

27 August 2018 | 2QFY18 Results Review

MMC Corporation Berhad

Sequential quarter recovery in Northport volume

INVESTMENT HIGHLIGHTS

- **1HFY18 earnings below estimates**
- **However, there is sequential quarter recovery in Northport volume**
- **Energy segment supported by Gas Malaysia**
- **Strong orderbook >RM10b for construction segment**
- **Maintain BUY with a revised TP of RM2.13 per share**

Earnings below expectations. For 1HFY18, MMC Corporation Bhd's (MMC) revenue increased by +32.7%yoy to RM2.5b while its cumulative normalised PATAMI declined by -61.9%yoy to RM46.2m which missed both ours and consensus estimates by a variance of more than 10%. The deviation was mainly attributable to the increase in operating expenses and finance costs in view of the acquisition of Penang Ports.

Pickup in Northport volume on a sequential quarter basis. 1HFY18 Revenue and PBT for the ports and logistics segment declined by -1.9%yoy and -43.4%yoy respectively mainly due to the decline in container volume at Northport subsequent to the reshuffling of shipping alliances and lower contribution from RAPID Material Offloading Facilities (RAPID MOLF) at Johor Port. Nonetheless, the growth in container volume in PTP and Johor Port by +6%yoy and +8%yoy in 1HFY18 respectively cushioned the lower volumes handled at Northport.

It is noteworthy that volumes at Northport increased by +5.9%qoq, in line with the effects of the reshuffling of shipping alliances reaching its tail end towards end of 1HFY18. Moving forward, we opine that overall container volume for the segment will be supported by the economic growth in Asia and ASEAN which is expected to remain resilient at +6.5%yoy and +5.3%yoy respectively for 2018 in accordance with the International Monetary Fund's latest projection.

Energy segment supported by Gas Malaysia Bhd. Malakoff recorded a -47.8%yoy decline in PATAMI for 1HFY18 due to: (i) lower capacity payment recorded by the Segari Energy Ventures (SEV) following the tariff reduction under the extended PPA revision and; (ii) lower fuel margin recorded at Tanjung Bin Power and Tanjung Bin Energy plant. However, the decline in the PATAMI for the segment was partially offset by contribution from **Gas Malaysia Berhad (BUY; TP: RM3.50)** which posted a +33.4%yoy increase in PATAMI due to the increase in volume of gas sold coupled with higher natural gas tariff.

Maintain BUY


Revised Target Price (TP): RM2.13
(previously RM2.29)

RETURN STATS	
Price (24 August 2018)	RM1.46
Target Price	RM2.13
Expected Share Price Return	+45.9%
Expected Dividend Yield	+2.7%
Expected Total Return	+48.6%

STOCK INFO	
KLCI	1,808.59
Bursa / Bloomberg	2194 / MMC MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	3,045.06
Market cap. (RM'm)	4,445.79
Price over NA	0.046
52-wk price Range	RM1.28 – RM2.39
Beta (against KLCI)	1.12
3-mth Avg Daily Vol	0.40m
3-mth Avg Daily Value	RM0.58m
Major Shareholders (%)	
Seaport Terminal	51.76
PNB	20.25
LTH	7.68
EPF	5.22

Earnings visibility in construction segment. PBT for engineering and construction (E&C) posted a staggering +78.8%yoy increase in 1HFY18. The substantial gain was largely attributed to the higher progress billings from the KVMRT2 and the Langat Sewerage Treatment projects. Despite big ticket projects being put on the back burner, we remain sanguine on the E&C segment as earnings visibility will be provided by MMC Corp's role as a PDP in the Pan Borneo Highway in addition to the KVMRT2 and Langat Sewerage Treatment projects. The segment currently has an orderbook of around RM15b which is 12x the construction revenue recorded in FY17.

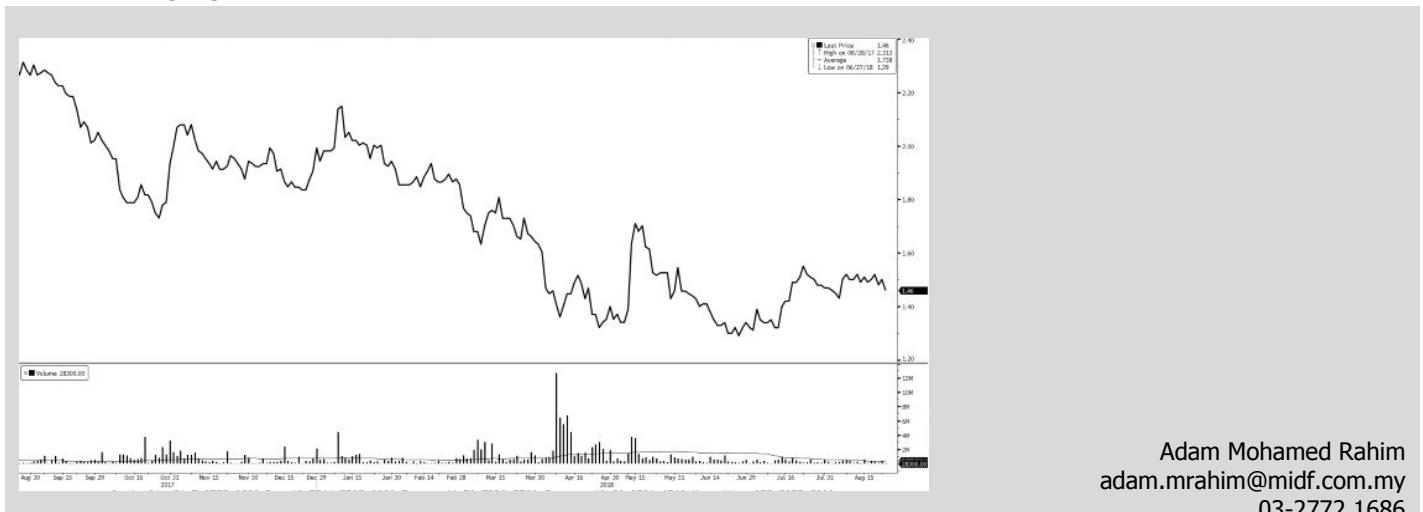
Earnings forecast. We are revising our FY18 and FY19 earnings forecast downwards to RM292.0m and RM352.1m respectively. This is after inputting: (i) higher estimates for operating expenses and finance costs related to the acquisition of Penang Ports; and (ii) slight reduction in total container volume forecast.

Maintain BUY with adjusted TP of RM2.13 per share (from RM2.29 per share), based on our sum-of-parts (SOP) valuation. Subsequent to our earnings revisions, we tweaked our SOP valuation to incorporate: (i) a higher WACC of 8.5% for MMC's ports to take into account the impact from the global trade wars; and (ii) a lower target PER to 8x to reflect the possible lack of big ticket projects moving forward. Our BUY call is mainly predicated on: (i) valuation which is supported by the market capitalisation of its listed associates; Malakoff and Gas Malaysia; (ii) synergies from the full acquisition of Penang Ports propelled by economic activity at the northern region of Malaysia and; (iii) healthy orderbook above RM10b for the engineering and construction segment. Key downside risks to our call include: (i) further cancellation or reduction in value of construction projects; (ii) weak container volumes of MMC Corp's ports; and (iii) downward revision of its listed associates. 

INVESTMENT STATISTICS

FYE Dec	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue (RM'm)	3,013.0	4,627.4	4,160.1	4,640.7	4,702.7
EBIT (RM'm)	489.3	911.7	703.6	680.2	704.0
Pre-tax Profit (RM'm)	365.0	672.7	451.7	384.2	463.3
Core PATAMI (RM'm)	244.2	312.4	225.4	292.0	352.1
EPS (sen)	8.0	10.3	7.4	9.6	11.6
EPS growth (%)	269	(70)	(59)	30	21
PER (x)	18.2	14.2	19.7	15.2	12.6
Net Dividend (sen)	3.8	4.0	4.0	4.0	4.0
Net Dividend Yield (%)	2.6	2.7	2.7	2.7	2.7

DAILY PRICE CHART



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MMC Corporation Bhd: 2QFY18 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	2QFY18	%YoY	%QoQ	1HFY18	%YoY	
Revenue	1,200.8	27.1	-6.2	2,480.5	32.7	Consolidation of revenue from Penang Port
COGS	(812.1)	37.4	-10.4	(1,718.4)	48.5	
Gross profit	388.736	10.0	4.1	762.1	7.0	
Operating expenses	(264.1)	16.1	14.9	(493.9)	11.9	
EBIT	124.7	-1.1	-13.2	268.2	-1.0	
Finance expenses	(130.0)	10.2	-0.7	(259.2)	8.5	Finance costs of acquiring Penang port
Share of results from JV and Associates	45.5	-52.9	-8.8	95.3	-42.2	
PBT	40.098	-61.7	-37.6	104.3	-47.0	
Tax expense	(10.7)	-64.8	22.8	(19.4)	-66.1	
PAT	29.4	-60.4	-47.1	84.9	-39.2	
PATAMI	20.1	-68.1	-51.4	61.4	-48.0	
Normalised PATAMI	20.1	-69.6	-23.1	46.2	-61.9	

Segmental Breakdown	Quarterly Results			Cumulative		Comments
	2QFY18	%YoY	%QoQ	1HFY18	%YoY	
Ports & Logistics						
Revenue	740.0	5.1	13.0	1,395.0	-1.9	
PBT	70.0	-40.7	4.5	137.0	-43.4	Lower volume in Northport
Malakoff (37.6% associate)						
Revenue	1,944.1	12.1	21.2	3,548.3	0.9	
PATMI	52.5	-49.1	-0.7	105.4	-47.8	Lower capacity payment by SEV
Gas Malaysia (30.9% associate)						
Revenue	1,503.2	17.3	4.7	2,938.4	19.1	Higher volume of gas sold
PATMI	48.1	42.4	19.6	88.3	33.4	
Engineering & Construction						
Revenue	439.0	99.5	-27.3	1,043.0	151.9	Progress billing from KVMRT 2 and Langat Sewerage
PBT	78.0	34.5	5.4	152.0	78.8	

Sum-of-Parts Valuation

Assets	Total Value (RM mil)	% Stake	Value	Value per share	Remarks
Energy & Utilities					
Malakoff	5,750.0	37.6	2,162.0	0.71	Consensus TP of RM1.08
Gas Malaysia	4,494.0	30.9	1,388.6	0.46	MIDF Fair Value of RM3.50
Aliran Ihsan Resources Berhad	487.0	100	487.0	0.16	Takeover price
Ports & Logistics					
PTP	2,345.6	70	1,445.2	0.47	DCF @ WACC: 8.5%, Perpetual Growth: 1%
Johor Port	2,083.7	100	1,955.8	0.64	DCF @ WACC: 8.5%, Perpetual Growth: 1%
NCB Holdings Berhad	1,652.7	99	1,512.0	0.50	DCF @ WACC: 8.5%, Perpetual Growth: 1%
Penang Port	431.0	100	431.0	0.14	Acquisition price
SMART Tunnel	585.2	50	284.8	0.09	DCF @ WACC: 7%, Perpetual Growth: 2%
Senai airport	580.0	100	580.0	0.19	Acquisition price @ 2009
Engineering & Construction					
Construction services	762.5	100	762.5	0.25	PER @ 8x FY19 PAT
MMC-Gamuda MRT2 (PDP)	865.3	50	432.7	0.14	DCF
Phase 1 Pan Borneo Sabah (PDP)	501.1	20	100.2	0.03	DCF
Others					
Senai Development Land - Airport City	2,130.3	100	2,130.3	0.70	2,718 acres @ RM18 psf
Tanjung Bin Land	1,768.1	100	1,768.1	0.58	2,255 acres @ RM18 psf
Net Debt (Estimate)			(4,421.0)	(1.45)	Company level debt
Total Value (RM mil)	24,639.4		11,597.0	3.53	
No of shares				3,045.10	
Value per Share				3.55	
Discount (%)				40%	Conglomerate discount
Fair Value per Share (RM)				2.13	

Source: MIDFR

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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.