

PP14767/09/2012(030761

MMC Corporation Berhad

“Reaping Benefits from M&A Activity”

Results Review

- **Actual vs. expectations.** MMC Corporation Berhad (MMC) posted 3M16 earnings of RM51 million (-46% y-o-y, -66% q-o-q), which came in below from ours and consensus estimates, making up 16% and 19% of ours and consensus full year net profit forecast. The lower earnings was expected due to the absence of Malakoff contribution, however, lower q-o-q earnings was hampered by lesser contribution from engineering and construction segment and losses from Zelan Berhad resulting from effects of discounted receivables and unrealized loss on foreign exchange amounting of RM43 million. EPS registered a steep decline in growth of -21% y-o-y or -82.4% y-o-y to 4.9 sen.
- **Dividend.** No dividend declared in FY15.
- **Topline vs. Bottom line.** MMC’s revenue reached RM936 million (-53% y-o-y, -2% q-o-q) hampered by slower contribution from energy and construction. The lower topline pointed towards weaker EBIT of RM338 (-57% y-o-y) in 3M16, underpinned by abovementioned reasons. Additionally, slower PBT on q-o-q was derailed by fair value re-measurement of RM143.5 million arising from additional acquisition of equity interest in NCB Holdings in 4Q15.
- **Energy and utilities.** The segment revenue and PBT fell by RM1.35 billion and RM134 million due to the deconsolidation of Malakoff’s results upon the completion of its IPO listing on 15 May 2015.

Wednesday, June 01, 2016

BUY (TP:RM2.80)

Current Price (RM)	RM2.12
New Fair Value (RM)	RM2.80
Previous Fair Value (RM)	RM2.70
Previous Recommend.	BUY
Upside To Fair Value	31%
Dividend Yield (FY16)	-

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)	6,455	
YTD Chg In Share Price	8.16%	
Beta (x)	1.08	
52-week Hi/Lo (RM)	RM2.66	RM1.49
3M Average Volume (shrs)	803 k	
Estimated Free Float	22%	

Major Shareholders

Seaport Terminal	51.7%
ASB	20.2%
LTH	6.5%

- **Port and logistics.** The segment revenue touched RM690 million (+64.6% y-o-y), mainly driven by the effect from consolidation of NCB's revenue and increased in throughput handled at both Pelabuhan Tanjung Pelepas Sdn Bhd (PTP) and Johor Port Berhad (JPB) in line with steady progress from 2M alliance and growth in liquid and bulk cargoes. The higher revenue drove PBT to record a significant increase of RM141 million (+109% y-o-y).
- **Engineering and construction.** The segment revenue surged to RM226 million (+13.8%) mainly due to higher work progression recorded from Rapid Pengerang Co-generation plant (RAPID COGEN) and Langat Centralized Sewerage Treatment project, however partially offset by lesser activities performed for underground works package for KVMRT-SBK line as constructions draw gradually towards an end, as scheduled. Conversely, PBT for the segment fell to RM28.6 million (-149% y-o-y) due to the effects from discounted receivables and unrealized loss on foreign exchange concerning Meena Plaza project in Zelan Berhad
- **Outlook.** We foresee that MMC outlook is still bright despite the absence of energy and utilities contributions as MMC earnings will be anchored by port and logistic segments. This is largely capitalizing on the deconsolidation of NCB into MMC financials. In addition, PTP is expected to rakin more customers, banking on continuous and positive progress from 2M alliance. Meanwhile we project 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.** No change to our FY16 and FY17 forecast. At this juncture, FY16 and FY17 earnings are expected to grow by 35% y-o-y and 34% y-o-y respectively underpinned by i) steady contribution from KVMRT project ii) higher contribution from PTP due to expanding capacity iii) integration of NCB Holdings into MMC financials.
- **Valuation.** We are keeping our TP unchanged at RM2.80. At that price, 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. The stock is a **BUY**.

Table 1: Peers Comparison

Company	Y/E Ended	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	TP	Call
			FY16	FY17	FY16	FY17	FY16	FY17			
MMC Corp	Dec	2.12	0.1	0.2	15.0	13.6	0.6	0.6	19.9	2.90	Buy
TNB	Aug	13.98	1.2	1.3	11.2	10.7	1.5	1.3	12.1	14.90	Hold
Gas Malaysia	Dec	2.32	0.1	0.1	22.3	20.8	3.2	2.9	10.7	2.89	Buy
Petronas Gas	Dec	21.64	0.9	0.9	23.6	23.2	3.8	3.7	18.1	23.20	Hold
Petronas Chemical	Dec	6.58	0.4	0.4	18.9	17.3	2.2	2.0	11.7	6.80	Hold
Malakoff	Dec	1.61	0.1	0.1	14.5	14.2	1.4	1.3	9.3	2.00	Buy
YTL Power	Dec	1.45	0.1	0.1	12.8	11.6	0.9	1.0	8.1	NA	NA
Average			0.5	0.6	18.2	17.1	2.3	2.1	12.8		

Source: Bloomberg, M&A Securities

Table 2: Financial Summary

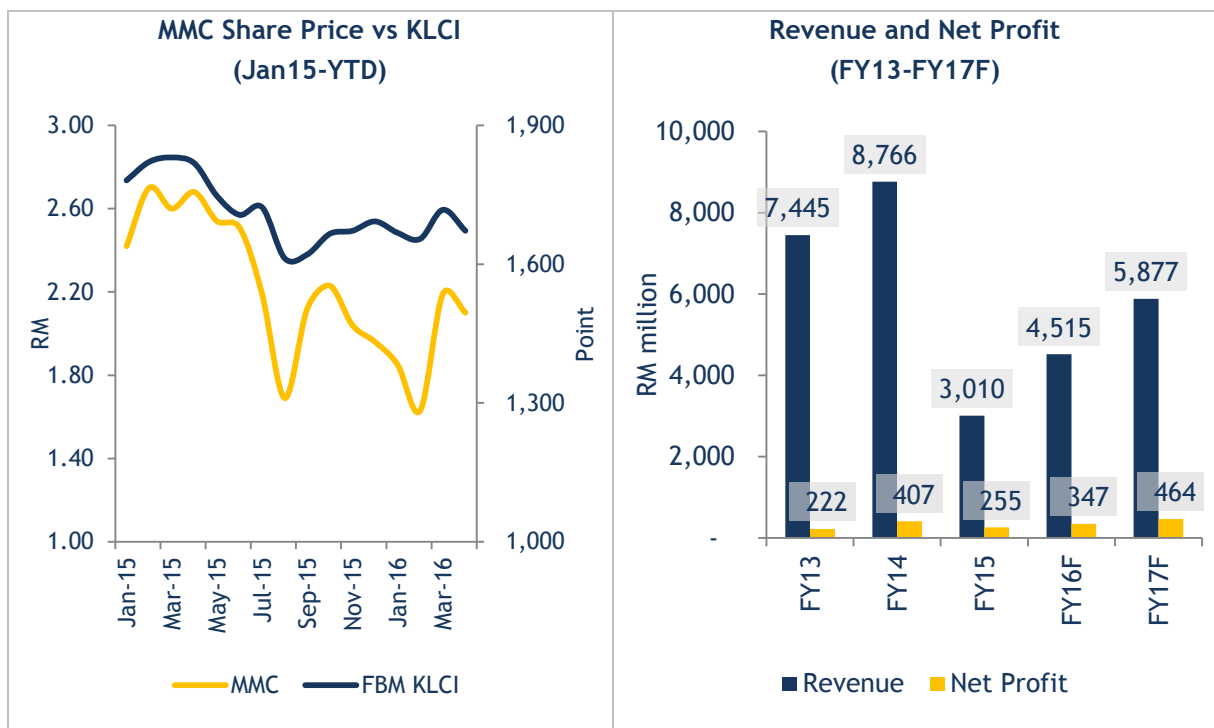
YE: Dec (RM million)	1Q16	4Q15	1Q16	y-o-y	q-o-q	3M16	3M15	y-o-y
Revenue	936	956	1,984	-53%	-2%	936	1,984	-53%
Cost of sales	(557)	(609)	(1,274)	-56%	-9%	(557)	(1,274)	-56%
Gross Profit	379	346	710	-47%	10%	379	710	-47%
Other operating income	24	184	74	-67%	-87%	24	74	-67%
Administrative expenses	(172)	(204)	(219)	-22%	-16%	(172)	(219)	-22%
Other operating expenses	(73)	(97)	(78)	-6%	-24%	(73)	(78)	-6%
Finance cost	(117)	(106)	(309)	-62%	10%	(117)	(309)	-62%
Associates/jointly controlled entity	55	55	57	-4%	-1%	55	57	-4%
PBT	96	178	235	-59%	-46%	96	235	-59%
Taxation	(29)	(11)	(57)	-49%	163%	(29)	(57)	-49%
PAT	66	167	177	-63%	-60%	66	177	-63%
Minorities	(15)	(17)	(82)	-81%	-12%	(15)	(82)	-81%
Core PAT	51	150	96	-46%	-66%	51	96	-46%
EPS (sen)	1.7	4.9	3.1	-45%	-65%	2	3	-45%
PBT Margin	10%	19%	12%			0	0	
PAT Margin	5%	16%	5%			0	0	

Source: Bursa Malaysia, M&A Securities

Table 3: Financial Summary

YE: Dec (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	7,445	8,766	3,010	4,515	5,877
Cost of Sales	(5,302)	(6,006)	(1,832)	(3,846.42)	(4,834)
Gross Profit	2,144	2,759	1,179	669	1,043
Other income	305	389	1,595	280	160
Expenses	(770)	(770)	(941)	(913)	(1,076)
Associates/jointly controlled entity	193	180	259	944	1,020
PBT	261	886	1,699	568	702
PAT	450	804	1,620	409	530
Minorities	222	407	-150	(61)	(66)
Core PAT	230	383	255	347	464
EPS (Sen)	13.4	13	53	13	17
PBT Margin	3.5%	10.1%	56.4%	12.6%	11.9%
PAT Margin	6.0%	9.2%	53.8%	9.1%	9.0%
PER (x)	9	38		13	12
P/BV (x)	1.1	1.17		1.07	1.01

Source: Bursa Malaysia. M&A Securities



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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