

Company update
7 June 2016

Muhibbah Engineering (M) Bhd

- Proposed to acquire 500 acres in Kuantan for RM24.65m
- Land cost just RM1.21 psf, with 4km sea frontage
- To be developed into Kuantan maritime hub
- We view acquisition positively. Maintain BUY

BUY

Share price
RM2.26

Market capitalization
RM1,064 million

Board
Main

Indices
FBM Emas Syariah,

Sector
Construction

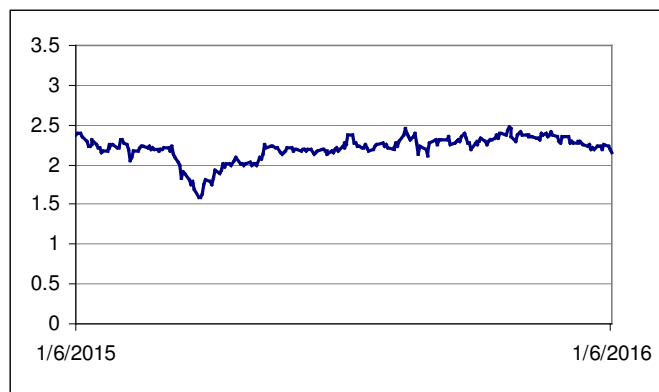
Stock code
5703

By
The Research Team

Key stock statistics	FY Dec15	FY Dec16E
EPS (sen)	18.7	20.1
P/E (x)	12.1	11.3
DPS (sen)	5.0	5.0
NTA/share (RM)	1.75	1.86
Issued capital (mil)	470.6	
52-week price range (RM)	1.53 -2.52	

Major shareholders (%)

Mac Ngan Boon	20.7%
Lembaga Tabung Haji	9.6%

Share Price Chart


New developments

Muhibbah Engineering has entered into an agreement with Perbadanan Setiausaha Kerajaan Pahang for the proposed acquisition of a 99-year leasehold land measuring 500 acres in Kuantan, Pahang, for RM26.45 million.

The land would be developed into the proposed Kuantan Maritime Hub over a period of 10 years. The acquisition provides an opportunity for Muhibbah to develop industrial activities for ship building, ship repair works and major fabrication offshore structure in Kuantan.

We view the acquisition positively.

The land acquisition cost work out to be just RM1.21 psf for a strategically located seafront land. The project will be funded internally by Muhibbah, which recently proposed a 10% private placement exercise to raise about RM100 million. The project's total cost will, however, depend on how much is planned in the different phases.

The land is strategically located about 20km from Kuantan town, and just 5 km from Kuantan Port, which is owned by IJM Corp and Guangxi Beibu International Port Group (GBIPG).

We understand Muhibbah's land has about 4km of seafront access, and is set within a safe harbor. This gives it a wide berth to develop comprehensive ship building, ship repair and ship fabrication yard activities. The aim will be to serve the bustling shipping activities at Kuantan Port as well as along the east coast, which includes oil and gas facilities in Kelantan and Terengganu.

In contrast, Muhibbah's existing shipyard in Port Klang sits on 80 acres with 850m of water frontage.

Kuantan Port is being positioned as one of the country's top ports and a major trading link to China. It is in the process of being expanded into a deep-water port, capable of handling vessels with 200,000 deadweight tonnes. The current expansion exercise, costing some RM3 billion, will double capacity from 26 million to 52 million freight weight tonnes of bulk and container cargo.

The government will also be reportedly spending about RM1 billion on external infrastructure around the port, including constructing a 4.7km breakwater. The port's major expansion expansion will auger well for Muhibbah's new project. It will also benefit from the nearby Malaysia-China Kuantan Industrial Park.

We maintain our BUY recommendation and forecasts.

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

Per Share Data

Year end Dec	2014	2015	2016E	2017E
EPS (sen)	19.2	18.7	20.1	20.4
P/E (x)	11.8	12.1	11.3	11.1
Dividend (sen)	4.0	5.0	5.0	5.0
Dividend yield (%)	1.8	2.2	2.2	2.2
Payout ratio (%)	21	27	25	24
Book value (RM)	1.50	1.75	1.86	1.89
Price/Book value (x)	1.51	1.29	1.21	1.20
Cashflow/share (sen)	29.2	27.7	22.3	25.8
Price/Cashflow (x)	7.7	8.2	10.1	8.7
Gearing (%) (excluding bills payables)	21	18	16	15
ROE (%)	12.7	10.4	10.8	10.8



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