UOBKH HIGHLIGHTS

MMC Corporation (MCC MK/HOLD/RM1.02/Target: RM1.50)

1Q19: A Seasonally Slower Quarter for Ports, Expect A Stronger 2H

Year to 31 Dec	1Q18 (RMm)	4Q18 (RMm)	1Q19 (RMm)	qoq % chg	yoy % chg
Revenue	1,279.7	1,585.6	1,143.2	(27.9)	(10.7)
EBITDA	308.0	484.0	423.0	(12.6)	37.3
EBIT	128.4	272.2	195.9	(28.0)	52.6
Associates	49.8	58.0	63.5	9.5	27.4
Pretax Profit	**64.2**	**196.4**	**88.5**	**(55.0)**	**37.7**
Tax	(8.7)	(66.6)	(23.6)	(64.6)	170.9
Net Profit	41.3	119.7	53.5	(55.3)	29.4
Core Net Profit	**26.1**	**109.0**	**53.5**	**(50.9)**	**104.7**
	(%)	(%)	(%)	+/- ppt	+/- ppt
EBIT Margins (%)	10.0	17.2	17.1	(0.0)	7.1
Core Net Profit Margins (%)	2.0	6.9	4.7	(2.2)	2.6

	EPS (sen)	Revision (%)	PE (x)
2019F	7.9	-	12.9
2020F	8.1	-	12.6
2021F	8.9	-	11.5

Source: MMC, UOB Kay Hian

RESULTS

- **In line.** 1Q19 core net profit of RM53.5m accounts for 22% of our full-year net profit forecast of RM240m. We deem the results to be within expectations with expectations of stronger ports contribution in 2H. 1Q is a seasonally slower quarter for ports as it coincides with the Chinese New Year business closure period.
- **1Q19 revenue fell to RM1,143m** (-11% yoy; -28% qoq) on lower contribution from KVMRT-SSP Line following the revision of contract in Nov 18 and lower progress billing from the Langat Sewerage Treatment project. This was partly offset by a 2% yoy TEU growth at PTP and inclusion of Penang Port (contributing RM112m and RM13m revenue and PBT respectively).
- Despite weak top-line, 1Q19 PBT rose 38% yoy thanks to: a) higher JPort contribution of RM23m (1Q18: RM2m); b) higher NCB contribution of RM17m (1Q18: RM8m); and c) inclusion of Penang Port. This helped to offset lower engineering profits as a result of lower progress billing for MMC's construction segment. The sequentially weaker earnings was due to lumpy recognition of KVMRT-SSP orderbook and seasonally stronger port activities.

1Q19: SEGMENTAL BREAKDOWN

Year to 31 Dec	1Q18 (RMm)	4Q18 (RMm)	1Q19 (RMm)	qoq % chg	yoy % chg	Comment
Transport & logistics	655.0	805.0	780.0	(3.1)	19.1	1Q19 Container Volume Trend:
Engineering & const	604.0	752.0	338.0	(55.1)	(44.0)	PTP +2% yoy
Others	21.0	29.0	25.0	(13.8)	19.0	JPort +3% yoy
Group Revenue	**1,280.0**	**1,586.0**	**1,143.0**	**(27.9)**	**(10.7)**	NCB -2% yoy
						Penang Port -2% yoy
Transport & logistics	67.0	130.0	104.0	(20.0)	55.2	
Energy & utilities	38.0	52.0	32.0	(38.5)	(15.8)	
Engineering & const	74.0	122.0	49.0	(59.8)	(33.8)	
Others	(115.0)	(108.0)	(97.0)	(10.2)	(15.7)	
Pretax Profit	**64.0**	**196.0**	**88.0**	**(55.1)**	**37.5**	

Source: MMC, UOB Kay Hian

STOCK IMPACT

- No change to our earnings forecasts.

RECOMMENDATION

- **Maintain HOLD and SOTP target price of RM1.50,** based on a 50% discount to our SOTP valuation of RM9.2b, or RM3.00/share. Our target price factors in: a) a 50% holding company discount due to the lack of re-rating catalyst as the port listing is likely to be deferred to beyond 2019; and b) minimal earnings contribution from the MRT2 contract. The port assets account for the bulk of our valuation and earnings as the engineering segment accounts for only 10% of our SOTP-based valuation.

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