

Company Focus

Muhibbah Engineering

Bloomberg: MUHI MK | Reuters: MUHI.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

30 Nov 2015

BUY

Last Traded Price: RM2.17 (KLCI : 1,682.59)

Price Target: RM2.90 (34% upside) (Prev RM2.90)

Shariah Compliant: Yes

Reason for Report : 3Q15 results

Potential Catalyst: More higher margin contract wins

Where we differ: Broadly in line

Analyst

Tjen-San, CHONG +603 2711 2222 tjensan@alliancedbs.com

Result Summary

FY Dec (RMm)	3Q 2015	3Q 2014	2Q 2015	yoy % chg	qoq % chg
P&L Items					
Turnover	394	376	410	4.7	(4.1)
Gross Profit	394	376	410	4.7	(4.1)
Opg Profit	108	25.5	42.5	321.3	152.7
EBITDA	139	44.8	66.8	210.6	108.3
Net Profit	81.1	20.3	27.4	300.1	196.2
Other Data					
Opg Margin (%)	27.3	6.8	10.4		
Net Margin (%)	20.6	5.4	6.7		

Financial Summary

FY Dec (RMm)	2014A	2015F	2016F	2017F
Revenue	1,693	1,713	1,777	1,794
Operating Profit	111	99.8	115	137
EBITDA	159	210	229	257
Net Pft (Pre Ex.)	81.6	94.8	107	122
EPS (sen)	19.3	22.4	25.3	28.8
EPS Pre Ex. (sen)	19.3	22.4	25.3	28.8
EPS Gth (%)	(6)	16	13	14
EPS Gth Pre Ex (%)	(6)	16	13	14
Net DPS (sen)	4.52	4.49	5.06	5.77
BV Per Share (sen)	152	169	190	214
PE (X)	11.2	9.7	8.6	7.5
PE Pre Ex. (X)	11.2	9.7	8.6	7.5
EV/EBITDA (X)	11.1	7.7	6.9	5.9
Net Div Yield (%)	2.1	2.1	2.3	2.7
P/Book Value (X)	1.4	1.3	1.1	1.0
Net Debt/Equity (X)	0.7	0.5	0.4	0.3
ROAE (%)	13.5	13.9	14.1	14.3

At A Glance

Issued Capital (m shrs)	469
Mkt. Cap (RMm/US\$m)	1,017 / 238
3m Avg. Daily Val (US\$m)	0.27

ICB Industry : Industrials

ICB Sector: Construction & Materials

Principal Business: Muhibbah is primarily involved in construction, fabrication of cranes and shipbuilding. These 3 core divisions cater largely for the O&G sector. It also holds a 21% associate stake in 2 concessions, namely the Cambodian airports and Federal road maintenance in Malaysia.

Source: Company, AllianceDBS, Bloomberg Finance L.P.

Infra division on a stronger footing

- **3Q15 results in line**
- **Strong earnings for crane and concession; improved profitability for construction division**
- **c.RM100m win for Ophir brings YTD wins to RM1bn**
- **Maintain BUY, SOP-derived TP of RM2.90**

Highlights

- **In line.** 3Q15 recorded headline net profit of RM81m (+300% y-o-y, +196% q-o-q) bringing 9M15 profit to RM147m. Included in 9M15 net profit was a large foreign exchange gain of RM92m (3Q15 RM68m) attributed to forex gain for Favco and USD appreciation for its Cambodian airport concession. Stripping out the effects of forex, we deem the results to be in line with our forecast and consensus estimates.
- **Strong crane and concession earnings.** 3Q15 pretax profit for its Cambodian airport concession grew to RM14.9m (+41% y-o-y, +29% q-o-q). Similarly, 9M15 pretax profit was also higher by 30% y-o-y to RM44m. This was driven by strong traffic volume growth of +15% y-o-y to 4.7m passengers while also lifted by an appreciating USD. The expansion plans for its Siem Reap and Phnom Penh airports have been largely completed with capacity now double at 12m. Its crane business under Favelle Favco showed strong growth where 9M15 pretax profit increased 15% y-o-y to RM97m driven by its orderbook of c.RM0.8bn.
- **Construction earnings also showed improvement.** Its 9M15 pretax profit for construction division jumped 67% y-o-y to RM46m (vs RM28m in 9M14). However for 3Q15, construction pretax profit fell 50% q-o-q to RM12m likely due to timing of billings. We expect stronger momentum in 2016 with the recent higher margin works secured YTD.

Outlook

- **Infrastructure division on firm footing.** Our main concern with Muhibbah previously was its waning infrastructure orderbook. Together with the release of its results, it also announced a RM93-100m contract win from Ophir Production for the provision of EPCC of Wellhead Platform for the Ophir Development project in Kertih. This brings YTD wins to RM1bn and total outstanding infrastructure orderbook to RM1.6bn.

Muhibbah Engineering

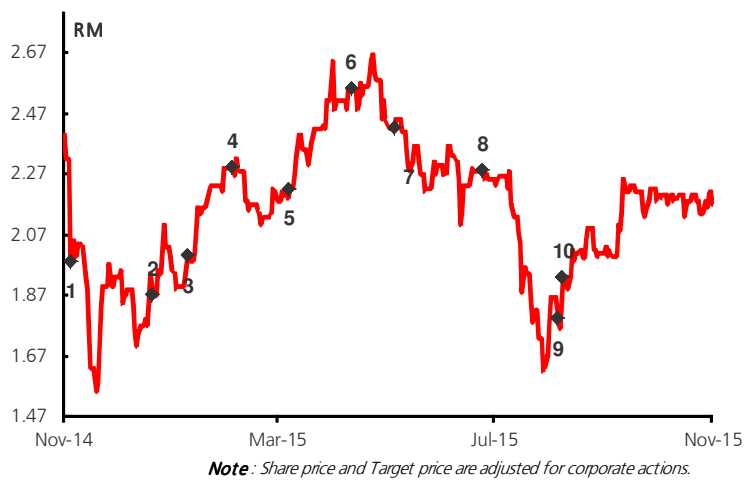
Valuation:

Muhibbah is a BUY with SOP-derived TP of RM2.90. We think SOP is a more appropriate valuation methodology as it captures its more diversified business model.

Key Risks:

Timing of contract wins. The pipeline of new projects looks healthy, but timing of contract wins is difficult to predict and could lead to earnings downgrades. Another potential risk is non-renewal of its Roadcare concession and unfavourable outcome of the adjudication under the Building & Construction Industry Payment Act for the Wiggin Island project.

Target Price & Ratings History



Source: AllianceDBS

DISCLOSURE

Stock rating definitions

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 > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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Wong Ming Tek, Executive Director

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AllianceDBS Research Sdn Bhd (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 email : general@alliancedbs.com