

MMC Corporation Bhd

1Q19 Exceeded Our Expectation

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The studier 1Q19 earnings which jumped 148% YoY to RM64.9m beat our expectation due to our conservative margins assumption for ports segment, but was in-line with the consensus. Moving forward, earnings are expected to be largely buoyed by its ports operations and MRT Line 2. Nonetheless, as outlook remains shadowed by earnings volatility and depressing margins, we reiterate our MP call with unchanged TP of RM1.10.

Above our expectation. MMCCORP posted 1Q19 Net Profit of RM64.9m which came in above our expectation at 50% of our FY19 estimate, but in-line with the consensus at 26%. The deviation was largely due to our conservative margins assumption for the ports segment. No dividends were announced, as expected.

Bolstered by ports' better performances. YoY, 1Q19 CNP soared 148% to RM64.9m. The hike was largely boosted by stronger performance from its ports and logistics segment, which saw a 55% jump in PBT, thanks to full consolidation of Penang Port's earnings which started since May'18, coupled with higher contribution from both Johor Port (+3% throughput growth) and Northport (+12% throughput growth). Nonetheless, this was slightly dented by: (i) weaker contribution from MRT Line 2 following the revision of contract value in Nov'18, and (ii) slower work progress for Langat Sewerage project; consequently, leading to 34% fall in construction PBT.

Impacted by lower construction earnings. Sequentially, CNP slid 41% from RM109.7m, largely dragged by: (i) significantly lower construction contribution, which saw a 60% dive in segmental PBT due to the aforementioned reasons, and (ii) weaker earnings posted by MALAKOF with segmental PBT deteriorating 38%; owing to higher O&M costs for scheduled outages.

Ports and MRT 2 as main earnings drivers. Going forward, MMCCORP's earnings are anticipated to be largely buoyed by its ports operation coupled with the construction and tunneling works for MRT Line 2. Currently, its ports portfolio consists of Port of Tanjung Pelepas (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 its profile as the largest port operator in the country. Meanwhile, the construction progress from MRT Line 2 is at 47% for the elevated portion, and 51% for tunneling portion as at March'19, with expected completion in FY20. We gathered that while its construction order-book is currently at c.RM9.2b (91% from MRT Line 2), management is currently actively bidding for new projects in order to meet its targeted order-book replenishment of RM500m p.a..

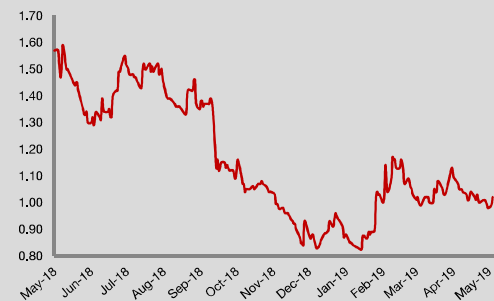
Maintain MARKET PERFORM with an unchanged TP of RM1.10 as we roll forward our valuation base-year to FY20E BV/share of RM3.24, based on 0.3x PBV which is in-line with its 5-year historical trough levels. *Post-result, we upgraded FY19-20E CNP by 45-42% to account for higher volumes and better margins for ports segment, given our previously conservative margins assumption.* At this juncture, we deem our valuations to be fair as we await more earnings stability and margin improvement in coming quarters which is yet to be seen.

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

MARKET PERFORM ↔

Price : RM1.02
Target Price : RM1.10 ↔

Share Price Performance



KLCI 1,614.57
YTD KLCI chg -4.5%
YTD stock price chg 22.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MMC MK Equity
Market Cap (RM m)	3,106.0
Shares Outstanding	3,045.1
52-week range (H)	1.61
52-week range (L)	0.81
3-mth avg daily vol:	4,705,171
Free Float	22%
Beta	1.2

Major Shareholders

Seaport Terminal Johore Sdn Bhd	51.8%
Skim Amanah Saham Bumiputera	18.2%
Urusharta Jamaah Sdn Bhd	7.7%

Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Revenue	5,010.2	4,273.6	4,478.7
EBIT	662.8	752.6	754.8
PBT	389.6	302.6	304.8
Net Profit (NP)	220.1	187.0	188.6
Core NP (CNP)	153.3	187.0	188.6
Consensus (CNP)		248.2	281.2
Earnings Revision (%)		45%	42%
Core EPS (sen)	5.0	6.1	6.2
CNP growth (%)	-26.6	22.0	0.9
DPS (sen)	0.0	1.5	1.5
BVPS (RM)	3.1	3.2	3.2
Core PER (x)	20.1	16.4	16.3
Price/BV (x)	0.3	0.3	0.3
Net Gearing (x)	1.0	0.9	0.9
Div. Yield (%)	0.0	1.5	1.5

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Result Highlight

FY Dec (RM' m)	1Q19	4Q18	QoQ	1Q18	YoY	3M19	3M18	YoY
Revenue	1,143.2	1,585.6	-28%	1,279.7	-11%	1,143.2	1,279.7	-11%
Cost of Sales	(705.6)	(1,082.1)	-35%	(906.3)	-22%	(705.6)	(906.3)	-22%
Gross profit	437.6	503.5	-13%	373.4	17%	437.6	373.4	17%
Investment income	0.0	0.0	N.A	15.2	-100%	0.0	15.2	-100%
Other operating income	35.3	73.4	-52%	29.9	18%	35.3	29.9	18%
Administrative expenses	(196.5)	(213.5)	-8%	(168.6)	16%	(196.5)	(168.6)	16%
Other operating expenses	(80.6)	(80.6)	0%	(106.3)	-24%	(80.6)	(106.3)	-24%
Finance costs	(170.9)	(144.4)	18%	(129.2)	32%	(170.9)	(129.2)	32%
Associates	35.0	53.5	-35%	34.7	1%	35.0	34.7	1%
Joint Ventures	28.5	4.5	529%	15.1	89%	28.5	15.1	89%
Profit before tax	88.5	196.4	-55%	64.2	38%	88.5	64.2	38%
Zakat expenses	0.0	(4.6)	-100%	0.0	N.A	0.0	0.0	N.A
Tax expense	(23.6)	(62.0)	-62%	(8.7)	171%	(23.6)	(8.7)	171%
Non-controlling interest	11.4	(10.1)	-213%	14.2	-20%	11.4	14.2	-20%
Net profit	64.9	119.7	-46%	55.5	17%	64.9	55.5	17%
Core Net Profit	64.9	109.7	-41%	26.1	148%	64.9	26.1	148%
GP Margin	38%	32%		29%		38%	29%	
PBT margin	7.7%	12.4%		5.0%		7.7%	5.0%	
Net margin	5.7%	7.5%		4.3%		5.7%	4.3%	
Core net margin	5.7%	6.9%		2.0%		5.7%	2.0%	
Effective tax rate	26.6%	31.6%		13.5%		26.6%	13.5%	

Source: Company, Kenanga Research

Segmental Breakdown

FY Dec (RM 'm)	1Q19	4Q18	QoQ	1Q18	YoY	3M19	3M18	YoY
Revenue								
Ports & Logistics	783.0	805.0	-3%	657.0	19%	783.0	657.0	19%
Energy & utilities*	0.0	0.0	N.A	0.0	N.A	0.0	0.0	N.A
Engineering & construction	364.0	752.0	-52%	655.0	-44%	364.0	655.0	-44%
Corporate & Others	25.0	29.0	-14%	21.0	19%	25.0	21.0	19%
Profit Before Tax								
Ports & Logistics	104.0	130.0	-20%	67.0	55%	104.0	67.0	55%
Energy & utilities*	32.0	52.0	-38%	38.0	-16%	32.0	38.0	-16%
Engineering & construction	49.0	122.0	-60%	74.0	-34%	49.0	74.0	-34%
Corporate & Others	(97.0)	(108.0)	-10%	(115.0)	-16%	(97.0)	(115.0)	-16%
PBT Margins								
Ports & Logistics	13%	16%		10%		13%	10%	
Energy & utilities*	N.A	N.A		N.A		N.A	N.A	
Engineering & construction	13%	16%		11%		13%	11%	
Corporate & Others	-388%	-372%		-548%		-388%	-548%	

Source: Company, Kenanga Research

*Energy & 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)	
CJ CENTURY LOGISTICS HOLDINGS	0.370	144.4	Y	12/2019	6.4%	4.6%	-15.9%	8.1%	17.2	20.5	19.0	0.5	0.5	2.3%	1.9%	0.370	UP
MMC CORP BHD	1.02	3,106.0	Y	12/2019	-14.7%	4.8%	22.0%	0.9%	20.1	16.4	16.3	0.3	0.3	1.9%	1.5%	1.10	MP
POS MALAYSIA BERHAD	1.24	970.6	Y	03/2020	13.9%	4.4%	-835.1%	-99.3%	N.A.	N.A.	N.A.	0.6	0.6	-0.9%	1.6%	1.30	UP
WESTPORTS HOLDINGS BHD	3.69	12,582.9	Y	12/2019	7.7%	3.8%	9.6%	6.9%	23.2	21.2	19.8	5.2	5.3	24.8%	3.6%	3.75	MP

Source: Bloomberg, Kenanga Research

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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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Published and printed by:

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