

26 November 2020

MMC Corporation Bhd

9MFY20 Above Expectations

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OUTPERFORM ↑

Price : **RM0.850**
Target Price : **RM1.00** ↑

9MFY20 Core Net Profit (CNP) of RM191.2m (+35% YoY) came in strong, at 87%/79% of our/consensus full-year estimate. The positive variance from our estimate was due to higher-than-expected port & logistics contribution. As such, we increase our FY20E and FY21E CNP by 19% and 33%, respectively, and elevate TP to RM1.00 (from RM0.695). We have changed our valuation method to Sum-of-Parts (SoP) from P/BV valuation to better reflect the value for each segmental business. Upgrade to OP (from MP).

9MFY20 above our expectation. 9MFY20 Core Net Profit (CNP) of RM191.2m (+35% YoY) came in at 87%/79% of our/consensus full-year estimate. The positive variance from our estimate was due to higher-than-expected port & logistics contribution. Interim dividend of 1.5 sen (3QFY19: nil) was declared for the quarter bringing YTD-DPS to 1.5 sen (9MFY19: nil), within expectation.

YoY, 9MFY20 core CNP rose 35% to RM191.2m, thanks to higher contributions from PTP and associates namely Malakoff, (attributed to maiden contribution from newly acquired Alam Flora, absence of losses from KEV and higher earnings from an additional 12% stake in Shuaibah), lower operational and maintenance costs, and higher contribution from its subsidiary, Tanjung Bin Energy Sdn Bhd, following shorter duration of plant outage and settlement agreement reached with its contractor. However, lower volume handled at Northport Malaysia and lower contribution from logistics services (Kontena Nasional) thwarted a potentially better set of results.

QoQ, 3QFY20 core CNP plunged 16% despite registering higher revenue (+13%) mainly due to lower associates (-29%), from weaker contribution by 37.6%-owned associate (Malakoff) of which its 3QFY20 core profit contracted 41% QoQ with revenue dipping 2% over the quarter due to lower energy payment by 7% on planned maintenance at GB3, TBP and TBE. This was further weighed down by higher other operating expenses (+7%) and administrative expenses (+10%). Note that, the higher revenue was from higher work progress in KVMRT-SSP Line and volume handled across all ports especially PTP with ports segment's profit contribution higher by 32%.

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.

We increase our **FY20E and FY21E CNP by 19% and 33%**, respectively, to better reflect stronger Ports & Logistics segment contribution especially with the anticipated full re-opening of economy next year.

Upgrade to OP (from MP) with a higher TP of RM1.00 (from RM0.695). We have changed our valuation method to Sum-of-Parts (SoP) from P/BV valuation (0.22x FY21E BVPS) to better reflect the value for each segmental business.

Risks to our call include: (i) lower-than-expected ports activities, (ii) slower-than-expected construction progress, and lower-than-expected associates' contribution.

Share Price Performance



KLCI 1,597.58
YTD KLCI chg 0.6%
YTD stock price chg -13.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MMC MK Equity
Market Cap (RM m)	2,588.3
Shares Outstanding	3,045.1
52-week range (H)	1.05
52-week range (L)	0.45
3-mth avg daily vol:	2,794,764
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)	2019A	2020E	2021E
Revenue	4,717.3	4,203.2	4,297.8
PBT	532.8	399.8	452.6
Net Profit (NP)	255.2	259.9	299.4
Core NP (CNP)	201.4	259.9	299.4
Consensus (CNP)	-	241	276
Earnings Revision	-	+19%	+33%
Core EPS (sen)	6.6	8.5	9.8
CNP growth (%)	31.4	29.0	15.2
DPS (sen)	4.5	4.0	4.0
BVPS (RM)	3.04	3.11	3.19
Core PER (x)	12.9	10.0	8.6
Price/BV (x)	0.3	0.3	0.3
Net Gearing (x)	0.9	0.9	0.9
Div. Yield (%)	5.3	4.7	4.7



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Result Highlight

FY Dec (RM m)	3QFY20	2QFY20	QoQ	3QFY19	YoY	9MFY20	9MFY19	YoY
Revenue	1,118.5	990.7	13%	1,245.8	-10%	3,196.0	3,619.2	-12%
Gross Profit (GP)	482.7	480.0	1%	447.3	8%	1,438.6	1,362.5	6%
Other operating Income	39.2	37.2	5%	65.5	-40%	125.8	157.7	-20%
Administrative Expenses	(229.5)	(207.9)	10%	(224.0)	2%	(660.9)	(632.8)	4%
Other operating Expenses	(83.4)	(77.7)	7%	(86.9)	-4%	(248.2)	(248.3)	0%
Finance Costs	(159.6)	(173.5)	-8%	(166.0)	-4%	(505.1)	(513.3)	-2%
Associates	38.7	54.4	-29%	49.6	-22%	133.1	118.9	12%
Joint Venture	35.6	15.6	128%	34.7	3%	83.4	95.9	-13%
Profit Before Tax (PBT)	123.8	128.1	-3%	120.2	3%	366.7	340.6	8%
Tax Expenses	(47.5)	(38.2)	24%	(42.4)	12%	(127.6)	(116.2)	10%
Net Profit (NP)	60.9	77.4	-21%	66.3	-8%	196.2	187.1	5%
Core Net Profit (CNP)	60.9	72.4	-16%	37.5	62%	191.2	141.9	35%
GP Margin	43.2%	48.4%		35.9%		45.0%	37.6%	
PBT Margin	11.1%	5.5%		4.0%		4.2%	3.3%	
CNP Margin	5.4%	7.3%		3.0%		6.0%	3.9%	
Effective Tax Rate	38.4%	29.9%		35.2%		34.8%	34.1%	

Source: Company, Bursa Malaysia, Kenanga Research

Segmental Breakdown

FY Dec (RM m)	3QFY20	2QFY20	QoQ	3QFY19	YoY	9MFY20	9MFY19	YoY
Revenue	1,119.0	991.0	13%	1,246.0	-10%	3,196.0	3,619.0	-12%
Ports & Logistics	801.0	728.0	10%	782.0	2%	2,330.0	2,364.0	-1%
Engineering & construction	305.0	242.0	26%	438.0	-30%	811.0	1,178.0	-31%
Corporate & Others	13.0	21.0	-38%	26.0	-50%	56.0	77.0	-27%
Profit Before Tax	124.0	128.0	-3%	120.0	3%	367.0	340.0	8%
Ports & Logistics	127.0	96.0	32%	92.0	38%	346.0	315.0	10%
Energy & utilities (Associates)	29.0	48.0	-40%	46.0	-37%	118.0	107.0	10%
Engineering & construction	56.0	60.0	-7%	73.0	-23%	177.0	190.0	-7%
Corporate & Others	(88.0)	(76.0)	16%	(91.0)	-3%	(274.0)	(272.0)	1%
PBT Margins								
Ports & Logistics	15.9%	13.2%		11.8%		14.8%	13.3%	
Engineering & construction	18.4%	24.8%		16.7%		21.8%	16.1%	

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	1,802	
Northport (NCB Holdings Bhd)	100%	DCF	321	
Johor Port	99%	DCF	249	
Penang Port	100%	DCF	580	
Senai Airport	100%	2009 Effective Acquisition Price	580	
<u>Energy & Utilities</u>				
Malakoff	38%	Based on Kenanga TP of RM1.15	2,162	
Gas Malaysia	31%	Based on Kenanga TP of RM2.85	1,131	
Aliran Ihsan Resources Bhd	100%	2009 Effective Acquisition Price	240	
<u>Engineering & Construction</u>				
			PER of 7x	951
<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			11,854	
Less: Net Cash/ (debt)-Group Level			(8,817)	
Total			3,037	
No of Shares			3,045	
SOP/share (TP)			1.00	

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	0.850	2,588.3	Y	12/2020	-10.9%	2.3%	29.0%	15.2%	12.9	10.0	8.6	0.3	0.3	2.8%	4.7%	1.00	OP
POS MALAYSIA BERHAD	0.970	759.3	Y	12/2020	34.4%	16.7%	-129.7%	23.4%	N.A.	N.A.	9.6	0.5	0.5	-4.5%	4.1%	1.00	MP
WESTPORTS HOLDINGS BHD	4.35	14,833.5	Y	12/2020	2.5%	4.1%	-3.0%	4.4%	23.0	23.7	22.7	5.8	5.5	23.7%	3.2%	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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