

01 March 2021

# MMC Corporation Bhd

## FY20 Above Expectations

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**FY20 Core Net Profit (CNP) of RM334.0m (+77%) came in strong, at 129%/139% above our/consensus full-year estimate from the higher-than-expected port & logistics contribution. As such, we increase our FY21E CNP by 24% and ascribed a higher SoP-derived TP of RM1.05 (from RM1.00). Our TP has factored in-house cut in Malakoff's TP to RM1.05 (RM1.15) and in-house upgrade in Gas Malaysia's TP to RM2.91 (from RM2.85). Maintain OP.**

**FY20 above expectations.** FY20 Core Net Profit (CNP) of RM334.0m (+77%) came in strong, at 129%/139% above our/consensus full-year estimate from the higher-than-expected port & logistics contribution. No dividend was declared for the quarter as they typically announced final dividend before the release of annual report.

**YoY, FY20** core CNP rose 77% to RM333.7m, thanks to: (i) higher contribution from KVMRT-SSP Line upon completion of excavation of the underground works in 4QFY20, (ii) higher contributions from PTP and associates namely Malakoff, (attributed to maiden contribution from newly acquired Alam Flora, absence of losses from KEV and higher earnings from an additional 12% stake in Shuaibah), and (iii) lower operational and maintenance costs, coupled with higher contribution from its subsidiary, Tanjung Bin Energy Sdn Bhd, following shorter duration of plant outage and settlement agreement reached with its contractor. The reduction in revenue (-5%) was mainly caused by the various MCOs in the preceding quarters.

**QoQ, 4QFY20** core CNP surged 134%, faster than revenue (+16%), despite a flat growth in associates, mainly due to: (i) lower effective tax rate of 24.6% (3QFY20: 38.4%), (ii) higher work progress contribution from KVMRT-SSP Line with the completion of excavation of the underground works in 4QFY20, and (iii) higher volume handled at Pelabuhan Tanjung Pelepas (PTP) and Northport (Malaysia) Bhd (NMB). These were offset by: (i) lower associates' contribution from Malakoff due to the continued unplanned outage at TBE, and RM19.0m or 38% decline in associate income, and (ii) lower passenger and cargo volumes at Senai Airport, affected by MCO.

**Outlook.** The Port and Logistics division has been showing improvement in performance, underpinned by economic recovery momentum since the resumption of the global and domestic trade activities. Currently, its ports portfolio consists of PTP, Johor Port, Northport, Penang Port and Tanjung Bruas Port. That said, we do not discount management continuing their pursuit to acquire additional ports to boost their profile as the largest port operator in the country. We gathered that while its construction order-book is currently at c.RM4.9b (90% from MRT Line 2, expected to be completed by 2022), management is actively bidding for new projects in order to meet its targeted order-book replenishment of c.RM500m p.a.

**FY21E CNP increased by 24%**, to reflect stronger Ports & Logistics segment contribution especially with the anticipated full re-opening of economy this year.

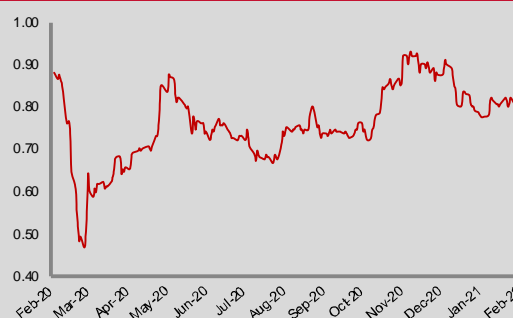
**Maintain OP with a higher SoP-derived TP of RM1.05 (from RM1.00).** Our increase in TP has factored in: (i) the lower Malakoff's TP of RM1.05 (from RM1.15) in tandem with the cut in Malakoff FY21E CNP (-11%) to reflect FY20A results plus a valuation base roll-over to FY21E, and (ii) higher Gas Malaysia's TP of RM2.91 (from RM2.85) from higher cash balance in FY20A where the results beat forecast by 17% coupled with the roll-over of valuation base to FY21E.

**Risks to our call include:** (i) lower-than-expected ports activities, (ii) slower-than-expected construction progress, and (iii) lower-than-expected associates' contribution.

## OUTPERFORM ↔

Price : RM0.780  
Target Price : RM1.05 ↑

### Share Price Performance



KLCI 1,577.75  
YTD KLCI chg -3.0%  
YTD stock price chg -13.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MMC MK EQUITY
Market Cap (RM m)	2,375.1
Shares Outstanding	3,045.1
52-week range (H)	0.96
52-week range (L)	0.45
3-mth avg daily vol:	4,090,169
Free Float	20%
Beta	1.4

### Major Shareholders

Seaport Terminal Johore Sdn Bhd	51.8%
Amanah Saham Nasional	20.3%
Urusharta Jamaah Sdn Bhd	3.4%

### Summary Earnings Table





FY Dec (RM m)	2020A	2021E	2022E
Revenue	4,489.4	4,446.3	4,703.5
PBT	645.5	528.6	553.6
<b>Net Profit (NP)</b>	<b>375.3</b>	<b>370.0</b>	<b>387.5</b>
<b>Core NP (CNP)</b>	<b>334.0</b>	<b>370.0</b>	<b>387.5</b>
Consensus (CNP)	-	289	302
Earnings Revision	-	+24%	new
Core EPS (sen)	11.0	12.2	12.7
CNP growth (%)	76.9	10.8	4.7
DPS (sen)	5.5	4.0	4.0
BVPS (RM)	3.12	3.22	3.32
Core PER (x)	7.1	6.4	6.1
Price/BV (x)	0.2	0.2	0.2
Net Gearing (x)	1.0	0.8	0.8
Div. Yield (%)	7.1	5.1	5.1

Result Highlight								
FY Dec (RM m)	4QFY20	3QFY20	QoQ	4QFY19	YoY	FY20	FY19	YoY
<b>Revenue</b>	<b>1,293.4</b>	<b>1,118.5</b>	<b>16%</b>	<b>1,098.1</b>	<b>18%</b>	<b>4,489.4</b>	<b>4,717.3</b>	<b>-5%</b>
Gross Profit (GP)	597.7	482.7	24%	540.6	11%	2,036.3	1,903.1	7%
Other operating Income	68.7	39.2	75%	54.7	26%	194.5	212.4	-8%
Administrative Expenses	(218.5)	(229.5)	-5%	(213.0)	3%	(879.4)	(845.8)	4%
Other operating Expenses	(207.9)	(83.4)	149%	(113.4)	83%	(456.1)	(361.7)	26%
Finance Costs	(111.2)	(159.6)	-30%	(163.8)	-32%	(616.3)	(677.1)	-9%
Associates	38.5	38.7	-1%	48.8	-21%	171.6	167.8	2%
Joint Venture	111.6	35.6	214%	38.2	192%	195.0	134.1	45%
<b>Profit Before Tax (PBT)</b>	<b>278.8</b>	<b>123.8</b>	<b>125%</b>	<b>192.2</b>	<b>45%</b>	<b>645.5</b>	<b>532.8</b>	<b>21%</b>
Tax Expenses	(68.7)	(47.5)	45%	(112.7)	-39%	(196.3)	(228.9)	-14%
<b>Net Profit (NP)</b>	<b>179.1</b>	<b>60.9</b>	<b>194%</b>	<b>68.1</b>	<b>163%</b>	<b>375.3</b>	<b>255.1</b>	<b>47%</b>
<b>Core Net Profit (CNP)</b>	<b>142.5</b>	<b>60.9</b>	<b>134%</b>	<b>46.9</b>	<b>204%</b>	<b>333.7</b>	<b>188.7</b>	<b>77%</b>
GP Margin	46.2%	43.2%		49.2%		45.4%	40.3%	
PBT Margin	21.6%	3.5%		4.4%		3.8%	3.6%	
CNP Margin	11.0%	5.4%		4.3%		7.4%	4.0%	
Effective Tax Rate	24.6%	38.4%		58.6%		30.4%	43.0%	

Source: Company, Bursa Malaysia, Kenanga Research

Segmental Breakdown								
FY Dec (RM m)	4QFY20	3QFY20	QoQ	4QFY19	YoY	FY20	FY19	YoY
<b>Revenue</b>	<b>1,293.0</b>	<b>1,119.0</b>	<b>16%</b>	<b>1,098.0</b>	<b>18%</b>	<b>4,489.0</b>	<b>4,717.0</b>	<b>-5%</b>
Ports & Logistics	901.0	801.0	12%	825.0	9%	3,231.0	3,189.0	1%
Engineering & construction	350.0	305.0	15%	242.0	45%	1,161.0	1,420.0	-18%
Corporate & Others	36.0	13.0	177%	31.0	16%	92.0	108.0	-15%
<b>Profit Before Tax</b>	<b>279.0</b>	<b>124.0</b>	<b>125%</b>	<b>192.0</b>	<b>45%</b>	<b>646.0</b>	<b>532.0</b>	<b>21%</b>
Ports & Logistics	251.0	127.0	98%	144.0	74%	597.0	459.0	30%
Energy & utilities (Associates)	33.0	29.0	14%	53.0	-38%	151.0	160.0	-6%
Engineering & construction	146.0	56.0	161%	106.0	38%	323.0	296.0	9%
Corporate & Others	(151.0)	(88.0)	72%	(111.0)	36%	(425.0)	(383.0)	11%
<b>PBT Margins</b>								
Ports & Logistics	27.9%	15.9%		17.5%		18.5%	14.4%	
Engineering & construction	41.7%	18.4%		43.8%		27.8%	20.8%	

Source: Company, Bursa Malaysia, Kenanga Research

Segmental Breakdown			
Ports & Logistics	Engineering	Energy & Utilities	Others
 <p><b>REVENUE</b> ▲ 1.51%</p> <p><b>PBT</b> ▲ 33.41%</p>	 <p><b>REVENUE</b> ▼ 18.35%</p> <p><b>PBT</b> ▲ 11.40%</p>	 <p><b>REVENUE</b> ▼ 11.11%</p> <p><b>PBT</b> ▼ 5.47%</p>	 <p><b>REVENUE</b> ▼ 8.65%</p> <p><b>PBT</b> ▼ 13.16%</p>
<ul style="list-style-type: none"> <li>Higher container volume handled at Pelabuhan Tanjung Pelepas ("PTP") and Northport (Malaysia) Berhad ("NMB").</li> <li>Lower operating expenses across the segment</li> <li>Offset by lower volume handled at Penang Port Sdn Bhd ("PPSB").</li> </ul>	<ul style="list-style-type: none"> <li>Lower revenue due to lower work progress from KVMRT-SSP Line, affected by unprecedented movement control order ("MCO").</li> <li>Higher PBT contribution from KVMRT-SSP Line upon completion of tunneling works.</li> </ul>	<ul style="list-style-type: none"> <li>Lower PBT mainly due to lower contribution from Malakoff.</li> <li>However, cushioned by full-year consolidation of contribution from Alam Flora and lower operations and maintenance costs</li> </ul>	<ul style="list-style-type: none"> <li>Lower passenger and cargo volumes at Senai Airport.</li> <li>Provision for impairment of a discontinued project's receivables.</li> <li>Cushioned by sale of land at SAC and lower HQ and finance cost incurred.</li> </ul>

Source: Company, Bursa Malaysia, Kenanga Research

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<b>Sum-of-Parts Valuation</b>			
<b>Sum-of-parts</b>	<b>Stake</b>	<b>Valuation</b>	<b>Value</b>
<b><u>Ports &amp; Logistics</u></b>			
Port of Tanjung Pelepas (PTP)	70%	DCF	2,054
Northport (NCB Holdings Bhd)	100%	DCF	867
Johor Port	99%	DCF	390
Penang Port	100%	DCF	227
Senai Airport	100%	2009 Effective Acquisition Price	580
<b><u>Energy &amp; Utilities</u></b>			
Malakoff	38%	Based on in-house TP of RM1.05	1,974
Gas Malaysia	31%	Based on in-house TP of RM2.91	1,155
Aliran Ihsan Resources Bhd	100%	2009 Effective Acquisition Price	240
<b><u>Engineering &amp; Construction</u></b>			
<b><u>Others</u></b>			
Senai Development Land (Airport City)		2718 acres @ RM0.74m/acres	2,011
Tanjung Bin Land		2255 acres @ RM0.74m/acres	1,669
Subtotal			12,059
Less: Net Cash/ (debt)-Group Level			(8,070)
Holding co. discount (20%)			(798)
<b>Total</b>			<b>3,191</b>
No of Shares			3,045
<b>SOP/share (TP)</b>			<b>1.05</b>

Source: Kenanga Research

01 March 2021

### Peer Comparison

Name	Last Price	Market Cap	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target Price	Rating
	(RM)	(RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	(RM)	
MMC CORP BHD	0.780	2,375.1	Y	12/2021	-1.0%	5.8%	10.8%	4.7%	7.1	6.4	6.1	0.2	0.2	3.8%	5.1%	1.05	OP
PERAK TRANSIT BERHAD	0.830	526.8	Y	12/2021	-8.9%	19.9%	-1.3%	21.3%	13.2	13.4	11.0	1.6	1.1	9.9%	3.7%	1.08	OP
POS MALAYSIA BHD	0.890	696.7	Y	12/2021	13.2%	2.2%	-38.0%	7.0%	N.A.	8.8	8.3	0.5	0.5	5.5%	4.5%	1.00	MP
WESTPORTS HOLDINGS BHD	4.08	13,912.8	Y	12/2021	-1.6%	4.4%	4.9%	4.9%	21.3	20.3	19.3	4.9	4.6	23.6%	3.7%	4.20	MP
<b>Simple Average</b>					<b>0.4%</b>	<b>8.1%</b>	<b>-5.9%</b>	<b>9.5%</b>	<b>13.9</b>	<b>12.2</b>	<b>11.2</b>	<b>1.8</b>	<b>1.6</b>	<b>10.7%</b>	<b>4.3%</b>		

Source: Bloomberg, Bursa Malaysia, Kenanga Research

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01 March 2021

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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