



MMC Corporation (MMC MK) : BUY

Mkt. Cap: US\$711m | 3m Avg. Daily Val: US\$0.34m

Last Traded Price (26 Nov 2019): RM0.98

Price Target 12-mth: RM1.49 (53% upside) (Prev RM1.49)

Analyst

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Delivering good numbers

- In-line 3Q19 results, driven by better construction and port earnings
- PTP's earnings was flat but Johor Port and Northport showed improvement
- MRT 3 and listing of ports are key catalysts
- BUY with SOP-derived TP of RM1.49

Forecasts and Valuation

FY Dec (RMm)	2018A	2019F	2020F	2021F
Revenue	5,010	5,592	5,781	7,047
EBITDA	1,606	1,586	1,661	1,740
Pre-tax Profit	390	394	476	558
Net Profit	220	232	282	340
Net Pft (Pre Ex.)	200	232	282	340
Net Pft Gth (Pre-ex) (%)	(20.1)	16.0	21.7	20.5
EPS (sen)	7.23	7.62	9.27	11.2
EPS Pre Ex. (sen)	6.57	7.62	9.27	11.2
EPS Gth Pre Ex (%)	(20)	16	22	20
Diluted EPS (sen)	7.23	7.62	9.27	11.2
Net DPS (sen)	4.50	4.50	4.50	4.50
BV Per Share (sen)	314	317	322	329
PE (X)	13.5	12.8	10.5	8.7
PE Pre Ex. (X)	14.8	12.8	10.5	8.7
P/Cash Flow (X)	2.5	3.5	3.3	2.6
EV/EBITDA (X)	8.0	8.0	7.5	6.9
Net Div Yield (%)	4.6	4.6	4.6	4.6
P/Book Value (X)	0.3	0.3	0.3	0.3
Net Debt/Equity (X)	0.9	0.8	0.8	0.7
ROAE (%)	2.3	2.4	2.9	3.4

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

3Q19 results within expectations. MMC booked a 3Q19 headline net profit of RM66m (+71% y-o-y and -1% q-o-q), bringing 9M19 net profit to RM187m (+87% y-o-y). This was driven by better contribution from its port business and construction (KVMRT 2), and gain from the disposal of an asset (old factory and office in Nilai) held for sale of RM16m in 2Q19. Stripping this out, the results was within our and consensus estimates. 9M19 revenue rose 6% to RM3.6bn.

Ports continued to do well. For transport & logistics, 9M19 turnover increased by 8% y-o-y to RM2,364m with pretax profit rising by 10% y-o-y to RM315m. Overall, the higher profit numbers y-o-y was due to higher contribution from Northport and Johor Port, oil spill compensation for PTP and higher share of results from Red Sea Gateway Terminal.

PTP registered flattish 9M19 pretax profit of RM154m. For 9M19, PTP showed a 3% increase in throughput to 6.8m TEU. Johor Port and Northport showed significant y-o-y improvement. For 9M19, Johor Port made RM77m in pretax profit (vs. RM25m in 9M18). It also showed a 9% increase in container volume to 0.762m TEU while conventional volume growth declined by 3% to 13.7m FWT. For Northport, it made RM42m in pretax profit for 9M19 (vs. RM22m in 9M18). 9M19 container volumes at Northport declined by 3% to 2.0m TEU but this was compensated by a 9% increase in conventional cargo to 6.8m FWT. Penang Port

Flash Note

showed a 2% decline in container volume to 1.1m TEU and a 7% decline in conventional volume to 7.1m FWT.

Energy & utilities: Improved earnings. 9M19 pretax profit from energy & utilities was RM107m (+15% y-o-y). Malakoff's earnings improved due to better contribution from Tanjung Bin Energy coal plant given the shorter plant outage duration, lower barging and demurrage costs – following the timely completion of a coal unloading jetty. Gas Malaysia recorded steady y-o-y profit growth due to the higher volume of gas sold and higher gas tariff.

Construction: Higher completion for MRT 2. Its construction division pretax profit for 9M19 was RM192m (+11% y-o-y) due to higher progress completion for contribution from KV MRT 2. The elevated and tunnelling portion of MRT Line 2 reached 58% and 65% progress completion, respectively, as at 30 September 2019.

Outlook

Listing of ports on-going. We understand that the company is still actively pursuing the listing but the timeline is less pressing given the restructuring of debt. On a combined basis for FY18, MMC Ports posted revenue, EBITDA and net profit of RM2.9bn, RM1.2bn and RM337m respectively. The current focus would be to ensure stronger earnings recovery for its port business which has been dragged down by poorer financials for Northport and Johor Port.

Valuation and Recommendation

BUY rating and TP maintained. The potential revival of MRT 3 and HSR will be positive for its infrastructure business. We maintain our BUY rating and TP of RM1.49. We believe continuity in terms of better earnings delivery will lead to a further re-rating.

Quarterly Income Statement (RMm)

FY Dec	3Q2018	2Q2019	3Q2019	% chg yoy	% chg qoq
Revenue	944	1,230	1,246	32.0	1.3
Cost of Goods Sold	(560)	(753)	(798)	42.5	6.1
Gross Profit	384	478	447	16.6	(6.3)
Other Oper. (Exp)/Inc	(206)	(236)	(245)	18.9	3.8
Operating Profit	177	241	202	13.9	(16.3)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	50.9	67.0	84.3	65.6	25.8
Net Interest (Exp)/Inc	(139)	(176)	(166)	(19.1)	5.8
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	88.8	132	120	35.4	(8.9)
Tax	(36.6)	(50.3)	(42.4)	15.9	(15.7)
Minority Interest	(13.3)	(14.4)	(11.5)	13.5	(20.2)
Net Profit	38.9	67.2	66.3	70.5	(1.3)
Net profit bef Except.	38.9	67.2	66.3	70.5	(1.3)
EBITDA	228	308	286	25.4	(7.1)
Margins (%)					
Gross Margins	40.6	38.8	35.9		
Opg Profit Margins	18.8	19.6	16.2		
Net Profit Margins	4.1	5.5	5.3		

Source of all data: Company, AllianceDBS

Flash Note

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Nov 18	1.00	1.49	BUY
2:	04 Jan 19	0.86	1.49	BUY
3:	28 Feb 19	1.07	1.49	BUY
4:	15 Apr 19	1.06	1.49	BUY
5:	25 Apr 19	1.10	1.49	BUY
6:	06 May 19	1.03	1.49	BUY
7:	29 May 19	1.04	1.49	BUY
8:	27 Jun 19	1.16	1.49	BUY
9:	25 Jul 19	1.14	1.49	BUY
10:	28 Aug 19	1.09	1.49	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Tjen San CHONG

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
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 > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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