

Flash Note



Refer to important disclosures at the end of this report

AllianceDBS Research, Malaysia Equity

30 May 2018

MMC Corporation (MMC MK) : BUY

Mkt. Cap: US\$1,200m | 3m Avg. Daily Val: US\$0.66m

Last Traded Price (28 May 2018): RM1.57

Price Target 12-mth: RM2.85 (82% upside) (Prev RM3.35)

Shariah Compliant: Yes

Analyst

Tjen San CHONG, CFA +60 3 26043972; tjensan@alliancedbs.com

Construction earnings to the rescue

- 1Q18 below expectations due to lower port and energy and utilities earnings
- The key highlight was the strong improvement in construction earnings
- Cutting FY18-19F earnings by 14-17%
- Maintain BUY with lower TP of RM2.85

Forecasts and Valuation

FY Dec (RMm)	2016A	2017A	2018F	2019F
Revenue	4,627	4,160	3,446	4,146
EBITDA	1,585	1,715	1,598	1,731
Pre-tax Profit	673	452	532	674
Net Profit	550	225	354	459
Net Pft (Pre Ex.)	300	324	354	459
Net Pft Gth (Pre-ex) (%)	(3.8)	8.3	9.0	29.7
EPS (sen)	18.1	7.40	11.6	15.1
EPS Pre Ex. (sen)	9.84	10.7	11.6	15.1
EPS Gth Pre Ex (%)	(4)	8	9	30
Diluted EPS (sen)	18.1	7.40	11.6	15.1
Net DPS (sen)	4.50	4.50	4.50	4.50
BV Per Share (sen)	313	313	320	331
PE (X)	8.7	21.2	13.5	10.4
PE Pre Ex. (X)	16.0	14.7	13.5	10.4
P/Cash Flow (X)	5.6	4.5	5.6	4.8
EV/EBITDA (X)	8.4	7.9	8.4	7.6
Net Div Yield (%)	2.9	2.9	2.9	2.9
P/Book Value (X)	0.5	0.5	0.5	0.5
Net Debt/Equity (X)	0.8	0.8	0.8	0.7
ROAE (%)	5.9	2.4	3.7	4.6

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

What's New

1Q18 results below expectations. MMC booked a 1Q18 headline net profit of RM42m (-25% y-o-y and -51% q-o-q). This was below our forecast and consensus estimate due to lower contribution from Johor Port, Northport and Malakoff. However, 1Q18 revenue increased by 38% to RM1.28bn due to better construction earnings and also higher throughput at PTP.

Lower port earnings. For transport & logistics, 1Q18 turnover fell by 8% y-o-y to RM655m while the decline in pretax profit was more pronounced by plunging 34% y-o-y to RM109m. The weaker y-o-y performance was due to lower contribution from Johor Port and Northport, but this was compensated by higher contribution from PTP and share of profit from Penang Port. Johor Port was affected by the tailing off of contribution from RAPID MOLF operations while Northport container volume was impacted by the shifting of global shipping alliances.

PTP contributed the lion's share of 1Q18 pretax profit from ports at 88%. MMC has completed the acquisition of the remaining 51% of Penang Port on 1 May 2018. Recall that one of the key conditions was for Prasarana Malaysia Bhd's subsidiary Rapid Ferry Sdn Bhd to take over the operation and service of the Penang ferry service from MMC.

PTP showed a 7% increase in throughput to 2.18m TEU for 1Q18. For 1Q18, Johor Port also showed a 12% increase in container volume to 0.23m TEU while conventional volume growth also increased by 8% to 4.61m FWT. However, 1Q18 container volume at Northport declined by 14% to 0.68m TEU but this was compensated by a 10% increase in conventional cargo to 2m FWT. Penang Port showed a 5% increase in container volume and conventional volume to 0.37m TEU and 2.53m FWT respectively.



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Energy & Utilities. 1Q18 pretax profit from energy & utilities was RM38m vs RM49m in 1Q17. Malakoff's pretax profit was lower y-o-y due to lower capacity payment recorded from Segari Energy Ventures following the reduction in tariff under the extended Power Purchase Agreement effective from 1 July 2017 as well as lower fuel margin recorded at Tanjung Bin Power and Tanjung Bin Energy coal-fired power plants. Gas Malaysia recorded strong y-o-y profit growth due to the higher volume of gas sold and higher gas tariff.

Construction earnings lower y-o-y. Its construction division pretax profit for 1Q18 came in at RM74m (+187% y-o-y) due higher progress of works for MRT Line 2 and Langkat 2 Sewerage plant. Similarly 1Q18 revenue surged 212% to RM604m. The elevated and tunnelling portions of MRT Line 2 have reached 19% and 28% progress completion, respectively, as at 31 March 2018.

BUY rating maintained but cutting earnings and lowering TP. We cut our FY18-19F earnings by 14-17% to factor in i) no new order wins for FY18-19F; and ii) lower throughput for ports, and lower energy and utilities earnings. Consequently, we also lower our TP to RM2.85, which assumes i) no new contract wins; ii) lower market value for Malakoff, and iii) lower land values at Senai and Tanjung Bin.

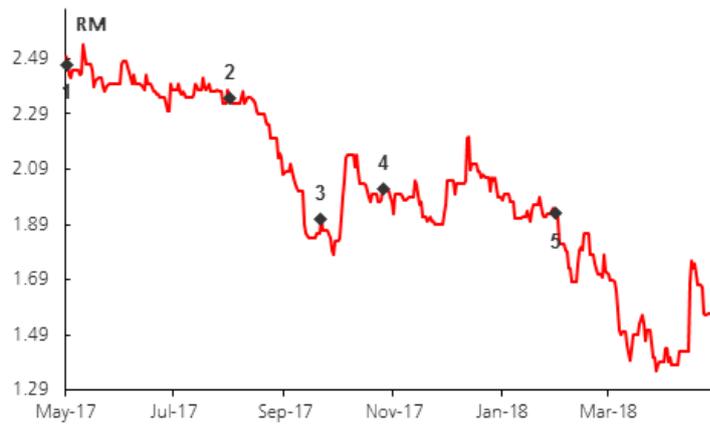
Key catalysts. The potential catalysts for MMC are i) revival of MRT 3 where it is part of a consortium with Gamuda and George Kent. In our view, this project will take off but the timing remains uncertain; ii) more land sales at Senai and Tanjung Bin to unlock value, and iii) the listing of the port business which is likely to take place in FY19F.

Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2017	4Q2017	1Q2018	% chg yoy	% chg qoq
Revenue	925	1,235	1,280	38.3	3.6
Cost of Goods Sold	(566)	(812)	(906)	60.1	11.6
Gross Profit	359	423	373	4.0	(11.7)
Other Oper. (Exp)/Inc	(214)	(192)	(230)	7.4	19.4
Operating Profit	145	230	144	(1.0)	(37.6)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	68.4	86.4	49.9	(27.1)	(42.3)
Net Interest (Exp)/Inc	(121)	(132)	(129)	(6.8)	1.8
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	92.4	185	64.3	(30.5)	(65.3)
Tax	(26.9)	(90.9)	(8.7)	(67.6)	(90.4)
Minority Interest	(10.4)	(9.1)	(14.2)	(37.0)	56.7
Net Profit	55.1	85.1	41.4	(25.0)	(51.4)
Net profit bef Except.	55.1	85.1	41.4	(25.0)	(51.4)
EBITDA	213	317	193	(9.3)	(38.9)
Margins (%)					
Gross Margins	38.8	34.2	29.2		
Opg Profit Margins	15.7	18.6	11.2		
Net Profit Margins	6.0	6.9	3.2		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	30 May 17	2.47	3.50	BUY
2:	29 Aug 17	2.35	3.35	BUY
3:	19 Oct 17	1.91	3.35	BUY
4:	23 Nov 17	2.02	3.35	BUY
5:	28 Feb 18	1.93	3.35	BUY

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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Wong Ming Tek, Executive Director

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AllianceDBS Research Sdn Bhd (128540 U)
19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.
Tel.: +603 2604 3333 Fax: +603 2604 3921 email : general@alliancedbs.com