

FY2015 Final results update
21 March 2016

Muhibbah Engineering (M) Bhd

- 2015 final results in line with forecast
- Large RM2.5b orderbook to sustain earnings
- Cambodia airports anchor growth, sustainable earnings
- Attractive valuations at 10.1x 2017, maintain BUY

BUY

Share price
RM2.38

Market capitalization
RM1,120 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)	12.7	11.4
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


FY2015 Results highlights

Year end Dec (RM mil)	FY2015	FY2014	% chg
Turnover	1,599.0	1,733.6	(7.8)
Pre-tax profit	168.3	143.7	17.1
Tax	(31.4)	(24.8)	26.6
Minority interests	(51.3)	(37.3)	37.5
Net profit	85.6	81.6	4.9
EPS (sen)	18.7	19.2	
Pre-tax profit margin (%)	10.5	8.3	
Net profit margin (%)	5.4	4.7	

Muhibbah Engineering's full year results for the financial year ended Dec 2015 were within our forecast, with net profit of RM85.6 million coming in about 5% below our original our full year forecast of RM90.6 million.

For the full year, turnover fell 7.8% from RM1.73 billion to RM1.6 billion, due to large, but lower margin, projects completed earlier. Pre-tax profit increased 17.1% from RM143.7 million to RM168.3 million, reflecting an expansion of margins. Net profit increased by a smaller rate of 4.9%, from RM81.6 million to RM85.6 million due to higher minority interests from Favelle Favco and a marginally higher effective tax rate.

Group operating margins improved from 10.3% to 12.8%, while pre-tax margins expanded from 8.3% to 10.5%.

The growth in profitability was broad-based, led by the crane division, Favelle Favco, and the Cambodia airport operations, both of which benefitted from the weak ringgit with their mainly USD-based revenues.

Favco reported a marginal 0.7% decline in revenue to RM792.4 million, but pre-tax profit increased 16.7% to RM129.7 million as operating margins expanded from 13.3% to 16.4%.

Share of associates, reflecting Muhibbah's earnings from concessions, rose 26.4% to RM62.2 million. The concessions consist of an effective 21% stake in the Cambodian airport operations (with three airports in Phnom Penh, Siem Reap and Sihanoukville), and a 21% stake in Roadcare (M) Sdn Bhd, which holds a concession for the maintenance of 6,000 km of federal roads in central peninsular Malaysia, namely Selangor, Pahang, Kelantan and Terengganu.

Muhibbah's order-book stood at RM2.53 billion (equivalent to 1.5x 2015 revenue), which 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 is for jobs in in Malaysia.

Outlook and recommendation

We maintain our **BUY** recommendation. We like Muhibbah's attractive valuations with earnings visibility backed by a large RM2.53 billion order-book and a proven ability to deliver.

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

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 RM2.38, the stock is trading on low P/E multiples of 11.4 times for 2016 and 10.1 times for 2017, with good earnings visibility.

Investors are understandably concerned about the impact of low crude oil prices and capital spending in the sector. Petronas has also announced spending cuts, mainly for upstream and exploration activities.

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 and offers ample opportunities for Muhibbah, which has so far won almost RM900 million worth of RAPID related projects in under a year.

Apart from RAPID, other potential mega infrastructure projects that Muhibbah could tender for include RM42 billion worth of highways, RM25 billion in MRT 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.

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. They 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)	12.4	12.7	11.4	10.1
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)	1.59	1.36	1.24	1.13
Cashflow/share (sen)	29.2	27.7	29.0	31.1
Price/Cashflow (x)	8.1	8.6	8.2	7.7
Gearing (%)*	21	18	16	17
ROE (%)	12.7	10.4	10.9	11.2



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