

PP14767/09/2012(030761)

MMC Corporation Berhad

“New MMC Look”

Results Review

- **Actual vs. expectations.** MMC Corporation Berhad (MMC) 1Q15 net profit to equity holder of RM96 million (+306% y-o-y, -52% q-o-q) came in line with ours and consensus estimates respectively after the deconsolidation of Malakoff from MMC’s financial. The satisfactorily earnings were aided by contribution from Malakoff of RM121 million that currently treated as equity interest contribution and lower taxation charge of RM3 million (-39% y-o-y) due to recognition of deferred tax income related to port business.
- **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 RM2 billion (+6.7% y-o-y) mainly attributed by higher contribution from energy segment to RM1.34 billion (+8.8% y-o-y) fuelled by contribution from Malakoff. Post IPO, revenue in 1Q15 came at RM637 million (+2.4% y-o-y) driven by higher contribution from port and logistic segment of RM420 million (+9.7% y-o-y). Due to stronger contribution in both utilities and port and logistic, EBIT for pre-IPO and post-IPO was at RM890 million (+27% y-o-y) and RM662 million (+28.8% y-o-y)
- **Energy and utilities.** The segment revenue in 1Q15 only registered at RM3 million due to Malakoff deconsolidation. Pre-IPO, revenue from this segment surged to RM1.23 billion (+8.8% y-o-y) due to the recovery of Tanjung Bin performance as well as consolidation Port Dickson plants into Malakoff financial and contribution from Macarthur winds plant.

Friday, May 29, 2015

BUY (TP:RM3.00)

Current Price (RM)	RM2.60
New Fair Value (RM)	RM3.00
Previous Fair Value (RM)	RM3.00
Previous Recommend.	BUY
Upside To Fair Value	15.2%
Dividend Yield (FY15)	-

Stock Code

Bloomberg	MMC MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Diversified	
Shariah Compliance	Yes	
Issued Shares (mn)	3,045.1	
Market Cap (RM mn)	7,917.2	
YTD Chg In Share Price	8.8%	
Beta (x)	1.03	
52-week Hi/Lo (RM)	RM2.87	RM2.16
3M Average Volume (shrs)	1.69 mil	
Estimated Free Float	22%	

Major Shareholders

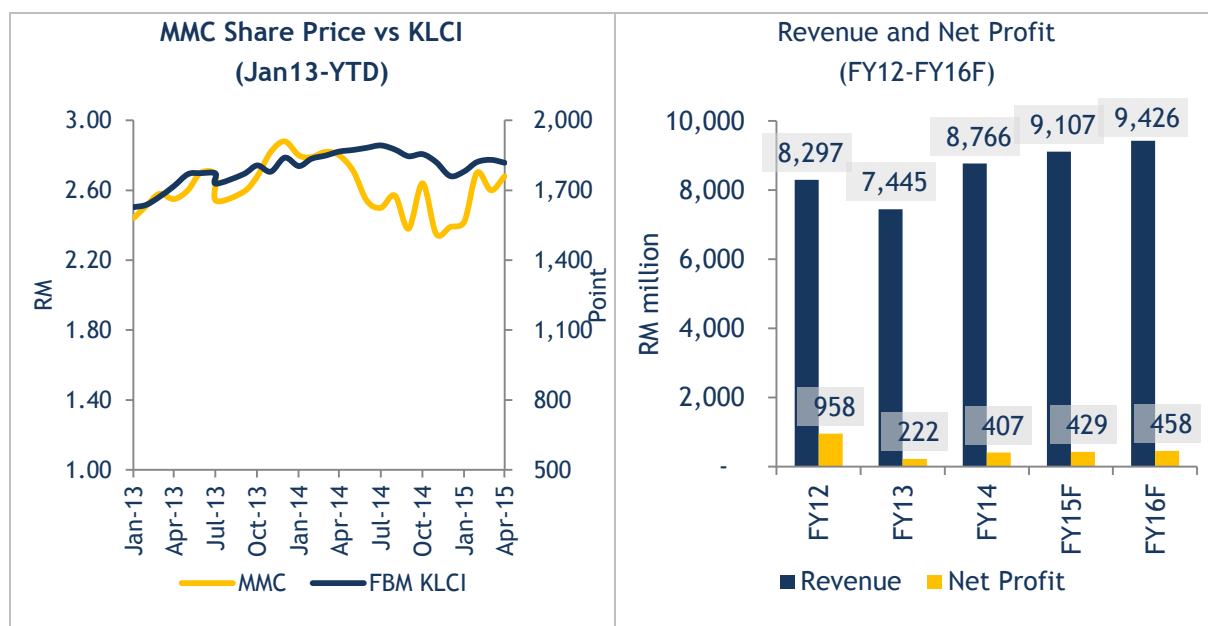
Seaport Terminal	51.7%
ASB	20.2%
LTH	5.9%

- **Port and logistics.** The segment revenue grew by 9.6% y-o-y to RM420 million vs. RM383 million in 1Q14, mainly due to higher throughput handled following commencement of services by Maersk Line and Mediterranean Shipping Company (MSC). In line with lower cost of repairs and maintenance works incurred, PBT rose to RM67.8 million (+14.7%y-o-y).
- **Engineering and construction.** The segment revenue slipped 4.2% y-o-y to RM199.1 million due to completion of Electrified Double Track Project. Nevertheless, PBT for the segment registered strong results due to positive contribution from KVMRT-SBK project largely from tunnelling and underground construction works and improving profit margin from Electrified Double Track Project.
- **Outlook.** FY15 will mark a bright year for MMC as deconsolidation of Malakoff will show the true colours of MMC's light balance sheet with the reduction of gearing to 1x vs. 2.1x with the exclusion of Malakoff. Additionally, MMC will be kept busy until FY17 with the appointment of Project Delivery Partnership for MRT2 Sungai Buloh-Putrajaya line and we foresee more works will be coming as MMC is only left with 2 major segments namely Port and Logistic, and Engineering.
- **Change to forecast.** We maintain our FY15 and FY16 earnings forecast as 1Q15 results are within our expectation. Nonetheless, FY15 and FY16 earnings are projected to grow by 1.3% y-o-y and 14% y-o-y driven by i) steady contribution from KVMRT project ii) higher contribution from PTP due to expanding capacity
- **Valuation.** We maintain our TP of RM3.00 on MMC and maintain our **BUY** call with 15% upside potential. Rating catalyst on MMC could emanate from i) listing of port segment ii) 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	2.68	0.1	0.2	18.9	16.1	1.0	0.9	3.2	3.00	Buy
TNB	Aug	13.34	1.2	1.2	12.7	12.2	1.8	1.6	14.1	15.20	Buy
Gas Malaysia	Dec	2.74	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Hold
Petronas Gas	Dec	21.94	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Hold
Petronas Chemical	Dec	6.26	0.3	0.4	15.1	13.4	1.7	1.6	15.0	5.80	Hold
Malakoff	Dec	1.76	NA	NA	NA	NA	NA	NA	8.68	2.30	Buy
YTL Power	Dec	1.61	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&A Securities



Source: Bursa Malaysia. M&A Securities

Table 2: Financial Summary

YE: Dec (RM million)	1Q15	4Q14	4Q14	y-o-y	q-o-q	3M15	3M14	y-o-y
Revenue	637	2,305	622	2%	-72%	637	622	2%
Cost of sales	(376)	(1,512)	(395)	-5%	-75%	(376)	(395)	-5%
Gross Profit	261	793	227	15%	-67%	261	227	15%
Other operating income	20	170	17	17%	-88%	20	17	17%
Administrative expenses	(137)	(193)	(127)	8%	-29%	(137)	(127)	8%
Other operating expenses	(37)	(113)	(31)	20%	-68%	(37)	(31)	20%
Finance cost	(95)	(334)	(76)	26%	-72%	(95)	(76)	26%
Associates/jointly controlled entity	47	26	30	56%	82%	47	30	56%
PBT	59	348	41	43%	-83%	59	41	43%
Taxation	(3)	(53)	(5)	-39%	-95%	(3)	(5)	-39%
PAT	56	295	37	53%	-81%	56	37	53%
Discontinuing Malakoff operation	121		15			121	15	
Minorities	(82)	(96)	(29)	184%	-15%	(82)	(29)	184%
Core PAT	96	199	24	306%	-52%	96	24	306%
EPS (sen)	3.4	3.4	1.2	183%	0%	3.4	1.2	183%
PBT Margin	9.3%	15.1%	6.7%			9.3%	6.7%	1762%
PAT Margin	8.8%	12.8%	5.9%			8.8%	5.9%	2171%

Source: Bursa Malaysia. M&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	9,107	9,426
Cost of Sales	(5,859)	(5,302)	(6,006)	(6,156)	(6,372)
Gross Profit	2,438	2,144	2,759	2,951	3,054
Other income	1,350	305	389	424	435
Expenses	(742)	(770)	(770)	(794)	(770)
Associates/jointly controlled entity	246	193	180	240	300
PBT	1,809	261	886	1,159	1,239
PAT	1,546	450	804	877	929
Minorities	588	222	407	429	458
Core PAT	958	230	383	393	402
EPS (Sen)	30.3	13.4	13	14	15
PBT Margin	21.8%	3.5%	10.1%	12.7%	13.1%
PAT Margin	18.6%	6.0%	9.2%	8.9%	9.9%
PER (x)	83	9	38	21	21
P/BV (x)	1.4	1.1	1.17	1.12	1.07

Source: Bursa Malaysia. M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

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

SECTOR RECOMMENDATIONS

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

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M & A Securities SdnBhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: www.mnaonline.com.my