

# Company Flash Note

# Muhibbah Engineering

Bloomberg: MUHI MK | Reuters: MUHI.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

4 Sep 2015

**BUY RM1.84** KLCI : 1,602.75

Price Target : 12-Month RM 2.90 (58% upside)

Shariah Compliant: Yes

### Analyst

CHONG Tjen San +603 2604 3972  
tjensan@alliancedbs.com

### Price Relative



### Forecasts and Valuation

FY Dec (RM m)	2014A	2015F	2016F	2017F
Revenue	1,693	1,709	1,770	1,793
EBITDA	159	209	229	257
Pre-tax Profit	145	132	148	173
Net Profit	82	95	106	122
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
Diluted EPS (sen)	19.3	22.4	25.2	28.8
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)	9.5	8.2	7.3	6.4
PE Pre Ex. (X)	9.5	8.2	7.3	6.4
P/Cash Flow (X)	nm	3.1	6.6	5.6
EV/EBITDA (X)	10.3	7.0	6.3	5.4
Net Div Yield (%)	2.5	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

Source of all data: Company, AllianceDBS, Bloomberg Finance L.P

## Scores hat-trick with RAPID

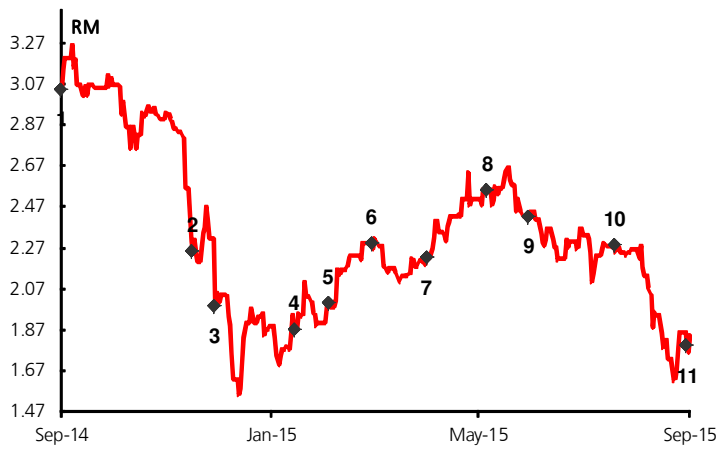
- **Secures third RAPID contract**
- **Important win – main contractor role with JV partner**
- **Has exceeded FY15 order win target; room to raise numbers**
- **BUY, TP RM2.90 (SOP)**

**Another RAPID win.** Muhibbah and VA Tech Wabag Limited (WABAG) have been awarded a RM949.6m contract for the design competition for Re-FEED and Engineering, Procurement, Construction and Commissioning of the Effluent Treatment Plant (ETP) for the RAPID Project. The purpose of the Integrated ETP is to reduce pollution in the aqueous effluents of the RAPID Complex to below the regulatory discharge limits.

**Important win.** Besides being Muhibbah's third RAPID contract, this is also Muhibbah's first main contractor role in RAPID together with its JV partner WABAG which is listed in India. Recall its first two wins in RAPID were sub-contractor roles for Tecnicas Reunidas and Toyo Thai. We understand the shareholding structure for this contract has not been determined, but Muhibbah's stake should be between 30% and 50%. Assuming 30% stake (or effective share of contract is RM285m), this would bring Muhibbah's YTD wins to RM874m. This implies some upside to our FY15F-FY16F numbers as we have assumed only RM193m additional wins for the rest of FY15F. Nonetheless, we are keeping our forecasts pending further clarity on the shareholding structure.

**BUY, TP RM2.90.** This win validates Muhibbah's strong positioning as a RAPID proxy, and allays concerns over a depleting order book for the infrastructure division, which we estimate at RM1.5bn currently (1.4x FY14 revenue). Current valuation is attractive at only 7x 1-year forward PE and 1x P/NTA, and presents a good opportunity to accumulate the stock.

**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
11:	01 Sep 15	1.79	2.90	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

**DISCLAIMER**

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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