7.4
CNP growth (%)	31.4	8.8	2.5
DPS (sen)	4.5	4.0	4.0
BVPS (RM)	3.04	3.10	3.16
Core PER (x)	11.4	10.5	10.2
Price/BV (x)	0.2	0.2	0.2
Net Gearing (x)	0.9	0.9	0.9
Div. Yield (%)	6.0	5.3	5.3

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<b>Result Highlight</b>					
<b>FY Dec (RM m)</b>	<b>4Q19</b>	<b>1Q20</b>	<b>QoQ</b>	<b>1Q19</b>	<b>YoY</b>
Revenue	1,098.1	1,086.8	-1%	1,143.2	-5%
Cost of Sales	(557.5)	(610.9)	10%	(705.6)	-13%
<b>Gross profit</b>	<b>540.6</b>	<b>475.9</b>	<b>-12%</b>	<b>437.6</b>	<b>9%</b>
Investment income	0.0	0.0	0%	0.0	0%
Other operating income	54.7	49.3	-10%	35.3	40%
Administrative expenses	(213.0)	(223.5)	5%	(196.5)	14%
Other operating expenses	(113.4)	(87.1)	-23%	(80.6)	8%
Finance costs	(163.8)	(172.0)	5%	(170.9)	1%
Associates	48.8	40.0	-18%	35.0	14%
Joint Ventures	38.2	32.2	-16%	28.5	13%
Profit before tax	192.2	114.8	-40%	88.5	30%
Net profit	68.1	57.9	-15%	53.5	8%
Core Net Profit	59.0	57.9	-2%	53.5	8%
PBT margin	17.5%	10.6%		7.7%	
Net margin	6.2%	5.3%		4.7%	
Core net margin	6.2%	5.3%		4.7%	
Effective tax rate	58.6%	36.4%		26.6%	

Source: Bursa Malaysia, Kenanga Research

<b>Segmental Breakdown</b>					
<b>FY Dec (RM m)</b>	<b>4Q19</b>	<b>1Q20</b>	<b>QoQ</b>	<b>1Q19</b>	<b>YoY</b>
<b>Revenue</b>					
Ports & Logistics	825.0	801.0	-3%	780.0	3%
Energy & utilities*	0.0	0.0	-	0.0	-
Engineering & construction	242.0	264.0	9%	338.0	-22%
Corporate & Others	31.0	22.0	-29%	25.0	-12%
<b>Profit Before Tax</b>					
Ports & Logistics	144.0	123.0	-15%	104.0	18%
Energy & utilities*	53.0	41.0	-23%	32.0	28%
Engineering & construction	106.0	61.0	-42%	49.0	24%
Corporate & Others	(111.0)	(110.0)	-1%	(97.0)	13%
<b>PBT Margins</b>					
Ports & Logistics	17%	15%		13%	
Engineering & construction	44%	23%		14%	

Source: Bursa Malaysia, Kenanga Research

\*Energy &amp; utilities segmental profits mainly derived from associates, thus no revenue is recognised.

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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	0.755	2,299.0	Y	12/2020	-5.1%	2.2%	8.8%	2.5%	11.4	10.5	10.2	0.2	0.2	2.3%	529.8%	0.775	MP
POS MALAYSIA BERHAD	1.04	814.1	Y	12/2020	36.8%	6.0%	-9.5%	12.7%	N.A.	9.7	8.6	0.6	0.5	5.7%	3.8%	1.07	OP
WESTPORTS HOLDINGS BHD	3.76	12,821.6	Y	12/2020	2.5%	4.1%	-3.0%	4.4%	19.9	20.5	19.6	5.0	4.7	23.7%	3.7%	3.65	MP

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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