



MMC Corporation (MMC MK) : BUY

Mkt. Cap: US\$1,087m | 3m Avg. Daily Val: US\$0.14m

Last Traded Price (24 Aug 2018): RM1.46

Price Target 12-mth: RM2.22 (52% upside) (Prev RM2.85)

Shariah Compliant: Yes

Analyst

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Deep value but near-term earnings to stay soft

- 2Q18 results below expectations
- Poorer earnings for Malakoff, Johor Port and Northport offset better construction earnings
- Cutting earnings by 18-22%
- Still deep value but earnings delivery has been choppy. BUY with lower TP of RM2.22

What's New

2Q18 results below expectations. MMC booked a 2Q18 headline net profit of RM20m (-68% y-o-y and -51% q-o-q), bringing 1H18 net profit to RM61m (-47% y-o-y). This was below our forecast and consensus estimate due to lower contribution from Malakoff, Johor Port and Northport. However, 1H18 revenue increased by 33% to RM2,480m due to better construction revenue, higher throughput for PTP and Penang Port where the 51% remaining acquisition was completed on 1 May 2018.

Lower port earnings. For transport & logistics, 1H18 turnover eased 2% y-o-y to RM1,395m while the decline in pretax profit was more pronounced – falling by 44% y-o-y to RM137m. The lower y-o-y numbers were due to lower contribution from Johor Port and Northport but this was compensated by higher contribution from PTP and Penang Port. Johor Port was affected by the tailing off of contribution from RAPID MOL operations while Northport container volume was impacted by the shifting of global shipping alliances.

PTP contributed the lion's share of 1H18 pretax profit from ports at 72%. MMC has completed the acquisition of the remaining 51% of Penang Port on 1 May 2018 and hence there were two months additional contribution in 2Q18.

PTP showed a 6% increase in throughput to 4.38m TEU for 1H18. For 1H18, Johor Port also showed a 7% increase in container volume to 0.453m TEU while conventional volume growth also increased by 14% to 9.57m FWT. However, 1H18 container volume at Northport declined by 14% to 1.371m TEU but this was compensated by a 5% increase in conventional cargo to 4.13m FWT. Penang Port

Forecasts and Valuation

FY Dec (RMm)	2017A	2018F	2019F	2020F
Revenue	4,160	3,358	4,058	4,159
EBITDA	1,715	1,493	1,623	1,668
Pre-tax Profit	452	427	566	622
Net Profit	225	275	378	411
Net Pft (Pre Ex.)	324	275	378	411
Net Pft Gth (Pre-ex) (%)	8.3	(15.4)	37.5	8.9
EPS (sen)	7.40	9.02	12.4	13.5
EPS Pre Ex. (sen)	10.7	9.02	12.4	13.5
EPS Gth Pre Ex (%)	8	(15)	37	9
Diluted EPS (sen)	7.40	9.02	12.4	13.5
Net DPS (sen)	4.50	4.50	4.50	4.50
BV Per Share (sen)	313	317	325	334
PE (X)	19.7	16.2	11.8	10.8
PE Pre Ex. (X)	13.7	16.2	11.8	10.8
P/Cash Flow (X)	4.2	5.3	4.9	6.5
EV/EBITDA (X)	7.8	8.8	7.9	7.7
Net Div Yield (%)	3.1	3.1	3.1	3.1
P/Book Value (X)	0.5	0.5	0.4	0.4
Net Debt/Equity (X)	0.8	0.8	0.7	0.7
ROAE (%)	2.4	2.9	3.9	4.1

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



Flash Note

showed a 2% increase in container volume to 0.745m TEU and a 7% increase in conventional volume to 5.407m FWT.

Energy & Utilities dragged by Malakoff. 1H18 pretax profit from energy & utilities came in at RM64m vs RM98m in 1H17. Malakoff's pretax profit was lower y-o-y due to lower capacity payment recorded by Segari Energy Ventures following the reduction in tariff under the extended Power Purchase Agreement, lower fuel margin recorded at Tanjung Bin Power and Tanjung Bin Energy coal plants and lower contributions from associates investments. Gas Malaysia recorded strong y-o-y profit growth due to the higher volume of gas sold and higher gas tariff.

Construction earnings rose y-o-y. Its construction division pretax profit for 1H18 was RM152m (+80% y-o-y) due the higher progress of works for MRT Line 2 and Langkat 2 Sewerage plant. The elevated and tunnelling portion of

MRT Line 2 has reached 24% and 33% progress completion, respectively, as at 30 June 2018.

Cutting earnings and TP; BUY rating maintained. We cut our FY18-19F earnings by 22%/18% to factor in i) lower throughput for Johor Port given the completion of the RAPID MOLF project; and ii) lower throughput for Northport coupled with higher losses for Kontena Nasional. Consequently, we also lower our TP to RM2.22 which factors in the lowered earnings and a now 50% discount to SOP value (vs 40% previously) due to choppy earnings delivery over the last few quarters.

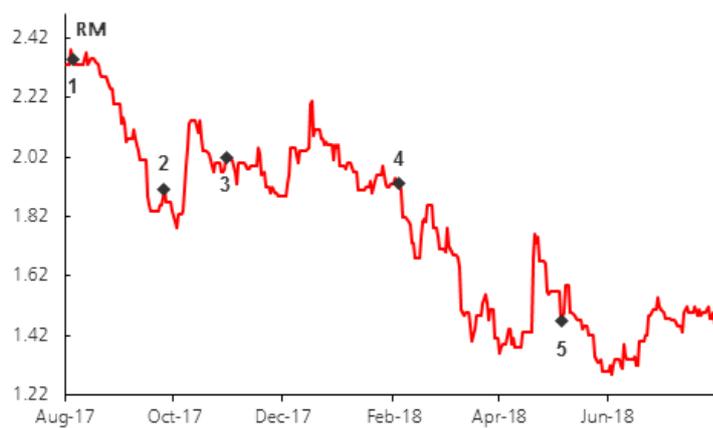
Key catalysts. The potential catalysts for MMC are i) the revival of MRT 3 and High Speed Rail; ii) more land sales at Senai and Tanjung Bin to unlock value; and iii) the listing of its port business which is more likely to take place in FY19F.

Quarterly / Interim Income Statement (RMm)

FY Dec	2Q2017	1Q2018	2Q2018	% chg yoy	% chg qoq
Revenue	944	1,280	1,201	27.1	(6.2)
Cost of Goods Sold	(591)	(906)	(812)	37.4	(10.4)
Gross Profit	354	373	389	10.0	4.1
Other Oper. (Exp)/Inc	(227)	(230)	(264)	16.1	14.9
Operating Profit	126	144	125	(1.1)	(13.2)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	96.5	49.9	45.5	(52.9)	(8.8)
Net Interest (Exp)/Inc	(118)	(129)	(130)	(10.2)	(0.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	105	64.3	40.1	(61.7)	(37.6)
Tax	(30.4)	(8.7)	(10.7)	(64.8)	22.8
Minority Interest	(11.3)	(14.2)	(9.3)	17.2	(34.3)
Net Profit	62.9	41.4	20.1	(68.1)	(51.4)
Net profit bef Except.	62.9	41.4	20.1	(68.1)	(51.4)
EBITDA	223	193	170	(23.6)	(12.0)
Margins (%)					
Gross Margins	37.4	29.2	32.4		
Opg Profit Margins	13.3	11.2	10.4		
Net Profit Margins	6.7	3.2	1.7		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



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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