

DBS Group Research . Equity

28 Jan 2019

**HOLD** (Downgrade from BUY)

Last Traded Price ( 25 Jan 2019): HK\$2.71 (HSI : 27,569)

Price Target 12-mth: HK\$3.10 (14.4% upside) (Prev HK\$4.70)

**Analyst**

Lee Eun Young +65 6682 3708, eunyoung@db.com

**What's New**

- **2H18 to see a net loss on higher-than-expected expenses**
- **Satisfactory operating results at the new mine**
- **Higher costs to continuously weigh on its earnings, going forward**
- **Cut TP to HK\$3.1 and downgrade to HOLD**

**Price Relative****Forecasts and Valuation**

| FY Dec (US\$m)                 | 2017A  | 2018F  | 2019F  | 2020F  |
|--------------------------------|--------|--------|--------|--------|
| Turnover                       | 4,143  | 3,727  | 3,907  | 4,090  |
| EBITDA                         | 2,210  | 1,755  | 1,834  | 1,956  |
| Pre-tax Profit                 | 744    | 302    | 279    | 453    |
| Net Profit                     | 147    | 68     | 101    | 187    |
| Net Pft (Pre Ex) (core profit) | (32)   | 68     | 101    | 187    |
| Net Profit Gth (Pre-ex) (%)    | 79.4   | N/A    | 48.6   | 85.9   |
| EPS (US\$)                     | 0.02   | 0.01   | 0.01   | 0.02   |
| EPS (HK\$)                     | 0.15   | 0.07   | 0.10   | 0.18   |
| Core EPS (US\$)                | 0.00   | 0.01   | 0.01   | 0.02   |
| Core EPS (HK\$)                | (0.03) | 0.07   | 0.10   | 0.18   |
| EPS Gth (%)                    | N/A    | (54.3) | 48.6   | 85.9   |
| Core EPS Gth (%)               | 84.0   | N/A    | 48.6   | 85.9   |
| Diluted EPS (HK\$)             | 0.14   | 0.07   | 0.10   | 0.18   |
| DPS (HK\$)                     | 0.00   | 0.00   | 0.00   | 0.00   |
| BV Per Share (HK\$)            | 1.19   | 1.23   | 1.31   | 1.47   |
| PE (X)                         | 18.7   | 40.8   | 27.5   | 14.8   |
| CorePE (X)                     | nm     | 40.8   | 27.5   | 14.8   |
| P/Cash Flow (X)                | 1.2    | 1.5    | 1.7    | 1.6    |
| P/Free CF (X)                  | 1.6    | 2.0    | 2.3    | 2.1    |
| EV/EBITDA (X)                  | 5.8    | 6.7    | 6.1    | 5.4    |
| Net Div Yield (%)              | 0.0    | 0.0    | 0.0    | 0.0    |
| P/Book Value (X)               | 2.3    | 2.2    | 2.1    | 1.8    |
| Net Debt/Equity (X)            | 2.8    | 2.5    | 2.2    | 1.8    |
| ROAE(%)                        | 13.1   | 5.5    | 7.7    | 13.2   |
| Earnings Rev (%)               |        | (71.5) | (71.7) | (55.9) |
| Consensus EPS (US\$)           |        | 0.02   | 0.21   | 0.04   |
| Other Broker Recs:             |        | B: 7   | S: 2   | H: 5   |

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

**Higher cost a continuous burden in 2019**

To record a net loss in 2H18; downgrade to HOLD. MMG's bottom line is expected to swing into negative territory in 2H18 and decline by c.54% y-o-y for the full-year 2018. In its profit warning, MMG stated lower metal prices, weaker production and several unexpected expenses as reasons for the disappointing results. We had already factored in the downward revision to its production (September 2018) and our metal prices forecasts had been conservative. Still, we cut our 2018F/2019F EPS by 72% each, to factor in the i) increased interest cost burden on rising LIBOR; ii) higher effective tax rate on fixed annual tax payment of c.US\$60-70m in Peru, and ii) h-o-h higher depreciation at Las Bambas. These factors would continue to weigh on MMG in 2019 and beyond. We lower our TP to HK\$3.1 and downgrade the stock to HOLD.

**Where we differ: We are more conservative on earnings from zinc in 2019.** We initially expected Dugald River mine to drive the company's earnings growth in 2019 as its zinc production increases along with the mine's ramp-up. However, treatment charges (TC) for zinc have been on the rise and we forecast annual zinc TC to be c.US\$200/ton in 2019, up from US\$147/ton in 2018. This implies a downward pressure on MMG's selling prices of zinc ores. As such, an increase in sales volume would likely lead to smaller profit growth than initially expected.

**Other potential catalysts: Better-than-expected metal performance; quicker debt repayment.** Given the limited upside to MMG's production volume at existing assets beyond 2019, higher prices would be essential for the company to see a substantial top-line growth. Despite short-term volatilities, we remain positive on copper's mid- to long-term outlook backed by the EV growth. On the other hand, the company currently has c.US\$6bn debt tagged to LIBOR, which exposes it to high interest rate sensitivity. As such, accelerated debt repayment would bring about cost savings as well as enhanced earnings stability.

**Valuation:**

**Our HK\$3.1 TP is based on DCF.** Our TP is derived from DCF valuation methodology which assumes 9.6% WACC and 1% terminal growth rate. This implies 32.1x PE, 2.4x P/BV and 6.7x EV/EBITDA based on 2019F earnings forecast.

**Key Risks to Our View:**

Volatility in metal prices; Implications of Mining Code by the Democratic Republic of Congo, FX rate fluctuations and project execution risk

**At A Glance**

|  |                |
|--|----------------|
| Issued Capital (m shrs)                                    | 8,052          |
| Mkt Cap (HK\$m/US\$m)                                      | 21,821 / 2,781 |
| Major Shareholders (%)                                     |                |
| China Minmetals NonFerrous Metals Co., Ltd.                | 72.6           |
| Free Float (%)   | 27.4           |
| 3m Avg. Daily Val. (US\$m)                                 | 4.9            |
| ICB Industry: Basic Materials / Industrial Metals & Mining |                |



**MMG Ltd**
**WHAT'S NEW**
**Difficult times with higher costs and finite growth on the operation side**

**Profit warning due to higher expenses.** In its profit warning, MMG estimated its 2H18 net loss attributable to shareholders to amount to US\$55-60m, and net profit attributable to shareholders for the full-year 2018 at US\$65-70m. This implies an over 50% decline in the full-year net profit y-o-y and c.70% underperformance against our initial estimate. Impact on our top-line estimates has been minimal, given that we had already factored in the downward revision to its production (September 2018) and our metal prices forecasts had been conservative. However, several unexpected expenses affecting its bottom line have been unveiled.

Firstly, **depreciation and amortisation** increased by c.US\$100m h-o-h, due to i) first full semi-annual operation at Dugald River mine in 2H18 vs. 2-month operation in 1H18 (US\$20m), ii) higher milling and mining volume at Las Bambas mine in 2H18 (US\$60m), and iii) accelerated depreciation for some infrastructure at Las Bambas mine (US\$20m).

Second, **interest cost burden** swelled by a further c.US\$30m h-o-h in 2H18. MMG's interest cost increase was higher than our estimates as c.US\$6bn debt tagged to LIBOR. Note that LIBOR increased by c.100bps in 2018.

Also, **effective tax rate** was higher than expected. In addition to corporate tax payment that varies with its profit (c.32%), MMG has to pay c.US\$60m annually as withholding tax in Peru in relation to its Las Bambas facilities. This fixed payment is expected to persist in the near future.

**Decent operating result in 4Q18.** MMG also announced its 4Q18 production numbers last Friday. The numbers were largely in line with its guidance as well as our earlier forecasts. The technical issues at Las Bambas, which had affected its 3Q18 production and caused the downward revision to its production guidance, have been normalised. For 2019, Dugald River should increase production along with the ramp-up

schedule and Las Bambas production is expected to remain solid as the company maintains its plan to reach 2m-ton production in the first five years (from the start of Las Bambas in 2016). Meanwhile, production at Kinsevere is expected to drop y-o-y on declining ore grades and face higher cost on adoption of DRC mining code. C1 cost at Rosebery mine is expected to increase due to smaller by-product content in ores.

**Limited growth in 2019.** Given MMG's existing asset portfolio, the only notable growth would stem from its zinc production from Dugald River; its zinc sales volume is forecast to rise 28% y-o-y from 188k tons in 2018 to 240k tons in 2019. However, increase in zinc TC will limit profit growth from zinc. We expect zinc TC to rise to US\$200/ton in 2019, from US\$147/ton in 2018. Also, supply growth in global zinc mine would weigh down LME zinc prices. Accordingly, we expect LME zinc price to decrease 6% to US\$2,750/ton in 2019, from US\$2,922/ton in 2018. For copper, we also forecast a y-o-y lower annual average price in 2019, at US\$6,425/ton (vs. US\$6,534/ton in 2018) although prices will likely bottom out from current levels (US\$5,901/ton for copper and US\$2,636/ton for zinc on 25 Jan). The cost burden for interest and tax will continue to weigh on MMG in 2019.

**Revise down earnings estimates.** We had expected high interest cost in earlier projection, however, its D&A and tax are larger than our estimates. Further, these costs will remain and continue to weigh on MMG's earnings in 2019 and beyond. Accordingly, we cut our 2018F/2019F EPS by 72% each to US\$0.008 for 2018 and US\$0.013 for 2019. Also, we lower our TP to HK\$3.1 and downgrade the stock to HOLD. Our TP is derived from DCF valuation methodology which assumes 9.6% WACC and 1% terminal growth rate. This implies 32.1 PE, 2.4x P/BV and 6.7x EV/EBITDA based on 2019F earnings forecast.

**MMG Ltd****MMG's production result/guidance**

|                            | 2019 Guidance | 2018 Actual | 2018 Guidance |
|----------------------------|---------------|-------------|---------------|
| <b>Las Bambas</b>          |               |             |               |
| Copper production (k tons) | 385-405       | 385.3       | 375-395       |
| Copper C1 cost (US\$/lb)   | 1.15-1.25     | 1.18        | 1.10-1.20     |
| <b>Dugald River</b>        |               |             |               |
| Zinc production (k tons)   | 165-175       | 147.3       | 140-150       |
| Zinc C1 cost (US\$/lb)     | 0.58-0.68     | 0.58        |               |
| <b>Kinsevere</b>           |               |             |               |
| Copper production (k tons) | 77.5-80       | 79.7        | 80            |
| Copper C1 cost (US\$/lb)   | 1.65-1.75     | 1.68        | 1.57-1.67     |
| <b>Rosebery</b>            |               |             |               |
| Zinc production (k tons)   | 85-95         | 75.7        | 70-80         |
| Zinc C1 cost (US\$/lb)     | 0.25-0.35     | (0.04)      | 0.00-0.15     |

Source: Company, DBS HK

## MMG Ltd

### CRITICAL FACTORS TO WATCH

#### Critical Factors

**Copper sales volume, an important revenue indicator for MMG.** Copper has been a major earnings contributor for MMG. Following the acquisition of Las Bambas mine, copper's share of revenue reached as high as 86% in 2017. Copper will remain the company's key metal with its revenue contribution estimated at 77% in 2018 and 73%. As such, copper production and sales volume is a critical component of the company's earnings as well as share price.

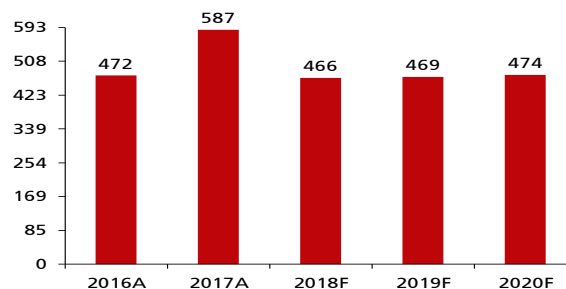
#### Increase in zinc sales volume would determine future growth.

With the production and sales volume of copper likely to remain stable in coming years, MMG's revenue growth will be led by the ramp-up of zinc production at Dugald River mine. Zinc will grow in importance to its earnings along with higher production volume from Dugald River mine. Zinc's contribution to the company's revenue will rise to 14.7% in 2019 from c.11% in 2018, and Dugald River mine's EBITDA contribution will rise from an estimated 6% in 2018 to 11% in 2019.

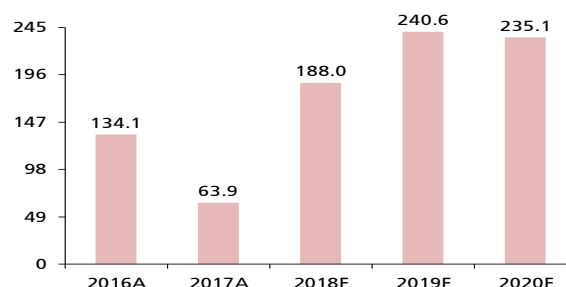
**Earnings most highly correlated to copper price.** Earnings from each commodity would depend on sales volume as well as prices. Based on 2018, every US\$1/lb change in copper price has a US\$118m impact on its EBIT, according to the company's sensitivity analysis.

**Increasing leverage on zinc.** The company's sensitivity analysis shows that every US\$1/lb change in zinc price has a US\$35m impact on its EBIT for 2018. This is set to increase going forward along with zinc's rising significance to the company's earnings.

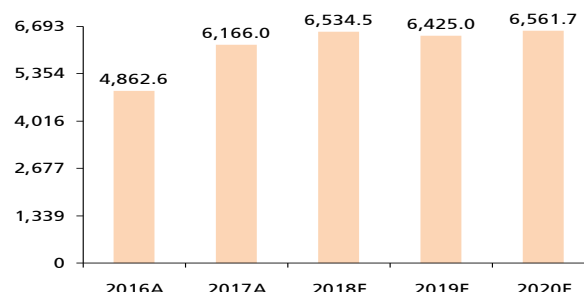
Copper: payable metal sold (k tons)



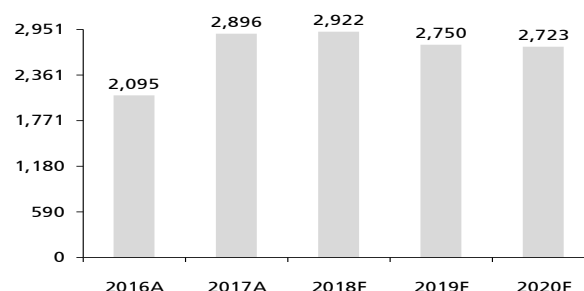
Zinc: payable metal sold (k tons)



LME copper price (US\$/ton)



LME zinc price (US\$/ton)



Source: Company, DBS HK

## MMG Ltd

### Appendix 1: A look at Company's listed history – what drives its share price?

#### MMG's share price vs LME copper price



#### Remark

Copper has been a major earnings contributor for MMG. Following the acquisition of Las Bambas mine, copper's share of revenue reached as high as 86% in 2017. Accordingly, MMG's share price moves in tandem with LME copper price.

#### MMG's share price vs LME zinc price



#### Remark

Zinc is the second biggest contributor to MMG's revenue. Its share of revenue plunged from as high as 36% in 2014 to 4.1% in 2017, due to disposal of mines (Century & Golden Grove). However, this is on the rise again as it acquired Dugald River mine, which started commercial production in 2H17.

Source: Bloomberg Finance L.P., DBS HK

## MMG Ltd

### Balance Sheet:

Due to financing for its mine acquisitions, the company's net debt rose to US\$9.7bn and net gearing to 4.4x in 2015. However, the company is committed to reducing this, and net debt stood at US\$8.4bn in 2017 while net gearing dropped to 2.8x. Given the company's emphasis on debt reduction, we forecast its net debt level to continue trending down to US\$7.3bn in 2018 and US\$6.7bn in 2019, and net gearing to fall to 2.5x in 2018 and 2.2x in 2019.

### Share Price Drivers:

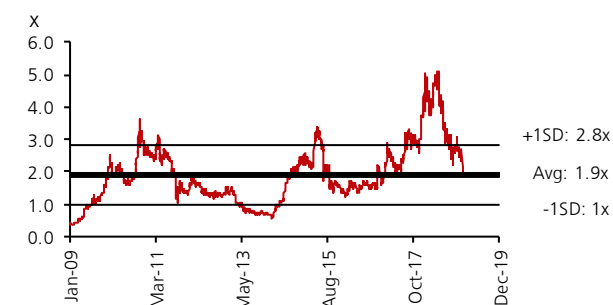
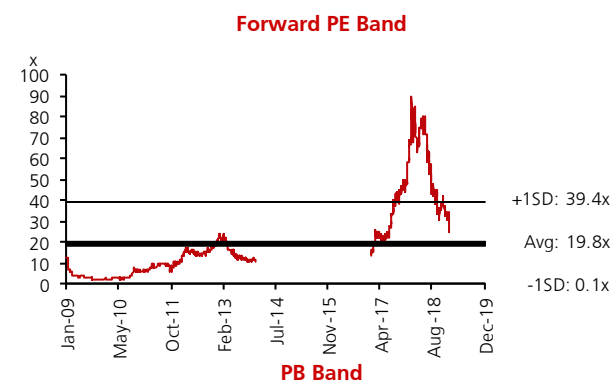
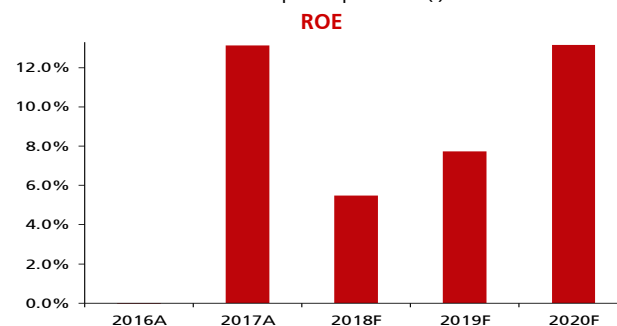
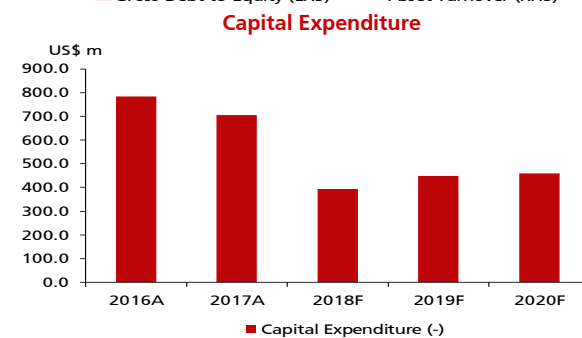
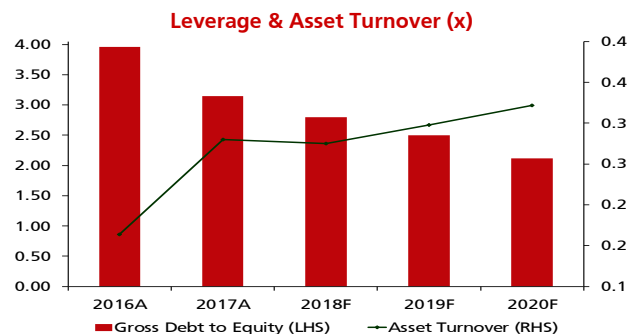
**Metal prices.** The company's share price moves in tandem with copper and zinc prices, as sales of copper and zinc are first and second highest contributors to earnings.

### Key Risks:

**Key risks** include (1) Volatility in metal prices; (2) Implications of 2018 Mining Code by the DRC Government; (3) FX rate fluctuations; (4) Project execution risk.

### Company Background

MMG is a mid-tier global resources company that mines, explores and develops base metal projects with focus on copper and zinc. As at September 2018, the company owned a total of four mines across Australia, the Democratic Republic of the Congo (DRC), and Peru. This includes Las Bambas and Dugald River, which are among the world's top copper and zinc mines respectively. On payable metal basis, the company sold 586.8k tons of copper, 67.9k tons of zinc, 23.8k tons of lead, as well as some gold, silver and molybdenum in 2017. It has a primary listing in Hong Kong (1208 HK), and secondary listing on Australian Securities Exchange (MMG ASX).



Source: Company, DBS HK

## MMG Ltd

## Key Assumptions

| FY Dec                              | 2016A   | 2017A   | 2018F   | 2019F   | 2020F   |
|-------------------------------------|---------|---------|---------|---------|---------|
| Copper: payable metal sold (k tons) | 471.6   | 586.8   | 465.9   | 469.0   | 474.0   |
| Zinc: payable metal sold (k tons)   | 134.1   | 63.9    | 188.0   | 240.6   | 235.1   |
| LME copper price (US\$/ton)         | 4,862.6 | 6,166.0 | 6,534.5 | 6,425.0 | 6,561.7 |
| LME zinc price (US\$/ton)           | 2,095.0 | 2,895.9 | 2,922.0 | 2,750.0 | 2,722.5 |

Source: Company, DBS HK

## Segmental Breakdown (US\$ m)

| FY Dec                            | 2016A        | 2017A        | 2018F        | 2019F        | 2020F        |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Revenues (US\$ m)</b>          |              |              |              |              |              |
| Las Bambas                        | 1,224        | 2,937        | 2,608        | 2,637        | 2,816        |
| Kinsevere                         | 400          | 501          | 518          | 501          | 512          |
| Dugald River                      | 0            | 0            | 274          | 440          | 447          |
| Rosebery                          | 449          | 305          | 330          | 329          | 316          |
| Sepon                             | 391          | 392          | 0            | 0            | 0            |
| Century                           | 24           | 0            | 0            | 0            | 0            |
| <b>Total</b>                      | <b>2,489</b> | <b>4,143</b> | <b>3,727</b> | <b>3,907</b> | <b>4,090</b> |
| <b>EBITDA by Mine (US\$ m)</b>    |              |              |              |              |              |
| Las Bambas                        | 655          | 1,741        | 1,360        | 1,347        | 1,449        |
| Kinsevere                         | 116          | 179          | 183          | 161          | 159          |
| Dugald River                      | 0            | 0            | 111          | 207          | 216          |
| Rosebery                          | 179          | 156          | 190          | 173          | 185          |
| Sepon                             | 102          | 119          | 0            | 0            | 0            |
| Century                           | (10)         | 0            | 0            | 0            | 0            |
| Others                            |              |              | 46.4         | 55.16        | 53.1         |
| <b>Total</b>                      | <b>949</b>   | <b>2,210</b> | <b>1,755</b> | <b>1,834</b> | <b>1,956</b> |
| <b>EBITDA by Mine Margins (%)</b> |              |              |              |              |              |
| Las Bambas                        | 53.5         | 59.3         | 52.1         | 51.1         | 51.5         |
| Kinsevere                         | 29.0         | 35.7         | 35.4         | 32.2         | 31.1         |
| Dugald River                      | N/A          | N/A          | 40.4         | 47.1         | 48.2         |
| Rosebery                          | 40.0         | 51.1         | 57.4         | 52.7         | 58.6         |
| Sepon                             | 26.0         | 30.4         | N/A          | N/A          | N/A          |
| Century                           | (42.3)       | N/A          | N/A          | N/A          | N/A          |
| <b>Total</b>                      | <b>38.1</b>  | <b>53.3</b>  | <b>48.3</b>  | <b>48.4</b>  | <b>49.1</b>  |

Source: Company, DBS HK

## MMG Ltd

## Income Statement (US\$ m)

| FY Dec                     | 2016A        | 2017A        | 2018F        | 2019F        | 2020F        |
|----------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue                    | 2,489        | 4,143        | 3,727        | 3,907        | 4,090        |
| Cost of Goods Sold         | (1,896)      | (2,495)      | (2,442)      | (2,615)      | (2,680)      |
| <b>Gross Profit</b>        | <b>592</b>   | <b>1,648</b> | <b>1,286</b> | <b>1,292</b> | <b>1,410</b> |
| Other Opng (Exp)/Inc       | (328)        | (550)        | (443)        | (444)        | (438)        |
| <b>Operating Profit</b>    | <b>265</b>   | <b>1,098</b> | <b>843</b>   | <b>848</b>   | <b>972</b>   |
| Other Non Opg (Exp)/Inc    | 0            | 0            | 5            | 0            | 0            |
| Associates & JV Inc        | 0            | 0            | 0            | 0            | 0            |
| Net Interest (Exp)/Inc     | (313)        | (534)        | (545)        | (569)        | (519)        |
| Dividend Income            | 0            | 0            | 0            | 0            | 0            |
| Exceptional Gain/(Loss)    | 0            | 179          | 0            | 0            | 0            |
| <b>Pre-tax Profit</b>      | <b>(48)</b>  | <b>744</b>   | <b>302</b>   | <b>279</b>   | <b>453</b>   |
| Tax                        | (50)         | (395)        | (167)        | (149)        | (205)        |
| Minority Interest          | (54)         | (201)        | (68)         | (29)         | (61)         |
| Preference Dividend        | 0            | 0            | 0            | 0            | 0            |
| <b>Net Profit</b>          | <b>(153)</b> | <b>147</b>   | <b>68</b>    | <b>101</b>   | <b>187</b>   |
| Net Profit before Except.  | (153)        | (32)         | 68           | 101          | 187          |
| EBITDA                     | 949          | 2,210        | 1,755        | 1,834        | 1,956        |
| <b>Growth</b>              |              |              |              |              |              |
| Revenue Gth (%)            | 27.6         | 66.5         | (10.0)       | 4.8          | 4.7          |
| EBITDA Gth (%)             | N/A          | 132.8        | (20.6)       | 4.5          | 6.6          |
| Opg Profit Gth (%)         | (215.8)      | 315.0        | (23.3)       | 0.6          | 14.6         |
| Net Profit Gth (%)         | 85.1         | N/A          | (53.9)       | 48.6         | 85.9         |
| <b>Margins &amp; Ratio</b> |              |              |              |              |              |
| Gross Margins (%)          | 23.8         | 39.8         | 34.5         | 33.1         | 34.5         |
| Opg Profit Margin (%)      | 10.6         | 26.5         | 22.6         | 21.7         | 23.8         |
| Net Profit Margin (%)      | (6.1)        | 3.6          | 1.8          | 2.6          | 4.6          |
| ROAE (%)                   | (18.0)       | 13.1         | 5.5          | 7.7          | 13.2         |
| ROA (%)                    | (1.0)        | 1.0          | 0.5          | 0.8          | 1.5          |
| ROCE (%)                   | (3.2)        | (4.0)        | (3.8)        | (3.8)        | (2.8)        |
| Div Payout Ratio (%)       | N/A          | 0.0          | 0.0          | 0.0          | 0.0          |
| Net Interest Cover (x)     | 0.8          | 2.1          | 1.5          | 1.5          | 1.9          |

Source: Company, DBS HK

## Interim Income Statement (US\$ m)

| FY Dec                  | 1H2016       | 2H2016      | 1H2017     | 2H2017     | 1H2018     |
|-------------------------|--------------|-------------|------------|------------|------------|
| Revenue                 | 586          | 1,903       | 1,942      | 2,201      | 1,899      |
| Cost of Goods Sold      | (531)        | (1,366)     | (1,068)    | (1,427)    | (1,152)    |
| <b>Gross Profit</b>     | <b>55</b>    | <b>537</b>  | <b>874</b> | <b>774</b> | <b>747</b> |
| Other Oper. (Exp)/Inc   | (122)        | (205)       | (445)      | (105)      | (170)      |
| <b>Operating Profit</b> | <b>(67)</b>  | <b>332</b>  | <b>429</b> | <b>669</b> | <b>577</b> |
| Other Non Opg (Exp)/Inc | 0            | 0           | 0          | 0          | 5          |
| Associates & JV Inc     | 0            | 0           | 0          | 0          | 0          |
| Net Interest (Exp)/Inc  | (47)         | (266)       | (260)      | (273)      | (250)      |
| Exceptional Gain/(Loss) | 0            | 0           | 174        | 5          | 0          |
| <b>Pre-tax Profit</b>   | <b>(114)</b> | <b>66</b>   | <b>343</b> | <b>401</b> | <b>332</b> |
| Tax                     | 21           | (72)        | (229)      | (166)      | (139)      |
| Minority Interest       | 1            | (55)        | (96)       | (105)      | (65)       |
| <b>Net Profit</b>       | <b>(93)</b>  | <b>(60)</b> | <b>18</b>  | <b>129</b> | <b>129</b> |
| Net profit bef Except.  | (93)         | (60)        | (156)      | 124        | 129        |
| <b>Growth</b>           |              |             |            |            |            |
| Revenue Gth (%)         | (47.4)       | 127.3       | 231.4      | 15.7       | (2.2)      |
| Opg Profit Gth (%)      | 1,240.0      | (248.4)     | (740.6)    | 101.7      | 34.5       |
| Net Profit Gth (%)      | (100.2)      | 93.9        | N/A        | N/A        | 623.0      |
| <b>Margins</b>          |              |             |            |            |            |
| Gross Margins (%)       | 9.4          | 28.2        | 45.0       | 35.2       | 39.3       |
| Opg Profit Margins (%)  | (11.4)       | 17.4        | 22.1       | 30.4       | 30.4       |
| Net Profit Margins (%)  | (15.8)       | (3.2)       | 0.9        | 5.9        | 6.8        |

Source: Company, DBS HK



## MMG Ltd

## Balance Sheet (US\$ m)

| FY Dec                        | 2016A         | 2017A         | 2018F         | 2019F         | 2020F         |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Fixed Assets              | 12,084        | 11,982        | 10,955        | 10,457        | 9,973         |
| Invt in Associates & JVs      | 0             | 0             | 0             | 0             | 0             |
| Other LT Assets               | 1,114         | 1,111         | 946           | 916           | 887           |
| Cash & ST Invt                | 553           | 936           | 914           | 930           | 998           |
| Inventory                     | 346           | 296           | 224           | 247           | 256           |
| Debtors                       | 851           | 408           | 474           | 523           | 541           |
| Other Current Assets          | 282           | 56            | 52            | 52            | 52            |
| <b>Total Assets</b>           | <b>15,230</b> | <b>14,790</b> | <b>13,565</b> | <b>13,126</b> | <b>12,707</b> |
| ST Debt                       | 737           | 694           | 521           | 521           | 521           |
| Creditors                     | 656           | 745           | 820           | 872           | 930           |
| Other Current Liab            | 217           | 63            | 68            | 68            | 68            |
| LT Debt                       | 9,516         | 8,659         | 7,715         | 7,115         | 6,415         |
| Other LT Liabilities          | 1,514         | 1,657         | 1,495         | 1,495         | 1,495         |
| Shareholder's Equity          | 1,031         | 1,211         | 1,262         | 1,341         | 1,504         |
| Minority Interests            | 1,559         | 1,760         | 1,685         | 1,714         | 1,775         |
| <b>Total Cap. &amp; Liab.</b> | <b>15,230</b> | <b>14,790</b> | <b>13,565</b> | <b>13,126</b> | <b>12,707</b> |
| Non-Cash Wkg. Capital         | 606           | (48)          | (138)         | (118)         | (149)         |
| Net Cash/(Debt)               | (9,700)       | (8,417)       | (7,321)       | (6,706)       | (5,937)       |
| Debtors Turn (avg days)       | 124.7         | 35.9          | 46.4          | 48.9          | 48.3          |
| Creditors Turn (avg days)     | 197.5         | 174.1         | 195.6         | 195.5         | 200.1         |
| Inventory Turn (avg days)     | 104.1         | 69.2          | 53.5          | 55.5          | 55.1          |
| Asset Turnover (x)            | 0.2           | 0.3           | 0.3           | 0.3           | 0.3           |
| Current Ratio (x)             | 1.3           | 1.1           | 1.2           | 1.2           | 1.2           |
| Quick Ratio (x)               | 0.9           | 0.9           | 1.0           | 1.0           | 1.0           |
| Net Debt/Equity (X)           | 3.7           | 2.8           | 2.5           | 2.2           | 1.8           |
| Net Debt/Equity ex MI (X)     | 9.4           | 6.9           | 5.8           | 5.0           | 3.9           |
| Capex to Debt (%)             | 7.7           | 7.5           | 4.8           | 5.9           | 6.6           |
| Z-Score (X)                   | NA            | NA            | NA            | NA            | NA            |

Source: Company, DBS HK

## Cash Flow Statement (US\$ m)

| FY Dec                         | 2016A        | 2017A          | 2018F          | 2019F          | 2020F          |
|--------------------------------|--------------|----------------|----------------|----------------|----------------|
| Pre-Tax Profit                 | (48)         | 744            | 297            | 279            | 453            |
| Dep. & Amort.                  | 685          | 933            | 912            | 987            | 984            |
| Tax Paid                       | (50)         | (395)          | (167)          | (149)          | (205)          |
| Assoc. & JV Inc/(loss)         | 0            | 0              | 0              | 0              | 0              |
| (Pft)/ Loss on disposal of FAs | 0            | 0              | 0              | 0              | 0              |
| Chg in Wkg.Cap.                | (163)        | (516)          | 53             | (10)           | 35             |
| Other Operating CF             | 300          | 1,605          | 704            | 537            | 485            |
| <b>Net Operating CF</b>        | <b>722</b>   | <b>2,370</b>   | <b>1,800</b>   | <b>1,644</b>   | <b>1,752</b>   |
| Capital Exp.(net)              | (785)        | (705)          | (394)          | (449)          | (460)          |
| Other Invt.(net)               | 33           | 208            | 173            | (10)           | (4)            |
| Invt in Assoc. & JV            | 0            | 0              | 0              | 0              | 0              |
| Div from Assoc & JV            | 0            | 0              | 0              | 0              | 0              |
| Other Investing CF             | (95)         | (25)           | 120            | 0              | 0              |
| <b>Net Investing CF</b>        | <b>(847)</b> | <b>(522)</b>   | <b>(101)</b>   | <b>(460)</b>   | <b>(464)</b>   |
| Div Paid                       | (4)          | 0              | 0              | 0              | 0              |
| Chg in Gross Debt              | (21)         | (1,072)        | (903)          | (600)          | (700)          |
| Capital Issues                 | 511          | 9              | 11             | 0              | 0              |
| Other Financing CF             | (407)        | (401)          | (815)          | (569)          | (519)          |
| <b>Net Financing CF</b>        | <b>79</b>    | <b>(1,464)</b> | <b>(1,707)</b> | <b>(1,169)</b> | <b>(1,219)</b> |
| Currency Adjustments           | 0            | 0              | 0              | 0              | 0              |
| Chg in Cash                    | (46)         | 383            | (8)            | 15             | 68             |
| Opg CFPS (US\$)                | 0.14         | 0.36           | 0.22           | 0.21           | 0.21           |
| Free CFPS (US\$)               | (0.01)       | 0.21           | 0.18           | 0.15           | 0.16           |

Source: Company, DBS HK

## MMG Ltd

## Target Price &amp; Ratings History



| S.No. | Date     | Closing Price | 12-mth Target Price | Rating |
|-------|----------|---------------|---------------------|--------|
| 1:    | 4-Oct-18 | HK\$3.95      | HK\$4.70            | Buy    |

Source: DBS HK

Analyst: Lee Eun Young

DBS HK recommendations are based on Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*\*Share price appreciation + dividends*

Completed Date: 28 Jan 2019 12:29:38 (HKT)

Dissemination Date: 28 Jan 2019 17:01:13 (HKT)

Sources for all charts and tables are DBS HK unless otherwise specified.

#### GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank (Hong Kong) Limited ("DBS HK"). This report is solely intended for the clients of DBS Bank Ltd., DBS HK, DBS Vickers (Hong Kong) Limited ("DBSV HK"), and DBS Vickers Securities (Singapore) Pte Ltd. ("DBSVS"), its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS HK.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd., DBS HK, DBSV HK, DBSVS, its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "DBS Group") have not conducted due diligence on any of the companies, verified any information or sources or taken into account any other factors which we may consider to be relevant or appropriate in preparing the research. Accordingly, we do not make any representation or warranty as to the accuracy, completeness or correctness of the research set out in this report. Opinions expressed are subject to change without notice. This research is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group, may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed, it may not contain all material information concerning the company (or companies) referred to in this report and the DBS Group is under no obligation to update the information in this report.

This publication has not been reviewed or authorized by any regulatory authority in Singapore, Hong Kong or elsewhere. There is no planned schedule or frequency for updating research publication relating to any issuer.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

- (a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- (b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBS Vickers Securities (USA) Inc ("DBSVUSA"), a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

**ANALYST CERTIFICATION**

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate<sup>1</sup> does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests<sup>2</sup> in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

**COMPANY-SPECIFIC / REGULATORY DISCLOSURES**


1. DBS Bank Ltd, DBS HK, DBSVS or their subsidiaries and/or other affiliates do not have a proprietary position in the securities recommended in this report as of 24 Jan 2019.
2. Neither DBS Bank Ltd nor DBS HK market makes in equity securities of the issuer(s) or company(ies) mentioned in this Research Report.
3. **Compensation for investment banking services:**  
DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.
4. **Disclosure of previous investment recommendation produced:**  
DBS Bank Ltd, DBSVS, DBS HK, their subsidiaries and/or other affiliates of DBSVUSA may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA in the preceding 12 months.

---

<sup>1</sup> An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

<sup>2</sup> Financial interest is defined as interests that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

## RESTRICTIONS ON DISTRIBUTION

|   |  |
|---|--|
| <b>General</b>                              | This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.   |
| <b>Australia</b>                            | <p>This report is being distributed in Australia by DBS Bank Ltd, DBSVS or DBSV HK. DBS Bank Ltd holds Australian Financial Services Licence no. 475946.</p> <p>DBSVS and DBSV HK are exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ("CA") in respect of financial services provided to the recipients. Both DBS Bank Ltd and DBSVS are regulated by the Monetary Authority of Singapore under the laws of Singapore, and DBSV HK is regulated by the Hong Kong Securities and Futures Commission under the laws of Hong Kong, which differ from Australian laws.</p> <p>Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.</p>  |
| <b>Hong Kong</b>                            | This report is being distributed in Hong Kong by DBS Bank Ltd, DBS Bank (Hong Kong) Limited and DBS Vickers (Hong Kong) Limited, all of which are registered with or licensed by the Hong Kong Securities and Futures Commission to carry out the regulated activity of advising on securities.  |
| <b>Indonesia</b>                            | This report is being distributed in Indonesia by PT DBS Vickers Sekuritas Indonesia.   |
| <b>Malaysia</b>                             | <p>This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR"). Recipients of this report, received from ADBSR are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies.</p> <p style="text-align: right;"> <br/> Wong Ming Tek, Executive Director, ADBSR </p> |
| <b>Singapore</b>                            | This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.   |
| <b>Thailand</b>                             | This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd.  |
| <b>United Kingdom</b>                       | <p>This report is produced by DBS HK which is regulated by the Hong Kong Monetary Authority</p> <p>This report is disseminated in the United Kingdom by DBS Vickers Securities (UK) Ltd ("DBSVUK"). DBSVUK is authorised and regulated by the Financial Conduct Authority in the United Kingdom.</p> <p>In respect of the United Kingdom, this report is solely intended for the clients of DBSVUK, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSVUK. This communication is directed at persons having professional experience in matters relating to investments. Any investment activity following from this communication will only be engaged in with such persons. Persons who do not have professional experience in matters relating to investments should not rely on this communication.</p>  |
| <b>Dubai International Financial Centre</b> | This research report is being distributed by DBS Bank Ltd., (DIFC Branch) having its office at units 608-610, 6th Floor, Gate Precinct Building 5, PO Box 506538, Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.   |

|                             |  |
|-----------------------------|--|
| <b>United Arab Emirates</b> | This report is provided by DBS Bank Ltd (Company Regn. No. 196800306E) which is an Exempt Financial Adviser as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. This report is for information purposes only and should not be relied upon or acted on by the recipient or considered as a solicitation or inducement to buy or sell any financial product. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation, or needs of individual clients. You should contact your relationship manager or investment adviser if you need advice on the merits of buying, selling or holding a particular investment. You should note that the information in this report may be out of date and it is not represented or warranted to be accurate, timely or complete. This report or any portion thereof may not be reprinted, sold or redistributed without our written consent. |
| <b>United States</b>        | This report was prepared by DBS HK. DBSVUSA did not participate in its preparation. The research analyst(s) named on this report are not registered as research analysts with FINRA and are not associated persons of DBSVUSA. The research analyst(s) are not subject to FINRA Rule 2241 restrictions on analyst compensation, communications with a subject company, public appearances and trading securities held by a research analyst. This report is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. This report may only be distributed to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6) and to such other institutional investors and qualified persons as DBSVUSA may authorize. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.   |
| <b>Other jurisdictions</b>  | In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.  |

**DBS Bank (Hong Kong) Limited**13<sup>th</sup> Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

**DBS Regional Research Offices**

**HONG KONG**

**DBS Bank (Hong Kong) Ltd**  
**Contact: Carol Wu**  
 13th Floor One Island East,  
 18 Westlands Road,  
 Quarry Bay, Hong Kong  
 Tel: 852 3668 4181  
 Fax: 852 2521 1812  
 e-mail: dbsvhk@db.com

**MALAYSIA**

**AllianceDBS Research Sdn Bhd**  
**Contact: Wong Ming Tek (128540 U)**  
 19th Floor, Menara Multi-Purpose,  
 Capital Square,  
 8 Jalan Munshi Abdullah 50100  
 Kuala Lumpur, Malaysia.  
 Tel.: 603 2604 3333  
 Fax: 603 2604 3921  
 e-mail: general@alliancedbs.com

**SINGAPORE**

**DBS Bank Ltd**  
**Contact: Janice Chua**  
 12 Marina Boulevard,  
 Marina Bay Financial Centre Tower 3  
 Singapore 018982  
 Tel: 65 6878 8888  
 Fax: 65 65353 418  
 e-mail: equityresearch@db.com  
 Company Regn. No. 196800306E

**INDONESIA**

**PT DBS Vickers Sekuritas (Indonesia)**  
**Contact: Maynard Priajaya Arif**  
 DBS Bank Tower  
 Ciputra World 1, 32/F  
 Jl. Prof. Dr. Satrio Kav. 3-5  
 Jakarta 12940, Indonesia  
 Tel: 62 21 3003 4900  
 Fax: 6221 3003 4943  
 e-mail: research@id.dbsvickers.com

**THAILAND**

**DBS Vickers Securities (Thailand) Co Ltd**  
**Contact: Chanpen Sirithanarattanukul**  
 989 Siam Piwat Tower Building,  
 9th, 14th-15th Floor  
 Rama 1 Road, Pathumwan,  
 Bangkok Thailand 10330  
 Tel. 66 2 857 7831  
 Fax: 66 2 658 1269  
 e-mail: research@th.dbs.com  
 Company Regn. No 0105539127012  
 Securities and Exchange Commission, Thailand