InsiderAsia
by Asia Analytica

Company update **17 March 2016**

Muhibbah Engineering (M) Bhd

- Good earnings visibility, backed by RM2.5b orderbook
- Won RM900m in RAPID projects, bidding for more
- Strong Cambodia airports growth, capacity now doubled
- Maintain BUY, attractively priced

BUY

Share price
RM2.33

Market capitalization
RM1,097 million

Board
Main

Indices
FBM Emas Syariah,

Sector
Construction

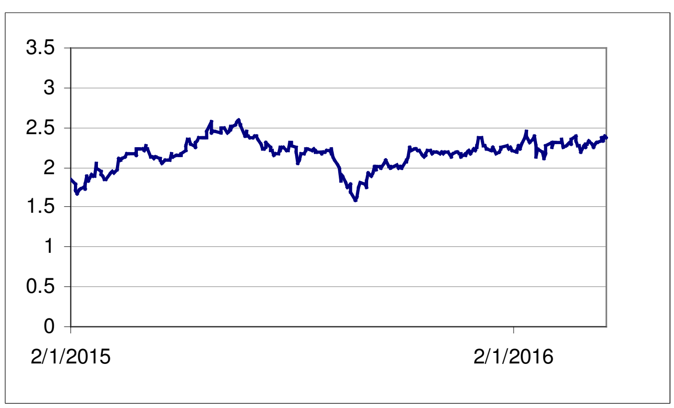
Stock code
5703

By
The Research Team

Key stock statistics	FY Dec15	FY Dec16E
EPS (sen)	18.7	21.0
P/E (x)	12.5	11.1
DPS (sen)	5.0	5.0
NTA/share (RM)	1.75	1.91
Issued capital (mil)	470.6	
52-week price range (RM)	1.53-2.76	

Major shareholders (%)	
Mac Ngan Boon	20.7%
Lembaga Tabung Haji	9.6%

Share Price Chart



Recommendation

We continue to recommend a **BUY** on Muhibbah Engineering. We like its attractive valuations with earnings visibility backed by a large order-book and a proven ability to deliver. Muhibbah enjoys a diversified earnings base with a larger proportion coming from its sustainable – and fast growing - Cambodian airport concessions.

Despite the oil & gas industry downturn, Muhibbah has continued to chalk up successively higher pre-tax profits over the last three years, helped by a healthy replenishment of its order-book and strong growth in its cranes and Cambodian airport concessions.

Within the oil & gas sector, Muhibbah intends to focus on the US$27 billion RAPID project in Pengerang, for which contracts have been awarded since mid-2015. The project is largely unaffected by Petronas' capex cuts, which are focused more on upstream projects. Muhibbah has so far won almost RM900 million worth of RAPID related projects in under a year.

Muhibbah's large order-book totaling RM2.53 billion (equivalent to 1.5x 2015 revenue) will provide medium term earnings visibility. Of the order-book, RM1.73 billion (68%) are for infrastructure construction works, RM694 million (27%) for cranes and RM105 million (5%) for the shipyard. Some 72% of the order-book are for jobs in in Malaysia.

Muhibbah has been actively replenishing its order-book, with about RM1.1 billion in contract wins in 2015. Its outstanding order-book has consistently been maintained at around RM2-3 billion, despite high annual turnover of around RM1.5-2.billion.

Its recent FY2015 results saw pre-tax profit increased 17.1% to RM168.3 million while net profit rose 4.7% to RM85.6 million.

The Cambodian airport concession operations are providing a major impetus, with earnings derived in USD. Earnings from the concessions rose 26.4% to RM62.2 million last year, and account for 37% of group pre-tax profit. A doubling of the Cambodian airports' capacity this year will set the platform for stronger future growth as the airports have been witnessing robust 13% annual passenger arrival growth in the last two years.

We expect net profit to grow 15.2% to RM98.6 million in 2016 and 11.9% to RM110.4 million in 2017, with EPS of 21 sen and 23.5 sen, respectively. At RM2.33, the stock is trading on low P/E multiples of 11.1 times for 2016 and 9.9 times for 2017, with good earnings visibility.

Infrastructure Construction / Oil & gas

While prospects for the oil & gas industry in general are not looking rosy, Muhibbah has been able to weather the downturn with continued replenishment of its oil & gas related orderbook due to its track record and ability to provide comprehensive packages for sizeable projects.

Within the sector, its new contracts and tenders are increasingly tied to Petronas' RAPID (Refinery and Petrochemical Integrated Development) project in Pengerang, Johor. Work on the refinery project commenced in the middle of last year and is unlikely to be affected by Petronas' budget cuts on future capital expenditure, which are mainly for upstream activities.

The RAPID project is expected to cost US$16 billion, with another US$11 billion in associated installations, which provides ample opportunities for the company.

In 1Q2015, Muhibbah secured its first RAPID related contract worth USD31.4 million (RM116 million). It now has won RM847 million in jobs related to the RAPID project, and there is a good chance of securing more are tenders are opened in stages. The refinery is expected to be completed in 2019.

A major catalyst for Muhibbah's increasing share of oil & gas jobs was the award in June 2013, of a licence by Petronas that allows it to participate directly in upcoming offshore facilities construction and major onshore fabrication work for Petronas and other oil majors in Malaysia. This has opened its doors to directly compete for the RAPID project.

With this, Muhibbah has a major edge over other competitors as it is one of few players with fully integrated facilities. Its construction expertise includes offshore facilities and onshore construction fabrication, supported by Favelle Favco, which builds cranes for oil installations, while its shipyard builds anchor handling tug supply vessels.

Apart from RAPID and oil and gas related works, other potential mega infrastructure projects that Muhibbah could tender for include RM42 billion of highways, RM25 billion in MRT projects and RM3 billion in port projects.

Some of the major projects in its order-book include:

RAPID - EPFF for executive village & office:	RM300m
RAPID - Effluent treatment plant:	RM284m
RAPID – Package 3	RM181m
RAPID – civil works for steam cracker complex	RM149m
Bintulu Port: conveyor system	RM157m
Petronas Carigali: Office building extension in KK	RM137m
Northport: upgrading Wharf 8	RM131m
Westport: container wharf 8	RM109m

Cranes

The crane manufacturing division, Favelle Favco, has been performing well since going public in Aug 2006. Since then, its net profit has jumped nearly 10-folds from RM9.9 million in 2006 to RM94.7 million in 2015 while revenue rose from RM358 million to RM792.4 million.

For 2015, revenue was flat at RM792.4 million (down a marginal 0.7%), but pre-tax profit increased 16.7% to RM129.7 million.

Favco has boosted margins significantly due to internal restructuring efforts over the years to improve efficiency, penetrate new markets and a focus on the oil & gas sector. Over the past three years, operating margins rose from 13.3% to 16.4% -- and from just 5-6% a decade ago.

Favco currently has 5 plants: in Malaysia (Senawang), Australia (Sydney), Denmark (Copenhagen), the US (Texas) and China (Shanghai). This allows it capture a wide range of global clients. Some of its cranes have been used in some of the world's tallest buildings, including the Burj Khalifa, Ping An International Finance Centre, Shanghai Tower and One World Trade Centre.

The company generates 81% of sales overseas, with a large portion of income earned in foreign currency. Its order-book currently stands at RM694 million.

Shipyard

The shipyard division, under Muhibbah Marine Engineering Sdn Bhd (MME) has seen more volatility, mirroring the outlook of the shipbuilding industry, and in particular that of anchor handling tug supply vessels (AHTS). MME's shipyard is located on over 80 acres in Telok Gong, next to South Port in Port Klang, with 2,800 ft of water frontage and water depth of up to 60 feet.

In FY2015, revenue for this division fell from RM220.4 million to RM50.5 million. The shipyard currently has an order-book of RM105 million.

Cambodia airport concessions

Muhibbah's concessions continue to enjoy steady – and growing income, reflecting the strong tourism arrivals at its airports in Cambodia and USD denominated earnings.

Muhibbah's concessions consist of airport operations in Cambodia (under effectively 21% owned associate Societe Concessionaire des Aeroports, or SCA) and a 21% stake in Roadcare (M) Sdn Bhd, which held a 15-year concession for the maintenance of 6,000 km of federal roads in the central peninsular Malaysia, namely Selangor, Pahang, Kelantan and Terengganu.

Roadcare, which is also a subsidiary of listed Protasco Bhd, was on 14 March 2016, awarded a further 10-year extension of the concession to Feb 2026.

Muhibbah has an effective 21% stake in the Cambodian airport operations, operated by SCA. The largest shareholder of SCA is French construction and conglomerate Vinci, with 70%. The concessions comprise Cambodia's three main airports: Phnom Penh, Siem Reap and Sihanoukville, all ending in 2040.

For 2015, after-tax profit contributions from the concessions, surged 26.4% to RM62.2 million from RM49.2 million in 2014, helped by robust tourism arrivals in Cambodia and the strong US dollar, as earnings are denominated in the greenback.

The strong earnings growth reflects the popularity of Cambodia as a tourist destination with increasing direct flights and the popularity of the world-famous Angkor Wat temples, a UNESCO World Heritage site.

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.

A major growth impetus has been China, with Chinese passenger arrivals surging 35% in 2014 and 20% in 2015. China now accounts for 22% of all passenger arrivals into Cambodia, followed by Korea with 13%.

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 the number of flights and hotels there increase.

In March 2016, SCA officially opened additional terminal buildings for the Phnom Penh and Siem Reap airports that will double 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	1,695.0
EBITDA	178.8	204.5	218.0	233.0
Depreciation	(55.8)	(55.7)	(58.0)	(60.0)
Associates	49.2	62.2	75.0	84.0
Interest income/(exp)	(28.5)	(42.7)	(43.0)	(44.0)
Pre-tax profit	143.7	168.3	192.0	213.0
Tax	(24.8)	(31.4)	(38.4)	(42.6)
Minorities	(37.3)	(51.3)	(55.0)	(60.0)
Net profit	81.6	85.6	98.6	110.4
Operating margin (%)	10.3	12.8	13.1	13.7
Pre-tax margin (%)	8.3	10.5	11.6	12.6
Net margin (%)	4.7	5.4	5.9	6.5
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	21.0	23.5
P/E (x)	12.1	12.5	11.1	9.9
Dividend (sen)	4.0	5.0	5.0	5.0
Dividend yield (%)	1.7	2.1	2.1	2.1
Payout ratio (%)	21	27	24	21
Book value (RM)	1.50	1.75	1.91	2.10
Price/Book value (x)	1.55	1.33	1.22	1.11
Cashflow/share (sen)	29.2	27.7	29.0	31.1
Price/Cashflow (x)	8.0	8.4	8.0	7.5
Gearing (%)*	21	18	16	17
ROE (%)	12.7	10.4	10.9	11.2

** including bills payables*

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