

PP14767/09/2012(030761)

Thursday, November 26, 2015

MMC Corporation Berhad

“Eyeing Bigger Port”

Results Review

- **Actual vs. expectations.** MMC Corporation Berhad (MMC) 9M15 net profit to equity holder of RM1.49 billion (+408% y-o-y) beaten ours and consensus expectation respectively on the back of one-off gain amounting to RM1.35 billion related to Malakoff’s listing in May. If we stripped out the one off gain, MMC’s 9M15 net profit to equity holder came at RM143 million, attributing 34% and 41% of ours and consensus estimates respectively. The lower earnings recorded (excluded Malakoff) was derailed by higher other operating expenses that jumped by +46% y-o-y to RM184 million and lower contribution from engineering segment by 22% y-o-y in 9M15.
- **Dividend.** No dividend declared in this quarter.
- **Topline vs. Bottom line.** For fair comparison, we would compare the result with pre-Malakoff IPO and post-Malakoff IPO from MMC financials. Pre-IPO, revenue reached RM4.09 billion (-36.7% y-o-y) in 9M15 mainly due to lower contribution from energy segment following its scheduled maintenance as well as lower capacity utilisation by its fired power plants (-22% y-o-y) in 9M15. Post IPO, revenue in 9M15 came at RM2.05 billion (-15.8% y-o-y) derailed by lower contribution from engineering and construction (-20.4% y-o-y) in 9M15 following the completion of tunnelling drive and completion of Double Track Project. Nevertheless, port and logistic segment recorded steady revenue (+10.6% y-o-y) fuelled by the commencement of services by 2M alliance entered between Maersk Line and MSC. Due to weak contribution in engineering and construction segment, EBIT for pre-IPO and post-IPO (excluded one-off gain respectively) was at RM2.05 billion (236% y-o-y) and RM990 million (-59.4% y-o-y).

BUY (TP:RM2.80)

Current Price (RM)	RM2.05
New Fair Value (RM)	RM2.80
Previous Fair Value (RM)	RM2.70
Previous Recommend.	BUY
Upside To Fair Value	35%
Dividend Yield (FY15)	-

Stock Code	
Bloomberg	MMC MK

Stock & Market Data	
Listing	MAIN MARKET
Sector	Diversified
Shariah Compliance	Yes
Issued Shares (mn)	3,045.1
Market Cap (RM mn)	6,242.4
YTD Chg In Share Price	-14.2%
Beta (x)	1.08
52-week Hi/Lo (RM)	RM2.80   RM1.49
3M Average Volume (shrs)	679 mil
Estimated Free Float	22%

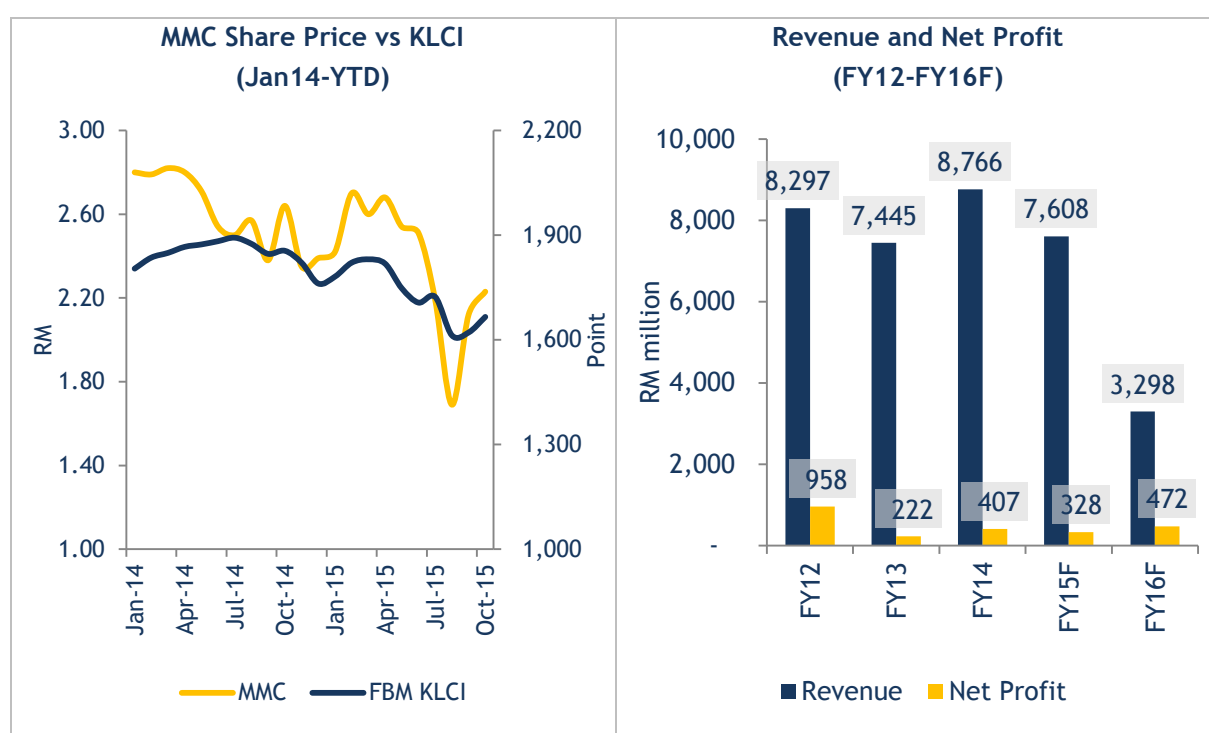
Major Shareholders	
Seaport Terminal	51.7%
ASB	20.2%
LTH	6.0%

- **Energy and utilities.** The segment recorded a decrease in revenue of 50.3% to RM2,043.9 million from RM4,112.1 million 9M14, primarily due to the deconsolidation of Malakoff's results upon the completion of its IPO listing on 15 May 2015. The segment recorded PBT of RM1,694.2 million vs. with RM439.2 million in 9M14, due to the exceptional gain of RM1,344.1 million relating to Malakoff listing.
- **Port and logistics.** The segment revenue of RM1,351.2 million that jumped 10.5% y-o-y was mainly due to the higher throughput handled at Pelabuhan Tanjung Pelepas (PTP) driven by the continuous and positive progress from 2M alliance between Maersk Line and Mediterranean Shipping Company (MSC), launched in January 2015. The segment recorded PBT of RM262.3 million vs. RM193.3 million in 9M14, mainly attributed to the increase in throughput handled at PTP coupled with lower operating costs incurred in line with its continuing cost efficiency and productivity programmes.
- **Engineering and construction.** The segment revenue slipped 20.4% to RM649.7 million vs. RM816.8 million in 9M14, mainly due to lower work progress recorded from KVMRT-SBK line project upon the completion of tunnelling drive works in April 2015 and the closure of Electrified Double Track Project in November 2014. Correspondingly, PBT for the segment weakened by 31.5% y-o-y due to reasons mentioned above.
- **Outlook.** We foresee that MMC will have its hands full for the next 6 months with the growing port business including to list its ports business into Bursa Malaysia in 2H16. The listing of port business will serve as key catalyst for MMC as the listing will further bring down MMC's gearing. Meanwhile we project that MMC will continue to tender in more government related construction project in 2016 as government is ready to stimulate the economy through the construction work.
- **Change to forecast.** We revise downward our FY15 and FY16 earnings forecast by 28% and 27% due to the lower earnings in 9M15. As such, MMC FY15 earnings are projected to drop by 22% y-o-y in FY15 but to grow by 43% y-o-y in FY16 driven by i) steady contribution from KVMRT project ii) higher contribution from PTP due to expanding capacity
- **Valuation.** Despite the revision in earnings, we revise higher our target price to RM2.80 as we rolled our valuation into FY16. At RM2.80, MMC is trading at PER of 25x, a 25% premium from its 3-year average PER of 20.8x. Re-rating catalyst on MMC could emanate from 1) listing of port segment; and 2) securing more construction and engineering contract from government.

Table 1: Peers Comparison

Company	Y/E Ended	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	TP	Call
			FY15	FY16	FY15	FY16	FY16	FY16			
MMC Corp	Dec	2.10	0.1	0.2	18.9	16.1	1.0	0.9	3.2	2.80	Buy
TNB	Aug	13.58	1.2	1.2	12.7	12.2	1.8	1.6	14.1	14.60	Hold
Gas Malaysia	Dec	2.29	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Buy
Petronas Gas	Dec	23.04	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Hold
Petronas Chemical	Dec	6.92	0.3	0.4	15.1	13.4	1.7	1.6	15.0	5.80	Hold
Malakoff	Dec	1.68	NA	NA	NA	NA	NA	NA	8.68	2.30	Buy
YTL Power	Dec	1.51	0.1	0.1	11.2	11.8	1.1	1.0	12.1	NA	NA
Average			0.5	0.6	19.4	17.3	2.3	2.2	13.8		

Source: Bloomberg, M&amp;A Securities



Source: Bursa Malaysia, M&amp;A Securities

Table 2: Financial Summary

YE: Dec (RM million)	3Q15	2Q15	3Q14	y-o-y	q-o-q	9M15	9M14	y-o-y
Revenue	675	743	326	107%	-9%	2,054	2,349	-13%
Cost of sales	(409)	(438)	(69)	493%	-7%	(1,222)	(1,594)	-23%
Gross Profit	266	305	257	3%	-13%	832	755	10%
Other operating income	18	1,373	17	7%	-99%	1,411	50	2711%
Administrative expenses	(154)	(165)	(127)	21%	-7%	(456)	(398)	14%
Other operating expenses	(40)	(107)	(57)	-29%	-62%	(184)	(126)	46%
Finance cost	(96)	(96)	(94)	2%	0%	(287)	(250)	15%
Associates/jointly controlled entity	97	60	21	356%	61%	204	114	79%
PBT	91	1,371	17	434%	-93%	1,521	144	954%
Taxation	(34)	(32)	34	-199%	7%	(68)	85	-180%
PAT	57	1,339	51	13%	-96%	1,453	229	534%
Discounting Malakoff operation	-	51	128			172	280	-38%
Minorities	(10)	(41)	(74)	-87%	-77%	(132)	(216)	-39%
Core PAT	48	1,350	105	-54%	-96%	1,493	294	408%
EPS (sen)	1.57	43.57	1.63	-4%	-96%	46.55	5.82	700%
PBT Margin	14%	185%	5%			117%	12%	-7619%
PAT Margin	9%	180%	16%			110%	24%	-4259%

Source: Bursa Malaysia. M&amp;A Securities

\*4Q14:inclusion of Malakoff contribution

Table 3: Financial Summary

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	8,297	7,445	8,766	7,608	3,298
Cost of Sales	(5,859)	(5,302)	(6,006)	(6,246)	(2,746)
Gross Profit	2,438	2,144	2,759	1,362	552
Other income	1,350	305	389	369	280
Expenses	(742)	(770)	(770)	(816)	(683)
Associates/jointly controlled entity	246	193	180	686	230
PBT	1,809	261	886	368	451
PAT	1,546	450	804	239	337
Minorities	588	222	407	89	135
Core PAT	958	230	383	327	472
EPS (Sen)	30.3	13.4	13	8	11
PBT Margin	21.8%	3.5%	10.1%	6.1%	19.1%
PAT Margin	18.6%	6.0%	9.2%	4.0%	14.5%
PER (x)	83	9	38	16	13
P/BV (x)	1.4	1.1	1.17	1.12	1.07

Source: Bursa Malaysia. M&amp;A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

<b>BUY</b>	Share price is expected to be $\geq +10\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -10\%$ over the next 12 months.

## SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

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