Malaysia Results Snapshot

Refer to important disclosures at the end of this report

Latest Results

Company	Date	vs. Expect.	Results Highlight	Our View & Catalysts
Property development				
MMC Corporation Bhd	25-Nov-20	Within (3Q20)	– MMC booked a 3Q20 headline net profit of RM61m (-8% y-o-y), bringing 9M20 net profit to RM196m (+5 y-o-y). This was on the back of a 12% decline in 9M20 revenue to RM3,196m. – For transport & logistics, 9M20 turnover fell by 1.5% y-o-y to RM2,329m but pretax profit was higher at RM347m (RM315m in 9MFY20). Overall, the better y-o-y profit was due to higher volume handled at PTP and gain on disposal of an asset held for sale at Johor Port offset by Northport Malaysia Bhd. – 9M20 pretax profit from energy & utilities increased by 10% y-o-y to RM119m. This was due to higher contribution from Malakoff as a result of the acquisition of Alam Flora, higher contributions from its associates, lower operations and maintenance costs and higher contribution from Tanjung Bin Energy, following the settlement agreement reached with its contractor. – Its construction division's revenue fell by 31% y-o-y in 9M20 to RM811m due to lower progress of works for the aboveground and tunnelling portion of MRT 2 due to the Movement Control Order (MCO). 9M20 construction pretax profit slid 8% y-o-y to RM176m.	– Port throughput already normalising. We do not have data yet for 3Q20 but we understand for the months of July and August, the TEU for the two months rose 7% to 1.57m TEU vs. July and August 2019. Its main customer, Maersk expects the global container market to rebound by 5% in 2021. The current focus would be to ensure stronger earnings recovery for its port business. – Proxy to infrastructure flows. Its current outstanding orderbook stands at c.RM4-4.5bn. Besides being a proxy to MRT 3 (with its partnership with Gamuda) and HSR (AssetCo portion), it has emerged as one of the preferred contractors to work with the State of Terengganu for the ECRL contract. In this regard it will be working with the state-owned construction companies for ECRL jobs. – BUY rating and SOP-based TP maintained at RM1.35. MMC remains a deep value conglomerate which will be an excellent proxy to an overall recovery in the Malaysian economy.

Latest Results

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Property development				
Cahya Mata Sarawak Bhd	25-Nov-20	Within (3Q20)	– Cahya Mata Sarawak (CMS) posted a headline net profit of RM47m in 3Q20 (-36% y-o-y), bringing 9M20 net profit to RM81m (-48% y-o-y). – Its cement business showed some major improvement with a 3Q20 pretax profit of RM24m (vs. 2Q20's RM0.3m), bringing 9M20 pretax profit to RM43m (-34% y-o-y). 9M20 revenue also slid 25% to RM448m. The decline was attributable to a drop in sales volume arising from the Movement Control Order (MCO) period and also plant shutdown due to Covid-19 infections. Nonetheless, GP margins inched down to 18% on the back of cost reductions and lower cost of raw material. – 3Q20 pretax profit for its construction materials division came in at RM38m (vs. RM3m in 2Q20), bringing 9M20 numbers to RM47m (-26% y-o-y because of the lockdown period). Moreover, there was also a one-off reversal of RM9m in 1H19. The numbers however showed a strong q-o-q improvement. – Its construction and road maintenance division posted a pretax profit of RM11m in 3Q20 (vs. RM5m in 2Q20), bringing 9M20 pretax profit to RM22m (-59% y-o-y). The decline was mainly attributed to lower contribution from road maintenance. Recall that the road length maintained by CMS has been reduced by half starting January this year on the back of the new concession with the state government. – 3Q20 associates' contributions to CMS' earnings fell by 58% y-o-y and 38% q-o-q to RM13m due to poorer OM Sarawak earnings.	– 4Q20 results to also show some weaknesses. This is because its cement plants will undergo a 23-day shutdown for maintenance and upgrade. This is made worse by Conditional Movement Control Order (CMCO) period where the mobility of the engineers from China is hampered. The strategy for the cement business is to gradually increase production to 750k tonnes in 2021 and then to 800k tonnes in 2022. – Gradual recovery seen for OM Sarawak. The opening of steel mills in China will see a gradually recovery in demand for OM Sarawak. It has since invested AUD20m to install a sinter plant which will further lower manganese alloy production cost while it is also proceeding with Phase 2. – Maintain HOLD with an unchanged TP of RM1.65, based on SOP. Our TP implies 15x FY20 PE, equivalent to -1SD of its 3-year mean. We think the stock represents one of the best proxies to an impending pick-up in infrastructure flows with an impending State election but we would like to see some evidence of a sustainable pick-up in earnings momentum and construction flows before turning more positive. Downside may be limited by its recent share buybacks.

Latest Results

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Property development				
WCT Corporation Bhd	25-Nov-20	Within (3Q20)	– WCT registered a 3Q20 headline net profit of RM2m, bringing 9M20 net profit to RM9m (vs. 9M19's RM76m). This was on the back of a 13% y-o-y decline in 9M20 revenue to RM1,161m. The bottomline was dragged down by its perpetual sukuk coupon payment of RM43m for 9M20. – 3Q20 construction headline profit showed a marked improvement, coming in at RM34m vs. RM26m profit in 3Q19 and RM1m in 2Q20. WCT marked down margins for some of its projects in 4Q19 and also in 1H20. We expect some impact for its Pavilion Damansara Heights project in 4Q20 as there was a stop work order issued for a week (7 to 14 Nov) due to some of its workers being infected by Covid-19. Both its Pavilion Damansara Heights projects for Phase 1 and 2 form c.51% of its total outstanding orderbook. – 3Q20 property EBIT stood at RM14m vs. 3Q19 loss of RM2m and 2Q20 profit of RM24m. This was on the back of a 20% y-o-y drop in 3Q20 revenue y-o-y to RM41m. The better numbers were likely due to higher contribution from The Waltz Residences project in 3Q20. The focus on property will still be on running down its existing inventory and also sell more idle land bank. Property presales for 9M20 were still largely driven largely by Paradigm Johor Baru Residences. – Its property investment division registered EBIT of RM13m in 3Q20, which represents a decline from RM24m in 3Q19 due to the full impact from the rental rebates given and also from the Movement Control Order (MCO). We understand that WCT is able to recognise the impact of the rental rebates over a two-year period, in accordance to the accounting standards.	– WCT has not won any new contracts yet for FY20, apart from the RM1.2bn Pavilion Damansara Heights Phase 2. Its target is for RM1.5bn in new wins for FY20F. Its current tenderbook is more than RM5bn and we expect it to be a key beneficiary of government contract flows such as MRT 3 and HSR. – We are maintaining our BUY rating and SOP-based TP of RM0.85 on WCT. While valuations on a PE basis now will be distorted by its sukuk issuance, the stock currently trades at a P/BV of 0.2x and its share buybacks continue to be consistent.

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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DBS Regional Research Offices

HONG KONG
DBS (Hong Kong) Ltd
Contact: Carol Wu
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

MALAYSIA
AllianceDBS Research Sdn Bhd
Contact: Wong Ming Tek
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com
Co. Regn No. 198401015984 (128540-U)

SINGAPORE
DBS Bank Ltd
Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
e-mail: groupresearch@dbs.com
Company Regn. No. 196800306E

THAILAND
DBS Vickers Securities (Thailand) Co Ltd
Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand

INDONESIA
PT DBS Vickers Sekuritas (Indonesia)
Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: indonesiaresearch@dbs.com