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## 1Q FY2016 results update

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# Muhibbah Engineering (M) Bhd

- 1Q2016 results in line with forecast
- Drop in Favco contributions buffered by concessions
- Large RM2.1b orderbook to sustain earnings
- Attractive valuations, maintain BUY

BUY	Key stock statistics	FY Dec15	FY Dec16E
	EPS (sen) P/E (x)	18.7 11.7	20.1 10.9
	DPS (sen)	5.0	5.0
	NTA/share (RM)	1.75	1.86
	Issued capital (mil)	470.6	
Share price	52-week price range (RM)	1.53 -2.52	
RM2.19	Major shareholders (%)		
Markat appitalization	Mac Ngan Boon	20.7%	
Market capitalization RM1,031 million	Lembaga Tabung Haji	9.6%	
Board <b>Main</b>	Share Price Chart		

3.5 3 2.5 2 1.5 1 0.5 0 1/6/2015 1/6/2016



#### 1Q FY2016 Results highlights

Year end Dec (RM mil)	1Q2016	1Q2015	% chg
Turnover	481.8	372.0	29.5
Pre-tax profit	34.0	39.6	(14.1)
Тах	(8.1)	(7.6)	7.5
Minority interests	(2.1)	(8.7)	(75.5)
Net profit	23.8	23.3	2.0
EPS (sen)	5.1	5.4	
Pre-tax profit margin (%)	7.1	10.6	
Net profit margin (%)	4.9	6.3	

Muhibbah Engineering's first quarter results for FY Dec 2016 were within our expectations with 1Q2016 net profit of RM23.8 million coming in at 24% of our earlier full year forecast of RM98.6 million.

Net profit for 1Q2016 increased by a 2% y-y to RM23.8 million, despite a 14.1% fall in pre-tax profit to RM34 million. This was helped by sharply lower minority interests (from RM8.7 million to RM2.1 million), due to lower contributions from Favelle Favco, its crane manufacturing subsidiary, which was affected by the oil & gas industry slowdown.

Favelle Favco, with about 80-90% of its cranes used in the oil & gas industry, saw a 37.6% fall in pre-tax profit to RM18.5 million amid a 23.8% decline in revenue to RM152.9 million.

The Muhibbah group is starting to see a shift to a more diversified earnings base, with the sharp drop in contributions from Favelle Favco, balanced against increasing contributions from the concessions. Favco's contribution to group pre-tax profit declined from 75% in 1Q2015 to 54% in 1Q2016.

After-tax contributions from associates increased 12.3% to RM18.3 million. This reflects its concession business, comprising an effective 21% stake in the three Cambodian airports (Phnom Penh, Siem Reap and Sihanoukville), and a 21% stake in Roadcare (M) Sdn Bhd, which holds a 10-year concession (valid until 2026) for the maintenance of over 7,000 km of federal roads in central peninsular Malaysia.

Muhibbah's order-book stood at RM2.11 billion as at 23 May 2016. Of the order-book, RM1.43 billion are for infrastructure construction works, RM604 million for cranes and RM83 million for the shipyard. Some 69% of the order-book is for jobs in in Malaysia.



#### Outlook and recommendation

We maintain our **BUY** recommendation. We have trimmed our EPS estimates slightly to account for some dilution from its recently proposed 10% private placement exercise, which will raise about RM100 million to pare borrowings. As at end-March, Muhibbah had gross cash of RM631.4 million, loans of RM512 million and RM866.7 million in bills payables.

We continue to like Muhibbah for its attractive valuations, well-diversified earnings base, with earnings visibility backed by its RM2.1 billion order-book.

The company's earnings are now more diversified with a large proportion, some 37% of pre-tax profit in 2015 rising to just over half in 1Q2016, coming from its sustainable and fast growing Cambodian airport concessions. This will buffer the impact of any further slowdown in the oil & gas sector.

We expect net profit to grow 13.1% to RM96.8 million in 2016 and 9.2% to RM105.7 million in 2017, with post-placement EPS of 20.1 sen and 20.4 sen, respectively. At RM2.19, the stock is trading on low P/E multiples of 10.9 times for 2016 and 10.7 times for 2017.

With crude oil prices having rebounded from lows of US\$30 per barrel to nearly US\$50 per barrel, prospects for the oil & gas sector should improve.

While it is unclear if crude oil prices will continue to rally from here, most think the worst is already behind us. Nonetheless, the industry has to balance between factors such as declining US stock piles and falling output in Venezuela and Nigeria with the prospect of higher production in the Middle East and a slowdown in Chinese demand.

In particular, the higher oil price environment will benefit Favco, which was significantly affected in 1Q2016 as some 80-90% of its cranes are used in the oil & gas industry. On a positive note, Favco has actively securing new contracts and replenishing its order-book despite the industry slowdown. Its current outstanding order-book is RM604 million, equivalent to a full year of revenue, which will last it through any further volatility in oil prices.

Unlike Favco, Muhibbah's infrastructure construction division has been largely unaffected by the oil & gas slowdown. This is due to its focus on the US\$27 billion RAPID project in Pengerang, for which contracts have been awarded since mid-2015 and construction is ongoing. The refinery is expected to be completed in 2019.

This mega-project is largely unaffected by Petronas' capex cuts and offers ample opportunities for Muhibbah, which has so far won RM914 million worth of RAPID related projects. There are more opportunities ahead as further parcels for the project are tendered out.



Apart from RAPID, other potential mega infrastructure projects that Muhibbah could tender for include RM9 billion worth of new highways, RM35 billion in MRT and LRT public transportation projects and RM3 billion in port projects.

The Cambodian airport concession operations are providing a major growth impetus, with its earnings derived in USD and benefitting from rising passenger traffic and a recently completed expansion exercise.

Arrivals at the three Cambodian airports have grown a robust 13% per year for the last two years, reaching 6.5 million arrivals in 2015. Of these arrivals in 2015, 3.07 million were at the Phnom Penh airport, 3.3 million in Siem Reap airport and 95,000 at Sihanoukville, which was recently opened.

In 1Q2016, arrivals into the airports continued to grow, rising 5% to 2 million passengers, led by a 10% growth in Phnom Penh and 1% in Siem Reap.

Future growth will be underpinned by a recently completed capacity expansion at the two main airports and over time, more arrivals at the southern port and beach city of Sihanoukville as more flights are added.

In March 2016, additional terminal buildings for the Phnom Penh and Siem Reap airports were officially opened. This has doubled the collective annual capacity of its three Cambodian airports from 6 to 12 million passengers.



### Profit & Loss Analysis

Year end Dec (RM mil)	2014	2015	2016E	2017E
Turnover	1,733.6	1,599.0	1,660.0	1,645.0
EBITDA	178.8	204.5	181.5	213.2
Depreciation	(55.8)	(55.7)	(57.0)	(60.0)
Associates	49.2	62.2	76.0	84.0
Interest income/(exp)	(28.5)	(42.7)	(42.0)	(40.0)
Pre-tax profit	143.7	168.3	158.5	197.2
Tax	(24.8)	(31.4)	(31.7)	(39.4)
Minorities	(37.3)	(51.3)	(30.0)	(52.0)
Net profit	81.6	85.6	96.8	105.7
Operating margin (%)	10.3	12.8	10.9	13.0
Pre-tax margin (%)	8.3	10.5	9.5	12.0
Net margin (%)	4.7	5.4	5.8	6.4
Effective tax rate (%)	17.3	18.7	20.0	20.0
Year end Dec	2014	2015	2016E	2017E
EPS (sen)	<b>2014</b> 19.2	<b>2015</b> 18.7	2016	2017E 20.4
P/E (x)	11.4	11.7	10.9	10.7
	11.7	11.7	10.0	10.7
Dividend (sen)	4.0	5.0	5.0	5.0
Dividend yield (%)	1.8	2.3	2.3	2.3
Payout ratio (%)	21	27	25	24
Book value (RM)	1.50	1.75	1.86	1.89
Price/Book value (x)	1.46	1.25	1.18	1.16
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Cashflow/share (sen)	29.2	27.7	22.3	25.8
Price/Cashflow (x)	7.5	7.9	9.8	8.5
Gearing (%) (excluding				
bills payables)	21	18	16	15
ROE (%)	12.7	10.4	10.8	10.8



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