

28 February 2019 | 4QFY18 Results Review

MMC Corporation Berhad

Well above expectations

INVESTMENT HIGHLIGHTS

- **FY18 earnings of RM154.0m exceeded ours and consensus expectations**
- **PTP and JPB remain as growth drivers for the ports segment**
- **Energy and utilities segment supported by Gas Malaysia's increase in volume of gas sold coupled with higher tariffs**
- **Order book >RM10b to provide good earnings visibility for construction segment**
- **Maintain BUY with a revised TP of RM1.37 per share**

Well above expectations. MMC Corporation Bhd's (MMC) FY18 normalised PATAMI of RM154.0m (-26.2%yoy) but came in above our and consensus' expectations, representing a variance of more than 10 percent as compared to our and street FY19 earnings estimates.

Container volume growth at PTP and JPB. FY18 PBT for the ports and logistics segment declined by -14.0%yoy mainly due to: (i) the -5.8%yoy decline in container volume at Northport as customers shifted back to Westports; and (ii) lower contribution from RAPID Material Offloading Facilities (RAPID MOLFF) at Johor Port Berhad (JPB). Nonetheless, the growth in container volume in PTP and Johor Port of +7.0%yoy and +4.6%yoy respectively in FY18 cushioned the abovementioned matters.

Energy and utilities segment supported by Gas Malaysia Bhd. Malakoff Corporation Bhd (Malakoff) recorded a -7.3%yoy decline in PATAMI for FY18 mainly due to: (i) lower capacity payment recorded by the Segari Energy Ventures (SEV) following the tariff reduction under the extended PPA revision and; (ii) absence of compensation payment from dispute between Tanjung Bin Power plant and IHI Corp Japan. 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 +11.9%yoy increase in PATAMI due to the increase in volume of gas sold coupled with higher natural gas tariff.

Earnings visibility in construction segment. FY 18 PBT for engineering and construction (E&C) posted a staggering +49.0%yoy increase. It is noteworthy that the substantial gain was largely attributed to the higher progress billings from the KVMRT2 and the absence of the one-off provision for impairment in SMART seen in the previous year. Moreover, the construction segment currently has an order book of slightly RM10b as of end December 2018, even after the revision of the contract value of the KVMRT2 project. This is six times the construction revenue recorded in FY18.

Maintain BUY

Revised Target Price (TP): RM1.37
(Previously: RM1.35)

RETURN STATS	
Price (27 th February 2019)	RM1.14
Target Price	RM1.37
Expected Share Price Return	+20.2%
Expected Dividend Yield	+3.5%
Expected Total Return	+23.7%


STOCK INFO	
KLCI	1,713.45
Bursa / Bloomberg	2194 / MMC MK
Board / Sector	Main/ Transportation & Logistics
Syariah Compliant	Yes
Issued shares (mil)	3,045.06
Market cap. (RM'm)	3,471.37
Price over NA	0.0.46
52-wk price Range	RM0.81 - RM1.96
Beta (against KLCI)	1.23
3-mth Avg Daily Vol	1.00m
3-mth Avg Daily Value	RM0.95m
Major Shareholders (%)	
PNB	18.16
Urusharta Jamaah SB	7.68
EPF	5.07

Moving forward. In the near-term, we expect the ports and logistics segment to benefit from the Penang Port's full year contribution underpinned by economic activity in the Northern region of Peninsular Malaysia. Moreover, we note that PTP's role as a transshipment hub would not be directly susceptible under a full blown trade war between U.S and China as it mainly caters for intra-Asia trade lanes. As for the construction segment, we understand that the company is actively bidding for a few large scale infrastructure projects ranging from RM200m-RM500m which should sustain its orderbook in the next few years.

Government's plan to take over highway concessions. We have a neutral view should the government proceeds to take over the entire concession of SMART from MMC Corp and Gamuda. MMC viewed the SMART asset as non-core. As such, the disposal would enable MMC to redistribute the resources for its other business segment. Meanwhile, we are also cognizant of the risk that the disposal of SMART could take place at a discount to the fair value.

Earnings forecast. We have incorporated FY18 figures and introduce FY20F earnings forecast. In addition, other changes in our forecasts include the higher amount of work done recognised for MRT2 in FY19 which offsets the drop in margins following the reduction in contract value. As a result, our earnings estimates for FY19F have been slightly increased to RM234.6m.

Target price. Post earnings revision, we are adjusting our target price to **RM1.37 per share** (previously RM1.35 per share) based on our sum-of-parts valuation. The change in target price also follows the change of the consensus target price for Malakoff Berhad.

Maintain BUY. Our BUY call is mainly predicated on: (i) valuations supported by the market capitalisation of its listed associates; Malakoff and Gas Malaysia; (ii) synergies from the full acquisition of Penang Ports supported by the container terminal business and the cruise terminal operations in collaboration with Royal Caribbean Cruises Ltd driven by the growth in tourism in Penang and; (iii) healthy order book above RM10b for the engineering and construction segment. Key downside risks to our call include: (i) further 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	FY16A	FY17A	FY18A	FY19F	FY20F
Revenue (RM'm)	4,627.4	4,160.1	5,010.2	5,077.2	5,081.6
EBIT (RM'm)	911.7	703.6	410.9	633.6	634.6
Pre-tax Profit (RM'm)	672.7	451.7	389.6	345.0	338.5
Core PATAMI (RM'm)	312.4	208.7	154.0	234.6	257.3
EPS (sen)	10.3	6.9	5.1	7.7	8.4
EPS growth (%)	(70)	(62)	(26)	52	10
PER (x)	11.1	16.6	22.5	14.8	13.5
Net Dividend (sen)	4.0	4.0	3.5	4.0	4.0
Net Dividend Yield (%)	3.5	3.5	3.1	3.5	3.5

DAILY PRICE CHART



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MMC CORPORATION BHD: 4QFY18 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	4QFY18	%YoY	%QoQ	12MFY18	%YoY	
Revenue	1,585.6	28.4	68.0	5,010.2	20.4	Consolidation of revenue from Penang Port
COGS	(1,082.1)	31.6	93.1	(3,347.1)	27.8	
Gross profit	503.506	22.0	31.2	1,663.1	7.9	
Operating expenses	(220.6)	26.1	6.9	(934.6)	12.5	
EBIT	282.9	19.1	59.5	728.5	2.5	
Finance expenses	(144.4)	9.8	-3.6	(543.1)	10.6	Finance costs of acquiring Penang port
Share of results from JV and Associates	58.0	-15.7	14.0	204.2	-5.6	
PBT	196.430	12.3	121.2	389.557	-10.7	
Tax expense	(66.6)	-26.7	82.4	(122.5)	-33.5	
PAT	129.8	54.6	148.4	267.035	6.0	
PATAMI	119.7	59.8	207.4	220.1	4.9	
Normalised PATAMI	109.0	n.m.	122.3	154.0	-26.2	

Segmental Breakdown	Quarterly Results			Cumulative		Comments
	4QFY18	%YoY	%QoQ	12MFY18	%YoY	
Ports & Logistics						
Revenue	805.0	19.4	2.0	2988.0	6.1	
PBT	130.0	13.0	-5.1%	416.0	-14.0	Lower volume in Northport
Malakoff (37.6% associate)						
Revenue	1,887.3	5.2	-1.3	7348.2	3.1	
PATMI	85.5	187.8	2.4	274.4	-7.3	Lower capacity payment by SEV
Gas Malaysia (30.9% associate)						
Revenue	1,738.5	19.4	11.7	6233.2	17.3	Higher volume of gas sold
PATMI	51.1	-16.7	24.5	180.4	11.9	
Engineering & Construction						
Revenue	752.0	38.0	474.0	1926.0	52.3	Higher progress billing from KVMRT 2
PBT	122.0	15.1	481.0	295.0	49.0	

Source: Company, MIDFR

Assets	Total Value (RM mil)	% Stake	Value	Value per share	Remarks
Energy & Utilities					
Malakoff	4,950.00	37.6	1,861.20	0.61	Consensus TP of RM0.99
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	957.57	70	670.30	0.22	DCF @ WACC: 12%, Perpetual Growth: 1%
Johor Port	379.68	100	379.68	0.12	DCF @ WACC: 12%, Perpetual Growth: 1%
NCB Holdings Berhad	563.56	99	557.93	0.18	DCF @ WACC: 12%, Perpetual Growth: 1%
Penang Port	120.59	100	120.59	0.04	DCF @ WACC: 12%, Perpetual Growth: 1%
SMART Tunnel	483.14	50	241.57	0.08	DCF @ WACC:9%, Perpetual Growth: 2%
Senai airport	580.00	100	580.00	0.19	Acquisition price @ 2009
Engineering & Construction					
Construction services	418.20	100	418.20	0.14	PER @ 6x FY20 PAT
MMC-Gamuda MRT2 (AG)	518.47	50	259.24	0.09	DCF
MMC-Gamuda MRT2 (UG)	648.63	50	324.31	0.11	DCF
Phase 1 Pan Borneo Sabah (PDP)	499.85	20	99.97	0.03	DCF
Others					
Senai Development Land - Airport City	1,431.56	100	1,431.56	0.47	2,054 acres @ RM16 psf
Tanjung Bin Land	1,063.56	100	1,063.56	0.35	1,526 acres @ RM16 psf
Net Debt (Estimate)			(3020.96)	(0.99)	Company level debt
Total Value (RM mil)	17,798.59		6,942.27	2.25	
No of shares				3,045.10	
Value per Share				2.28	
Discount (%)				40%	Conglomerate discount
Fair Value per Share (RM)				1.37	

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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.