UOBKH HIGHLIGHTS

MMC Corporation (MCC MK/BUY/RM0.76/Target: RM1.05)

1Q20: In Line, Earnings To Be Buffered By Energy Segment For 2Q; Upgrade To BUY

Year to 31 Dec	1Q20 (RMm)	4Q19 (RMm)	1Q19 (RMm)	qoq % chg	yoy % chg
Revenue	1,086.8	1,098.1	1,143.2	(1.0)	(4.9)
EBITDA	491.0	566.0	423.0	(13.3)	16.1
EBIT	206.5	315.7	195.9	(34.6)	5.4
Associates	71.2	87.1	63.5	(18.2)	12.1
Pretax Profit	114.8	192.2	88.5	(40.3)	29.7
Tax	(41.8)	(116.2)	(23.6)	(64.0)	77.2
Net Profit	57.9	68.1	53.5	(15.0)	8.2
Core Net Profit	48.8	114.8	53.5	(57.5)	(8.8)
Segmental					
Revenue	1,087	1,098	1,143	(1.0)	(4.9)
Transport & logistics	801	825	780	(2.9)	2.7
Engineering & const	264	242	338	9.1	(21.9)
Others	22	31	25	(29.0)	(12.0)
Pretax Profit	115	192	88	(40.1)	30.7
Transport & logistics	123	144	104	(14.6)	18.3
Energy & utilities	41	53	32	(22.6)	28.1
Engineering & const	61	106	49	(42.5)	24.5
Others	(110)	(111)	(97)	(0.9)	13.4
Margin (%)	(%)	(%)	(%)	+/- ppt	+/- ppt
EBIT	19.0	28.7	17.1	(9.7)	1.9
Core Net Profit	4.5	10.5	4.7	(6.0)	(0.2)

Year	EPS (sen)	Revision (%)	DPS (sen)	PE (x)
2020F	8.0	-	4.0	9.4
2021F	8.8	-	4.0	8.5
2022F	8.3	-	4.0	9.1

Source: MMC, UOB Kay Hian

STOCK IMPACT

- **1Q20 core net profit came it at RM48.8m (-9% yoy; -58% qoq),** accounting for 20% of our full-year net profit projection of RM245m, we deem the results to be below expectations. It is also below street estimates.
- MMC's top-line contracted 5% yoy on the back of lower construction progress billings from KVMRT-SSP line underground works as well as lower Northport contribution. This was partly cushioned by higher PTP and JPort contribution (on higher yoy container volume for 1Q20). PBT however, rose 31% yoy, despite lower revenue thanks to: a) higher PTP and JPort contribution, and b) a RM8m gain on disposal of an asset held for sale at JPort. Excluding the gain, core net profit fell 9% yoy, reflecting lower construction progress billings.
- Sequentially, earnings across all segments contracted on the back of weaker economic activity amid COVID-19 uncertainties. Positively, PTP experienced higher container volumes.

EARNINGS REVISION

- No change to earnings estimates.

RECOMMENDATION

- **Upgrade to BUY with a lowered SOTP-based target price of RM1.05,** based on a 65% discount to our SOTP valuation of RM9.2b, or RM3.00/share. We note that share price has retraced significantly since Jan 20 and the holding company discount has widened to 75% of our SOTP (vs an average of 40% in the past 5 years). Our target price factors in: a) a 65% holding company discount due to earnings uncertainty and a lack of re-rating catalyst as the port listing is likely to be deferred; and b) minimal earnings contribution from the engineering division post MRT2 contract. Positively, we understand that the construction orderbook stands at RM6.9b and will be able to weather the group up to 2022, even without new contract wins.

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