

1QFY2015 Results update
12 June 2015

Muhibbah Engineering (M) Bhd

- 1Q2015 results in line with forecast
- Large RM2b orderbook to sustain medium term earnings
- Growth opportunities from construction, Cambodia
- Valuations attractive at 11.6x for 2015, maintain BUY

BUY

Share price
RM2.31

Market capitalization
RM1,054 million

Board
Main

Indices
FBM Emas Syariah,

Sector
Construction

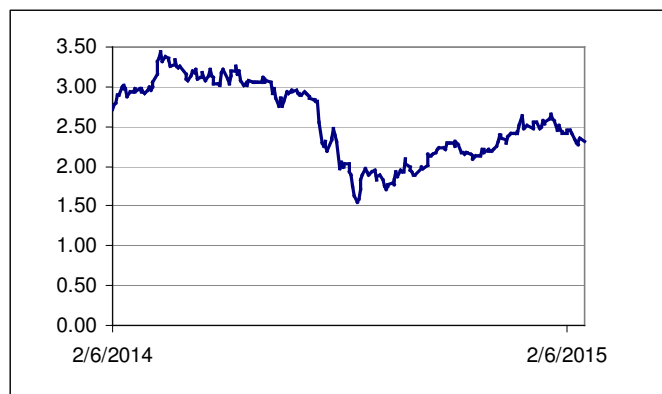
Stock code
5703

By
The Research Team

Key stock statistics	FY Dec14	FY Dec15E
EPS (sen)	19.2	19.9
P/E (x)	12.0	11.6
DPS (sen)	4.0	4.0
NTA/share (RM)	1.52	1.57
Issued capital (mil)	456.3	
52-week price range (RM)	1.55 –3.43	

Major shareholders (%)

Mac Ngan Boon	22.8%
Ooi Sen Eng	3.2%

Share Price Chart


1QFY2015 Results highlights

Year end Dec (RM mil)	1Q2015	1Q2014	% chg
Turnover	363.2	393.9	(7.8)
Pre-tax profit	39.6	30.9	27.9
Tax	(7.6)	(8.7)	(12.7)
Minority interests	(8.7)	(2.1)	(309.6)
Net profit	23.3	20.2	15.5
EPS (sen)	5.39	4.79	
Pre-tax profit margin (%)	10.9	7.9	
Net profit margin (%)	6.4	5.1	

Muhibbah Engineering's results for the first quarter of FY Dec 2015 were within our forecast, with net profit of RM23.3 million accounting for 25.7% of our full year forecast of RM90.6 million.

For 1Q2015, the company reported pre-tax profit of RM39.6 million, up 27.9% from RM30.9 million in 1Q2014. This was achieved on the back of revenue of RM363.2 million, down 7.8%, as pre-tax profit margins expanded from 7.9% to 10.9%.

Net profit rose 15.5% from RM20.2 million to RM23.3 million, with higher minority interests offsetting a lower effective tax rate.

The growth in profitability was broad-based, led by the crane division, Favelle Favco, which benefitted from higher orders, the stronger USD, and better overall margins. For the quarter, Favelle's pre-tax profit surged 74.8% to RM29.7 million, despite a smaller 23% revenue increase to RM192 million.

Share of associates, which comprised mostly its concessions in three Cambodian airports (Phnom Penh, Siem Reap and Sihanoukville), rose 6.4% from RM15.4 million to RM16.3 million.

Over the past three months, Muhibbah's order-book stayed stable, declining only marginally from RM2.05 billion in Feb 2015 to RM2 billion in May 2015. This was commendable as the company has largely replenished its order-book, after recognizing revenue of RM363 million for 1Q2015.

Outlook and recommendation

We maintain our BUY recommendation and are keeping our forecasts unchanged. Mulhibbah's valuations are attractive at 11.6 and 10.6 times earnings for 2015 and 2016, respectively, with largely assured near term earnings due to its large order-book.

Mulhibbah's strong results in 1Q2015 and active order-book replenishment reflect the company's resilience and diversified earnings base despite the sharp plunge in crude oil prices since mid-2014.

Much of the company's growth has been driven by Favelle Favco, which is now a leading global crane player. Favelle continues to build on its strength and efficiency, and as a result, sees improving orders and margins, as well as a more diversified customer base.

Crude oil prices appear to have found some stability at the USD60 per barrel mark. Earlier concerns over its impact on Mulhibbah's oil and gas focused order-book have so far been overrated.

Several major projects are already at advanced implementation stages and are unlikely to be postponed. The biggest of these is the Pengerang Refinery and Petrochemical Integrated Development (RAPID) project worth some USD31.4 billion (RM116 million).

In 1Q2015, Mulhibbah secured its first contract associated with the RAPID project, worth USD31.4 million (RM116 million). It is currently bidding for more RAPID-related projects, where contracts have been awarded in stages since mid-2014.

Apart from RAPID-related contracts, the company also plans to submit tenders for the Mass Rapid Transit Phase 2 project, various expressways and other infrastructure works.

Major government infrastructure projects planned include RM22.6 billion worth of new highways, as well as RM1 billion in port projects. These provide ample bidding opportunities for Mulhibbah's infrastructure construction division.

Meanwhile, the Cambodian airport operations continue to provide strong recurring income. With after-tax contributions from associates accounting for RM23.3 million in 1Q2015, the concession business accounted for just over half of the group's net profit in the quarter.

Growth in the Cambodian airport operations will be driven by increasing passenger arrivals as well as an capacity expansion this year that will double capacity to 12 million passengers combined for the Phnom Penh and Siem Reap Airports. For 2014, the Phnom Penh and Siem Reap airports saw a cumulative 12% growth in passenger arrivals to 5.69 million from 5.06 million. This follows from a strong 18% growth in arrivals in 2013.

Profit & Loss Analysis

Year end Dec (RM mil)	2013	2014	2015E	2016E
Turnover	1,936.4	1,692.8	1,750.0	1,840.0
EBITDA	180.0	188.0	202.5	216.8
Depreciation	(54.4)	(60.3)	(62.0)	(66.0)
Associates	46.6	47.8	53.0	58.0
Interest income/(exp)	<u>(39.6)</u>	<u>(30.4)</u>	<u>(34.0)</u>	<u>(33.0)</u>
Pre-tax profit	132.6	145.2	159.5	175.8
Tax	(16.4)	(33.7)	(35.9)	(40.4)
Minorities	<u>(29.8)</u>	<u>(30.0)</u>	<u>(33.0)</u>	<u>(36.0)</u>
Net profit	86.4	81.6	90.6	99.4
Operating margin (%)	9.3	11.1	11.6	11.8
Pre-tax margin (%)	6.8	8.6	9.1	9.6
Net margin (%)	4.5	4.8	5.2	5.4
Effective tax rate (%)	12.3	23.2	22.5	23.0

Per Share Data

Year end Dec	2013	2014	2015E	2016E
EPS (sen)	21.0	19.2	19.9	21.8
P/E (x)	11.0	12.0	11.6	10.6
Dividend (sen)	4.5	4.0	4.0	4.0
Dividend yield (%)	1.9	1.7	1.7	1.7
Payout ratio (%)	21	21	20	18
Book value (RM)	1.34	1.52	1.57	1.75
Price/Book value (x)	1.72	1.52	1.47	1.32
Cashflow/share (sen)	30.1	28.9	29.1	31.4
Price/Cashflow (x)	7.7	8.0	7.9	7.4
ROE (%)	15.4	12.7	12.6	12.5



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