

PP14767/09/2012(030761)

MMC Corporation Berhad

“Temporary Disruption”

Results Review

- **Actual vs. expectations.** MMC Corporation Berhad (MMC) 6M15 net profit to equity holder of RM1.35 billion (+716% y-o-y) beaten ours and consensus forecast respectively on the back of one-off gain amounting to RM1.35 billion related to Malakoff’s listing in May. If we stripped the one off gain, MMC’s 6M15 net profit to equity holder came in at RM102 million, attributing 27% and 25% of ours and consensus full year net profit estimates respectively. The lower earnings recorded (excluded Malakoff) was derailed by higher other operating expenses by +108% y-o-y to RM144 million and lower contribution from engineering segment by 31.5% y-o-y.
- **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 RM3.42 billion (-7.2% y-o-y) in 6M15 mainly attributed by lower contribution from energy segment following the scheduled maintenance as well as lower capacity utilisation by its fired power plants (-32.3% y-o-y) in 6M15. Post IPO, revenue in 6M15 came at RM1.38 billion (-51% y-o-y) derailed by lower contribution from engineering and construction (-99.5% y-o-y) in 6M15 following the completion of tunnelling project and Electrified Double Track Project. Nevertheless, port and logistic segment recorded steady revenue (+10.2% y-o-y) fuelled by 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 (excluding one-off gain respectively) was at RM1.4 billion (-11% y-o-y) and RM429 million (+1% y-o-y).

Thursday, August 27, 2015

BUY (TP:RM2.70)

Current Price (RM)	RM1.60
New Fair Value (RM)	RM2.70
Previous Fair Value (RM)	RM3.00
Previous Recommend.	BUY
Upside To Fair Value	15.2%
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)	4872.1
YTD Chg In Share Price	-33%
Beta (x)	1.16
52-week Hi/Lo (RM)	RM2.87 RM1.49
3M Average Volume (shrs)	1.69 mil
Estimated Free Float	22%

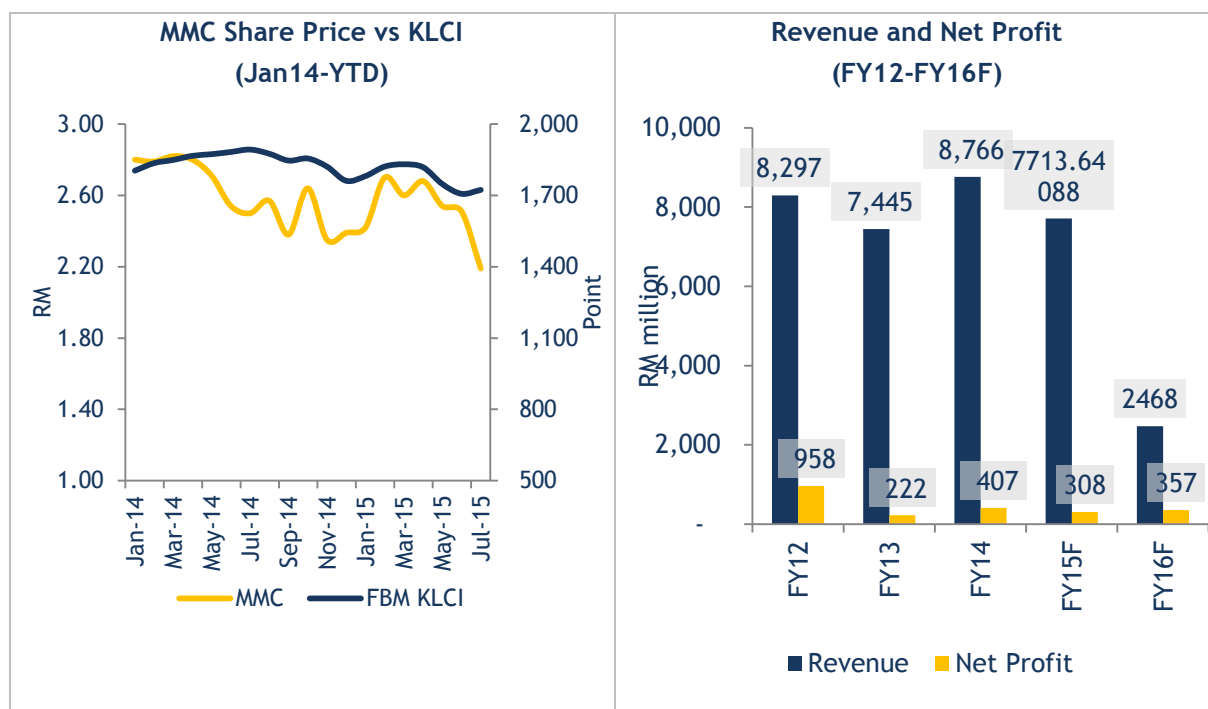
Major Shareholders	
Seaport Terminal	51.7%
ASB	20.2%
LTH	6.0%

- **Energy and utilities.** The segment revenue in 6M15 touched a mere RM7 million due to Malakoff deconsolidation. However, the segment incurred exceptional gain of RM1.34 billion arising from Malakoff listing.
- **Port and logistics.** The segment revenue grew by 10.2% y-o-y to RM884 million vs. RM802 million in 6M14, mainly due to higher throughput handled following the commencement of service by Maersk Line and Mediterranean Shipping Company (MSC). In line with lower cost of repairs and maintenance works incurred PBT to RM120.6 million (+40%y-o-y).
- **Engineering and construction.** The segment revenue slipped 99.6% y-o-y to RM459 million due to the completion of Electrified Double Track Project as well as slower progress recorded from KVMRT. Correspondingly, PBT for the segment weakened by 31.5% y-o-y due to reasons mentioned above.
- **Outlook.** Port and logistic segment was the star performer in this quarter given its arrangement with Maersk that pushed Pelabuhan Tanjung Pelepas (PTP) throughput. Additionally, the acquisition of an additional 14.4% stake in NCB Holdings which raised its total shareholding to 30.13%, further expands the Group's grip on Ports & Logistics businesses. 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. Hence, after the listing of Malakoff, we are positive that MMC will concentrate to grow its engineering division through KVMRT project which has entered its second year.
- **Change to forecast.** We lowered our earnings forecast in FY15 and FY16 by 24% y-o-y and 12.6% y-o-y respectively due to below expectations result. That said, FY15 earnings are projected to drop by 60% y-o-y, but to grow by 15% y-o-y driven by i) steady contribution from KVMRT project ii) higher contribution from PTP due to expanding capacity
- **Valuation.** We reduce our target price on MMC to RM2.70, but we reiterate our **BUY** call. At RM2.70, MMC is trading at PER of 17.5x, 18% discount 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	1.60	0.1	0.2	18.9	16.1	1.0	0.9	3.2	2.80	Buy
TNB	Aug	11.02	1.2	1.2	12.7	12.2	1.8	1.6	14.1	15.20	Buy
Gas Malaysia	Dec	2.03	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Buy
Petronas Gas	Dec	20.74	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Buy
Petronas Chemical	Dec	5.84	0.3	0.4	15.1	13.4	1.7	1.6	15.0	6.18	Hold
Malakoff	Dec	1.29	NA	NA	NA	NA	NA	NA	8.68	2.30	Buy
YTL Power	Dec	1.53	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)	2Q15	1Q15	2Q14	y-o-y	q-o-q	6M15	6M14	y-o-y
Revenue	743	637	1,401	-47%	17%	1,380	2,023	-32%
Cost of sales	(438)	(376)	(1,131)	-61%	16%	(814)	(1,525)	-47%
Gross Profit	305	261	270	13%	17%	566	497	14%
Other operating income	1,373	20	16	8367%	6651%	1,393	34	4050%
Administrative expenses	(165)	(137)	(144)	14%	20%	(302)	(271)	12%
Other operating expenses	(107)	(37)	(38)	179%	190%	(144)	(69)	108%
Finance cost	(96)	(95)	(81)	19%	1%	(191)	(156)	22%
Associates/jointly controlled entity	60	47	62	-4%	29%	107	92	16%
PBT	1,371	59	86	1499%	2218%	1,430	127	1024%
Taxation	(32)	(3)	56	-157%	1043%	(34)	51	-167%
PAT	1,339	56	141	847%	2276%	1,396	178	682%
Discounting Malakoff operation	51	121	137			172	152	13%
Minorities	(41)	(82)	(113)	-63%	-50%	(123)	(141)	-13%
Core PAT	1,350	96	165	716%	1309%	1,445	189	665%
EPS (sen)	43.57	3.4	3.46	1159%	1181%	44.98	4.19	974%
PBT Margin	185%	9%	6%			104%	6%	-3223%
PAT Margin	180%	9%	10%			101%	9%	-2147%

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	7,713	2,468
Cost of Sales	(5,859)	(5,302)	(6,006)	(6,246.54)	(1,936)
Gross Profit	2,438	2,144	2,759	1,467	532
Other income	1,350	305	389	369.54	280
Expenses	(742)	(770)	(770)	(794)	(770)
Associates/jointly controlled entity	246	193	180	240	300
PBT	1,809	261	886	686	944
PAT	1,546	450	804	308	357
Minorities	588	222	407	114	132
Core PAT	958	230	383	421	489
EPS (Sen)	30.3	13.4	13	10	12
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&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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