

28 February 2018 | FY17 Results Review

MMC Corporation Berhad

Growth in ports to be sustained

INVESTMENT HIGHLIGHTS

- **FY17 earnings below estimates**
- **PTP and Johor Port performed well**
- **Energy segment supported by Gas Malaysia**
- **One-off impairments hampered construction division**
- **Earnings visibility in the coming years**
- **Maintain BUY with adjusted TP of RM2.72 per share**

Earnings below expectations. MMC Corp registered 4QFY17 normalised PATAMI of RM104.8m (-60.8%yoy). This contributed to a FY17 normalised PATAMI of RM254.9m (-47.2%yoy) which missed both ours and consensus estimates, accounting for only 75% of the full year forecasts. The shortfall was mainly due to the completion KVMRT1 line and no sale of land in respect to Senai Airport City (SAC). We also note higher effective tax rate of 46% in 4QFY17 due to under provision of tax in prior years and certain expenses which were not tax deductible.

PTP and Johor Ports performed well. FY17 revenue and PBT for the ports and logistics segment rose +3.0%yoy and +5.9%yoy respectively due to higher container volume at PTP and Johor Ports. The growth in container volume especially in PTP cushioned the lower volumes handled at Northport following the effects of reshuffling of shipping alliances in April 2017. To recall, PTP is the key regional hub for the 2M Alliance with 12 weekly calls while the Ocean Alliance has four weekly calls at PTP. Moving forward, we opine that overall container volume for the segment will be supported by: (i) higher Malaysian external trade and; (ii) acquisition of the remaining 51% stake in Penang Ports this year.

Energy segment supported by Gas Malaysia. Malakoff recorded a -12.8%yoy decline in PATAMI amid lower capacity payment recorded by the SEV after the PPA revision. However, the decline in the PATAMI for the segment was partially offset by **Gas Malaysia Berhad (BUY; TP: RM3.50)** which posted a +17.9%yoy increase in PATAMI due to the increase in volume of gas sold coupled with higher natural gas tariff.

Impairments hampered construction division. PBT for engineering and construction (E&C) fell -43.3%yoy in FY17. The substantial decline was largely attributed to the completion of the KVMRT1 line and one-off provision for impairment on SMART due to lower forecasted traffic volume. However, this was cushioned by higher progress billings from the KVMRT2 and the Langat Sewerage Projects. 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.

Maintain BUY

Adjusted Target Price (TP): RM2.72
(From: RM2.67)

RETURN STATS	
Price (27 Feb 2017)	RM1.92
Target Price	RM2.72
Expected Share Price Return	+41.7%
Expected Dividend Yield	+2.0%
Expected Total Return	+43.7%


STOCK INFO	
KLCI	1,871.46
Bursa / Bloomberg	5238 / MMC MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	3,045.06
Market cap. (RM'm)	6,029.22
Price over NA	0.61
52-wk price Range	RM1.77 - RM2.63
Beta (against KLCI)	0.95
3-mth Avg Daily Vol	0.52m
3-mth Avg Daily Value	RM1.05m
Major Shareholders (%)	
Seaport Terminal	51.76
PNB	20.25
LTH	7.66

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Earnings forecast. We revise our earnings forecast upwards to RM441.5m and RM525.8m as we factor in higher volume growth from the ports and logistics division underpinned by the continued strength in Malaysian external trade that is estimated to grow by +9.3%yoy in 2018 according to our economics team.

Earnings visibility moving forward. Once the full acquisition of Penang Ports is completed this year, we estimate revenue contribution of approximately RM500m which will bode well for ports and logistics division. The E&C segment meanwhile has a healthy orderbook of >RM10b which will provide future earnings visibility in the near future.

Maintain BUY with adjusted TP of RM2.72 per share (from 2.67), based on our sum-of-parts (SOP) valuation. Subsequent to our earnings revisions, we tweaked our SOP valuation to incorporate lower WACC of 7% for MMC's ports amid expected synergies once Penang Ports is fully acquired. Our BUY call is mainly predicated on: (i) potential listing of its ports assets, (ii) expected synergies from the full acquisition of Penang Ports (iii) ongoing projects at the Langat sewerage plant. 

INVESTMENT STATISTICS

FYE Dec	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue (RM'm)	5,056.9	4,627.4	4,160.1	4,790.1	4,904.9
EBIT (RM'm)	2,406.6	911.7	703.6	847.2	890.2
Pre-tax Profit (RM'm)	1,969.5	672.7	451.7	580.9	691.9
Core PATAMI (RM'm)	255.4	312.4	254.9	441.5	525.8
EPS (sen)	8.4	10.3	7.4	14.5	17.3
EPS growth (%)	(47)	(70)	(59)	96	19
PER (x)	28.2	18.7	25.9	13.2	11.1
Net Dividend (sen)	3.8	4.0	0	4.0	4.0
Net Dividend Yield (%)	1.6	2.1	0	2.0	2.0

DAILY PRICE CHART



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Source: Bloomberg

MMC: FY17 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	4QFY17	%YoY	%QoQ	FY17	%YoY	
Revenue	1,234.7	-33.3	17.0	4,160.1	-10.1	No sale of land in SAC
COGS	(812.1)	-32.7	27.0	(2,608.7)	-8.9	
Gross profit	422.6	-34.5	1.5	1,551.4	-12.1	
Operating expenses	(192.4)	-28.7	-10.0	(847.8)	-0.7	
EBIT	230.2	-38.6	13.8	703.6	-22.8	
Finance expenses	(131.5)	8.3	-8.9	(491.2)	-0.6	
Share of results from JV and Associates	86.4	68.1	829.1	239.4	-3.9	
PBT	185.0	-39.3	165.4	451.7	-32.9	Impairment of SMART
Tax expense	(90.9)	365.4	152.1	(184.3)	156.6	Under provision of tax
PAT	94.1	-67.0	179.6	267.5	-55.5	
PATAMI	85.1	-68.2	281.6	225.4	-59.0	
Normalised PATAMI	104.8	-60.8	-21.7	254.9	-47.2	

Segmental Breakdown	Quarterly Results			Cumulative		Comments
	4QFY17	%YoY	%QoQ	FY17	%YoY	
Ports & Logistics						
Revenue	674.0	-7.5	-7.2	2817.00	3.0	Higher contribution from PTP
PBT	115.0	10.6	-9.4%	484.00	5.9	
Malakoff (37.6% associate)						
Revenue	1,793.4	4.7	-1.5	7130.44	16.9	Higher energy payment recorded at TBP and TBE coal plant
PATMI	43.7	-51.5	-31.9	309.95	-12.8	
Gas Malaysia (30.9% associate)						
Revenue	1,471.1	40.1	4.8	5348.82	32.0	High gas tariff and volume
PATMI	78.0	46.5	75.5	194.64	17.9	
Engineering & Construction						
Revenue	545.0	-32.1	78.1	1265.00	-16.3	Completion of KVMRT-SBK line
PBT	106.0	-21.5	1414.3	198.00	-43.3	

Assets	Total Value (RM mil)	% Stake	Value	Value per share	Remarks
Energy & Utilities					
Malakoff	5,500.00	37.6	2,180.80	0.72	Consensus TP of RM1.06
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	4,284.54	70	2,999.18	0.98	DCF @ WACC: 7%, Perpetual Growth: 1%
Johor Port	2,409.41	100	2,409.41	0.79	DCF @ WACC: 7%, Perpetual Growth: 1%
NCB Holdings Berhad	2,417.81	100	2,417.81	0.79	DCF @ WACC: 7%, Perpetual Growth: 1%
Penang Port	431.00	49	431.00	0.14	Acquisition price
SMART Tunnel	598.79	50	299.40	0.10	DCF @ WACC: 7%, Perpetual Growth: 2%
Senai airport	580.00	100	580.00	0.19	Acquisition price @ 2009
Engineering & Construction					
Construction services	838.72	100	838.72	0.28	PER @ 11x FY18 PAT
MMC-Gamuda MRT2 (PDP)	865.34	50	432.67	0.14	DCF
Phase 1 Pan Borneo Sabah (PDP)	502.41	20	125.60	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)			(4,587.84)	(1.51)	Company level debt
Total Value (RM mil)	27,310.24		13,792.32	4.50	
No of shares				3,045.10	
Value per Share				4.53	
Discount (%)				40%	Conglomerate discount
Fair Value per Share (RM)				2.72	

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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.