

30 May 2018 | 1QFY18 Results Review

MMC Corporation Berhad

Construction segment to provide earnings visibility

INVESTMENT HIGHLIGHTS

- **1QFY18 earnings below estimates**
- **Temporary blip in Northport's volume**
- **Energy segment supported by Gas Malaysia**
- **Earnings visibility in the coming years for construction segment**
- **Maintain BUY with adjusted TP of RM2.29 per share**

Earnings below expectations. MMC Corp registered 1QFY18 normalised PATAMI of RM41.3m (-26.6%yoy) which missed both ours and consensus estimates by a variance of more than 10%.

Reshuffling of alliance affected Northport. FY17 revenue and PBT for the ports and logistics segment declined by -8.1%yoy and -46.0%yoy respectively due to the decline in volume at Northport and lower contribution from RAPID Material Offloading Facilities (RAPID MOLFF). The growth in container volume in PTP and Johor Port by +7%yoy and +12%yoy respectively cushioned the lower volumes handled at Northport following the effects of reshuffling of shipping alliances in April 2017 which could last until end of 1HFY18. Henceforth, volume in Northport is expected to pick up thereafter. Moving forward, we opine that overall container volume for the segment will be supported by: (i) resilient Malaysian external trade and; (ii) contribution from Penang Ports which was fully acquired on 1 May 2018.

Energy segment supported by Gas Malaysia. Malakoff recorded a -46.4%yoy decline in PATAMI due to; (i) lower capacity payment recorded by the SEV after the PPA revision and; (ii) lower fuel margin recorded at Tanjung Bin power plant. However, the decline in the PATAMI for the segment was partially offset by **Gas Malaysia Berhad (BUY; TP: RM3.50)** which posted a +24.0%yoy increase in PATAMI due to the increase in volume of gas sold coupled with higher natural gas tariff.

Earnings visibility in construction. PBT for engineering and construction (E&C) posted a staggering +184.6%yoy increase in 1QFY18. The substantial gain was largely attributed to the higher progress billings from the KVMRT2 and the Langat Sewerage Projects. Despite a possible delay in MRT3 by the government, we remain sanguine on E&C segment as earnings visibility will not only be provided by the KVMRT2 but also MMC Corp's role as a PDP in the Pan Borneo Highway. The segment currently has an orderbook of around RM15b.


Maintain BUY

Adjusted Target Price (TP): RM2.29
(From: RM2.51)

RETURN STATS	
Price (28 May 2018)	RM1.57
Target Price	RM2.29
Expected Share Price Return	+45.9%
Expected Dividend Yield	+2.5%
Expected Total Return	+48.4%

STOCK INFO	
KLCI	1,775.84
Bursa / Bloomberg	2194 / MMC MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	3,045.06
Market cap. (RM'm)	4,780.74
Price over NA	0.50
52-wk price Range	RM1.35 - RM2.54
Beta (against KLCI)	1.16
3-mth Avg Daily Vol	1.66m
3-mth Avg Daily Value	RM2.61m
Major Shareholders (%)	
Seaport Terminal	51.76
PNB	20.25
LTH	7.68

Earnings forecast. We revise our earnings forecast downwards to RM373.5m (previously RM441.5m) and RM438.4m (previously RM525.8m) in FY18 and FY19 respectively. This is to ascribe a lower single digit growth in container volume for Northport amid the recalibration of shipping alliances while imputing a lower perpetual growth of 2.5%(previously 3.0%) across the ports and logistics segment, exercising caution on any trade uncertainty. One of the major risks to earnings especially from the construction segment is the lack of big ticket infrastructure works moving forward.

Maintain BUY with adjusted TP of RM2.29 per share (from RM2.51 per share), based on our sum-of-parts (SOP) valuation. Subsequent to our earnings revisions, we tweaked our SOP valuation to incorporate lower perpetual growth of 2.5% for MMC's ports. Our BUY call is mainly predicated on: (i) potential listing of its ports assets; (ii) contribution from the full acquisition of Penang Ports and; (iii) healthy orderbook above RM10b for the engineering and construction segment. 

INVESTMENT STATISTICS

FYE Dec	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue (RM'm)	3,013.0	4,627.4	4,160.1	4,645.9	4,708.2
EBIT (RM'm)	489.3	911.7	703.6	758.5	782.1
Pre-tax Profit (RM'm)	365.0	672.7	451.7	491.4	576.8
Core PATAMI (RM'm)	244.2	312.4	225.4	373.5	438.4
EPS (sen)	8.0	10.3	7.4	12.3	14.4
EPS growth (%)	269	(70)	(59)	66	17
PER (x)	19.6	15.3	21.2	12.8	10.9
Net Dividend (sen)	3.8	4.0	4.0	4.0	4.0
Net Dividend Yield (%)	2.4	2.5	2.5	2.5	2.5

DAILY PRICE CHART



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Source: Bloomberg

MMC CORP: 1QFY18 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results					Comments
	1QFY18	4QFY17	1QFY17	%YoY	%QoQ	
Revenue	1,279.7	1,234.7	925.2	38.3	3.6	
COGS	(906.3)	(812.1)	(565.6)	60.2%	11.6	
Gross profit	373.4	422.6	359.6	3.8	-11.7	
Operating expenses	(229.8)	(192.4)	(213.7)	7.5	19.4	
EBIT	143.6	230.2	145.9	-1.6	-37.6	
Finance expenses	(129.2)	(131.5)	(121.0)	6.8	1.8	
Share of results from JV and Associates	49.8	86.4	68.5	-27.2	-42.3	
PBT	64.2	185.0	93.4	-31.2	-65.3	
Tax expense	(8.7)	(90.9)	(26.9)	-67.6	-90.4	
PAT	55.5	94.1	66.5	-16.5	-41.0	
PATAMI	41.3	85.1	56.1	-26.3	-51.4	
Normalised PATAMI	41.3	104.8	56.3	-26.6	-60.5	

Segmental Breakdown	Quarterly Results					Comments
	1QFY18	4QFY17	1QFY17	%YoY	%QoQ	
Ports & Logistics						
Revenue	655.0	713.0	674.0	-8.1%	-2.8%	Volume decline in Northport
PBT	67.0	124.0	115.0	-46.0%	-41.7%	
Malakoff (37.6% associate)						
Revenue	1,604.2	1,781.0	1,793.4	-9.9%	-10.5%	Lower capacity payment from SEV
PATMI	52.9	98.8	43.7	-46.4%	21.0%	
Gas Malaysia (30.9% associate)						
Revenue	1,435.2	1,185.7	1,471.1	21.0%	-2.4%	High gas tariff and volume
PATMI	40.2	32.4	78.0	24.0%	-48.5%	
Engineering & Construction						
Revenue	604.0	193.0	545.0	213.0%	10.8%	Billing of MRT2 and Langat Sewerage plant
PBT	74.0	26.0	106.0	184.6%	-30.2%	

Assets	Total Value (RM mil)	% Stake	Value	Value per share	Remarks
Energy & Utilities					
Malakoff	5,750.00	37.6	2,162.00	0.71	Consensus TP of RM1.15
Gas Malaysia	4,494.00	30.9	1,388.65	0.46	MIDF Fair Value of RM3.50
Aliran Ihsan Resources Berhad	487.00	100	487.00	0.16	Takeover price
Ports & Logistics					
PTP	2,345.64	70	1,641.95	0.54	DCF @ WACC: 8%, Perpetual Growth: 1%
Johor Port	2,083.71	100	2,083.71	0.68	DCF @ WACC: 8%, Perpetual Growth: 1%
NCB Holdings Berhad	1,652.70	100	1,652.70	0.54	DCF @ WACC: 8%, Perpetual Growth: 1%
Penang Port	431.00	100	431.00	0.14	Acquisition price
SMART Tunnel	585.23	50	292.61	0.10	DCF @ WACC: 7%, Perpetual Growth: 2%
Senai airport	580.00	100	580.00	0.19	Acquisition price @ 2009
Engineering & Construction					
Construction services	762.48	100	762.48	0.25	PER @ 10x FY19 PAT
MMC-Gamuda MRT2 (PDP)	865.34	50	432.67	0.14	DCF
Phase 1 Pan Borneo Sabah (PDP)	501.13	20	125.28	0.04	DCF
Others					
Senai Development Land - Airport City	2,130.35	100	2,130.35	0.70	2,718 acres @ RM18 psf
Tanjung Bin Land	1,768.10	100	1,768.10	0.58	2,255 acres @ RM18 psf
Net Debt (Estimate)			(4,420.96)	(1.51)	Company level debt
Total Value (RM mil)	24,639.44		11,597.01	3.78	
No of shares				3,045.10	
Value per Share				3.81	
Discount (%)				40%	Conglomerate discount
Fair Value per Share (RM)				2.29	

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.