

# Company Focus

# Muhibbah Engineering

Bloomberg: MUHI MK | Reuters: MUHI.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

1 Sep 2015

## BUY

Last Traded Price: RM1.86 (KLCI : 1,612.74)

Price Target : RM2.90 (56% upside) (Prev RM3.40)

Shariah Compliant : Yes

Reason for Report : 2Q15 results

Potential Catalyst: Larger contract wins for infra and cranes

Where we differ: We are generally in line with consensus

### Analyst

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### Result Summary

FY Dec (RM m)	2Q 2015	2Q 2014	1Q 2015	yoy % chg	qoq % chg
<b>P&amp;L Items</b>					
Turnover	410.3	466.1	363.2	(12.0)	13.0
Opg Profit	42.5	37.1	26.3	14.8	62.0
EBITDA	66.7	61.7	59.7	8.1	11.7
Net Profit	27.4	20.9	23.3	30.8	17.5

### Other Data

Opg Margin (%)	10.4	7.9	7.2
Net Margin (%)	6.7	4.5	6.4

### Financial Summary

FY Dec (RM m)	2014A	2015F	2016F	2017F
Turnover	1,693	1,709	1,770	1,793
Operating Profit	111	99	114	137
EBITDA	159	209	229	257
Net Pft (Pre Ex.)	82	95	106	122
EPS (sen)	19.3	22.4	25.2	28.8
EPS Pre Ex. (sen)	19.3	22.4	25.2	28.8
EPS Gth (%)	(6)	16	13	14
EPS Gth Pre Ex (%)	(6)	16	13	14
Net DPS (sen)	4.5	4.5	5.0	5.8
BV Per Share (sen)	152.4	169.2	189.9	213.7
PE (X)	9.6	8.3	7.4	6.5
PE Pre Ex. (X)	9.6	8.3	7.4	6.5
EV/EBITDA (X)	10.3	7.1	6.3	5.4
Net Div Yield (%)	2.4	2.4	2.7	3.1
P/Book Value (X)	1.2	1.1	1.0	0.9
Net Debt/Equity (X)	0.7	0.5	0.4	0.3
ROAE (%)	13.5	13.9	14.0	14.3

### At A Glance

Issued Capital (m shrs)	468
Mkt. Cap (RMm/US\$m)	870 / 207
3m Avg. Daily Val (US\$m)	0.4

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.

## USD tail winds

- **2Q15 results in line; 1H15 net profit up 23% y-o-y**
- **Strong earnings from all divisions; cranes and airport concession benefited from appreciating USD**
- **Decent YTD contract wins to anchor earnings growth**
- **BUY, lower TP to RM2.90**

### Highlights

- **In line.** 2Q15 recorded net profit of RM27m (+31% y-o-y, +18% q-o-q) on the back of 13% q-o-q growth in revenue. 2Q15 was also buoyed by forex gains of RM10m, largely from Favelle Favco (cranes) and its Cambodia airport concession, testament that it benefits from an appreciating USD. 1H net profit of RM51m (+23% y-o-y) was in line with our forecast and consensus estimate.
- **Strong quarter for construction.** Muhibbah registered a stronger quarter for construction with 2Q15 pretax profit of RM23m, which was more than double q-o-q and y-o-y. This was on the back of stronger margins of 8.3% vs 4.8% in 1Q15 and 3.8% in 2Q14. We expect better margins this year with the recent higher margin contracts secured YTD. Its cranes business booked RM27m pretax profit in 2Q15 (-11% q-o-q, +39% y-o-y). Meanwhile, shipyard pretax profit surged to RM4.7m in 2Q15 (vs RM0.6m in 1Q15). 1H15 pretax profit from its Cambodian airport concession was up more than 2-fold to RM29m on the back of stronger traffic volume growth of 14% to 3.3m passengers. Expansion plans have largely been completed.
- **Lowering SOP-derived TP.** We are lowering our SOP-derived TP to RM2.90 (from RM3.40) by assigning a lower 12x PE to its crane and infrastructure division (vs 16x previously). We expect orders to be slower for its crane division as oil prices are still low while orders from RAPID for its infrastructure division has also been slower than expected.

### Outlook

- **Decent YTD wins.** Muhibbah has won a second job in RAPID from Toyo Thai Malaysia Sdn. Bhd. This is for civil, concrete and building works for offsite areas worth RM158.2m under Package 5. This takes YTD wins to RM589m and outstanding construction orderbook to RM1.25bn (group orderbook is RM2.1bn if including crane and shipyard). At this juncture, Muhibbah only needs to

## Muhibbah Engineering

clinch another RM193m worth of contracts to meet our FY15 order win assumption

### Valuation:

Muhibbah is a BUY with SOP-derived TP of RM2.90.

### Key Risks:

Its infrastructure division is the missing link with orderbook at only RM1bn (1-year visibility). 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.

### SOP

SOP Method	Earnings / NPV	PE / WACC	Stake	Atributed Value	Per Share
Subsidiary earnings	53	12	100%	632	1.50
Cambodia airports	2,766	10%	21%	581	1.37
Road maintenance	54	8%	21%	11	0.03
<b>SOP Value</b>				<b>1,224</b>	<b>2.90</b>

Source: AllianceDBS

### Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	03 Sep 14	3.04	3.20	Hold
2:	18 Nov 14	2.25	3.50	Buy
3:	01 Dec 14	1.98	3.50	Buy
4:	16 Jan 15	1.87	3.50	Buy
5:	05 Feb 15	2.00	3.50	Buy
6:	02 Mar 15	2.29	3.50	Buy
7:	03 Apr 15	2.22	3.50	Buy
8:	08 May 15	2.55	3.50	Buy
9:	01 Jun 15	2.42	3.50	Buy
10:	21 Jul 15	2.28	3.40	Buy

Source: AllianceDBS

## DISCLOSURE

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### 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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