

Malaysia Company Guide

Muhibbah Engineering

Version 6 | Bloomberg: MUHI MK | Reuters: MUHI.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

30 Nov 2016

BUY

Last Traded Price (29 Nov 2016): RM2.11 (KLCI : 1,626.93)

Price Target 12-mth: RM3.10 (47% upside) (Prev RM3.10)

Potential Catalyst: Higher infra and crane wins, stronger passenger volume

Where we differ: Our earnings assume the completion of placement in FY17

Analyst

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What's New

- In-line 3Q16 but a more subdued quarter overall
- Optimistic of a few chunky infra wins
- Total outstanding orderbook stands at RM1.7bn
- Maintain BUY and SOP-based TP of RM3.10

Price Relative



Forecasts and Valuation

FY Dec (RM m)	2015A	2016F	2017F	2018F
Revenue	1,605	1,754	1,781	1,707
EBITDA	251	225	251	267
Pre-tax Profit	165	149	177	195
Net Profit	86.0	99.8	117	128
Net Pft (Pre Ex.)	86.0	99.8	117	128
Net Pft Gth (Pre-ex) (%)	5.4	16.1	17.1	9.7
EPS (sen)	18.2	20.7	22.6	24.7
EPS Pre Ex. (sen)	18.2	20.7	22.6	24.7
EPS Gth Pre Ex (%)	5	13	9	10
Diluted EPS (sen)	18.2	20.7	22.6	24.7
Net DPS (sen)	3.98	4.13	4.51	4.95
BV Per Share (sen)	175	199	204	224
PE (X)	11.6	10.2	9.4	8.5
PE Pre Ex. (X)	11.6	10.2	9.4	8.5
P/Cash Flow (X)	32.3	13.1	9.0	6.8
EV/EBITDA (X)	7.8	8.8	8.1	7.4
Net Div Yield (%)	1.9	2.0	2.1	2.3
P/Book Value (X)	1.2	1.1	1.0	0.9
Net Debt/Equity (X)	0.6	0.5	0.4	0.3
ROAE (%)	11.7	11.2	11.6	11.6
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		22.5	24.5	28.5
Other Broker Recs:		B: 6	S: 0	H: 0

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

Awaiting more contract wins

Scarcity premium. Muhibbah is an ideal proxy to the 11th Malaysian Plan given its expertise in three core areas: i) civil engineering; ii) marine-based construction, and iii) offshore and onshore fabrication works, where its Petronas licence offers an advantage. Other contractors do not have this combination to vie in the competitive civil engineering space.

Cash cow: Cambodia airport concession. Siam Reap and Phnom Penh airports have doubled their capacity to 12m passengers. Passenger arrivals grew 13% to 6.5m in FY15. We estimate its 21% stake in the Cambodia airport concession is worth RM677m (DCF, WACC 10%, RM/USD 4.15, and average passenger traffic growth of 5% p.a. until 2040), which is already about two-thirds of the stock's market capitalisation. Revenues are also in USD which can help boost its earnings given the weak MYR.

In need for more wins. Contract flows so far for 2016 have been slow but we understand there could be some chunky wins soon. For its infrastructure division, it has won two contracts, a RM137m building contract from PETRONAS Carigali, in which it has a 70% stake, implying a contract value of RM96m and a smallish contract for the Phnom Penh airport expansion. For its shipyard division, it clinched a RM92m contract win from the Ministry of Transport to undertake the design and construction of a multi-purpose vessel for the Malaysia Marine Department. Its total outstanding orderbook as at end-November is now RM1.7bn, of which RM1bn comes from infrastructure.

Valuation:

Muhibbah is a BUY with a SOP-derived TP of RM3.10. We value the stock based on SOP as we think this better reflects its diversified business while also capturing its cash-generating Cambodian concession.

Key Risks to Our View:

Delays in project flows and sudden spikes in raw material costs could dampen its earnings outlook.

At A Glance

Issued Capital (m shrs)	480
Mkt. Cap (RMm/US\$m)	1,014 / 227
Major Shareholders (%)	
Mac Ngan Boon	22.1
Lembaga Tabung Haji	9.6
Free Float (%)	60.7
3m Avg. Daily Val (US\$m)	0.34

ICB Industry : Industrials / Construction & Materials

WHAT'S NEW

Awaiting more contract wins

In-line 3Q16. A more subdued quarter overall.

Expect some chunky infra wins: Its infrastructure division is in dire need of more orders and there could be some chunky wins before the year is over.

Maintain BUY. Muhibbah is still a good 11MP proxy. BUY with unchanged TP of RM3.10, based on SOP.

In-line. 3Q16 recorded a headline net profit of RM23m (-2% y-o-y, -16% q-o-q), bringing 9M16 net profit to RM73m. This was in line with our forecast and consensus estimate.

A more subdued quarter overall. Its construction division registered a 3Q16 pretax profit of RM17m which was lower than 2Q16's RM72m and 3Q15's RM46m. The lower profit for this quarter was likely due to the timing of recognition of projects. With a RM1bn infrastructure orderbook (as at mid-November 2016), this should ensure decent earnings visibility for about another year. The crane business under Favelle Favco showed a sequential decline of 29% in 3Q16 pretax profit to RM19m. We understand there was a net impairment of RM14m in 3Q16 for its crane business which the company highlights was done prudently and will be written back when the amount is gradually collected. Favelle Favco's growth momentum for 2006 still looks decent with an orderbook of RM634m as at November 2016 but will likely slow down in 2017.

Concession earnings. 3Q16 concession earnings came in at RM11m vs RM13m in 2Q16. 9M16 traffic volume grew by 6% to 5.0m passengers. The expansion plans which were completed in March 2016 resulted in higher depreciation may have dampened profit growth. The growth of Phnom Penh was still buoyant at 9% while Siam Reap's growth was slower

at 3% for 9M16. Silhanoukville showed 9M16 passenger growth of 28%, coming from a lower base of just 71,000.

Infrastructure division – dire need for more orders.

Muhibbah's construction division has seen slow orderbook replenishment so far this year with just two wins totalling RM122m for its share alone. One is for Petronas Carigali for a building job in Sabah while the other was the design and construction of a new domestic terminal of the Phnom Penh Airport in Cambodia. Its current outstanding infrastructure orderbook as at November 2016 is RM1bn.

Total tenderbook is estimated at RM5bn. We understand there could be a couple of chunky wins before the year is over. One could be for MRT Line 2 while the other is an overseas job. We are assuming a balance of RM650m worth of new wins for FY16F which may still be achievable. Moving into FY17F, there could be a resurgence of more contracts from RAPID and also projects in East Malaysia. Muhibbah will also be bidding for LRT 3 where it is one of 22 contractors prequalified.

Quarterly / Interim Income Statement (RMm)

FY Dec	3Q2015	2Q2016	3Q2016	% chg yoy	% chg qoq
Revenue	394	406	385	(2.2)	(5.3)
Cost of Goods Sold	0.0	0.0	0.0	N/A	N/A
Gross Profit	394	406	385	(2.2)	(5.3)
Other Oper. (Exp)/Inc	(354)	(372)	(363)	2.6	(2.3)
Operating Profit	39.5	34.5	21.7	(45.1)	(37.1)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	14.4	14.1	12.2	(15.4)	(13.8)
Net Interest (Exp)/Inc	(3.5)	(5.6)	(6.6)	(89.6)	(17.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	50.5	43.1	27.3	(45.9)	(36.6)
Tax	(11.1)	(8.2)	5.29	(147.6)	(164.8)
Minority Interest	(16.3)	(8.1)	(10.0)	38.5	24.2
Net Profit	23.0	26.8	22.6	(2.0)	(15.9)
Net profit bef Except.	23.0	26.8	22.6	(2.0)	(15.9)
EBITDA	65.9	48.7	33.9	(48.5)	(30.3)
Margins (%)					
Opg Profit Margins	10.0	8.5	5.6		
Net Profit Margins	5.8	6.6	5.9		

Source of all data: Company, AllianceDBS

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

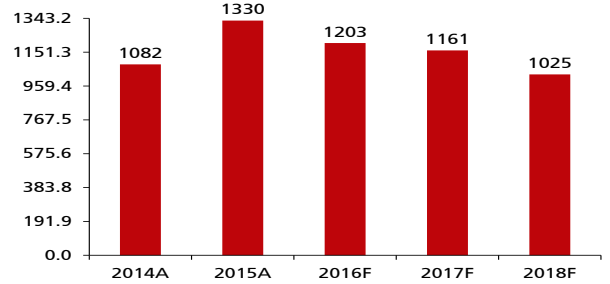
Still a well-rounded 11MP proxy. We expect Muhibbah to deliver stronger earnings growth in FY16 but earnings growth in FY17F hinges a great deal on replenishment of new orders. With its Petronas licence and marine-based expertise, Muhibbah is poised to clinch more RAPID contracts. Within our construction universe, Muhibbah stands out as an excellent proxy to the 11MP projects. Overall orderbook stood at RM1.7bn (as at November 2016). We believe this will grow further on the back of its strong execution track record while also anchored by its ability to replenish its orderbook.

Infrastructure division most promising. Muhibbah believes the infrastructure sector is on a multi-year upcycle with potentially RM153bn worth of projects up for grabs (RM100bn RAPID, RM50bn Infrastructure Construction and RM3bn Marine/Ports). Muhibbah will be bidding for major projects such as RAPID, MRT Line 2, LRT 3 and WCE, and is quietly confident of clinching other marine-based projects. 2016 order wins have been slow relative to 2015 with just two job wins, one from Petronas Carigali and the other for the Phnom Penh airport expansion. However, we understand there could be a few chunk wins in the pipeline which could lift its orderbook.

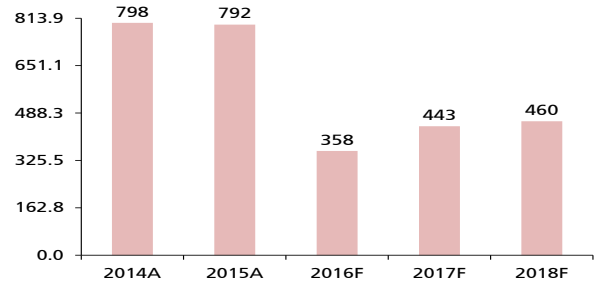
Cambodia airports to double capacity. Effective July 2016, the Siam Reap and Phnom Penh airports will double their existing capacity to 12m passengers. The US\$85m capex has been financed by only one year of operating cashflow, which suggests the airports are cash cows. Passenger arrivals reached 6.5m in 2015 (+13 % y-o-y), led by the recovery in Chinese tourists. We estimate its 21% stake is worth RM677m (DCF, WACC 10%, RM/USD 4.15, and average passenger growth of 5% p.a. until 2040).

Favco capitalising on other revenue streams. Total outstanding orderbook now stands at RM634m (as at November 2016) which is sufficient for earnings visibility until early 2017. Out of this amount, 84% still comes from offshore cranes (vs peak of 95%). The slowdown in offshore crane demand is expected to be partly compensated by an increase in demand for tower cranes. Locally, Favelle Favco has won a RM30m contract from UEM-Samsung to build KL 118. Note that Favelle Favco's cranes have been used to build 12 out of the 14 tallest buildings in the world. We understand there may be M&A opportunities given its strong balance sheet.

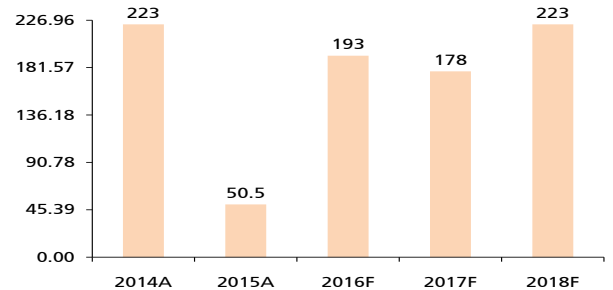
Construction revenue contribution



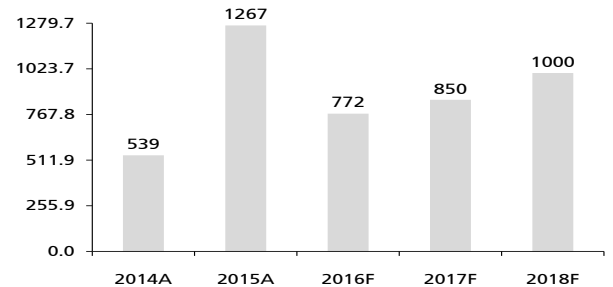
Cranes revenue contribution



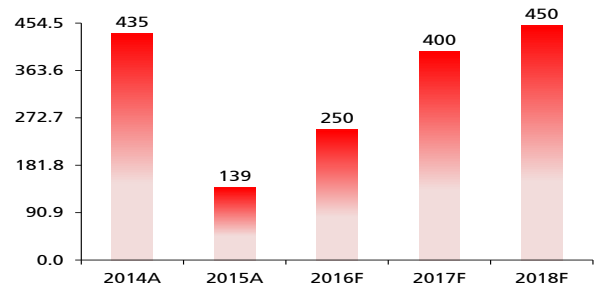
Shipyards revenue contribution



New orders for construction



New orders for cranes



Source: Company, AllianceDBS

Balance Sheet:

Needs bigger balance sheet. Muhibbah's shareholder's funds as at 30 September 2016 stood at RM1.2bn (including minority interest). The proposed private placement of up to 10% of new shares will help Muhibbah strengthen its capital base. It has received approval until 9 May 2017 to complete this. This will help bring net gearing while its cash-generating Cambodia airport concession should provide adequate cash flow. Based on the minimum and maximum scenario, this is expected to raise up to RM109-112m. The majority of the proceeds amounting to RM75m will be used to pare down borrowings while the balance will be for working capital purposes.

Share Price Drivers:

Complete proxy to Malaysia infrastructure. Muhibbah is a complete proxy to the Malaysian infrastructure space because of its experience in bread-and-butter civil engineering works, as well as niche marine infrastructure, and onshore and offshore fabrication works. Hence, we expect it to clinch works from RAPID, MRT Line 2, LRT 3, highway and port projects.

Premium for recurring base. In our view, the market continues to discount the strong cash flow of its concession business, particularly the Cambodian airport concession. Contractors which have a higher degree of relatively assured income such as IJM and Gamuda, which own sizeable toll portfolios, should command premium valuations.

Capitalising on Petronas fabrication licence. Muhibbah was awarded the much sought-after Petronas licence to take on offshore facility construction and major onshore fabrication works. This suggests a higher chance of bagging more Petronas-related jobs (downstream works). It has a 57-acre fabrication yard with a total capacity of 25,000 MT per year, making it the third largest among Petronas-licensed fabricators.

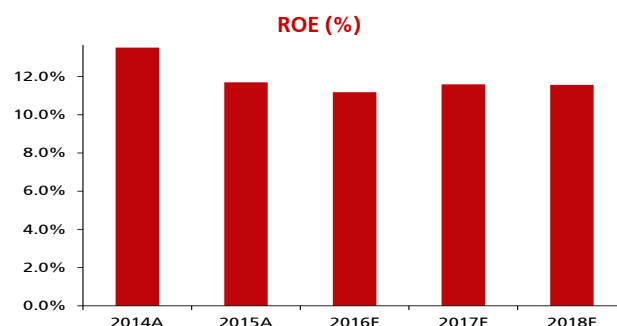
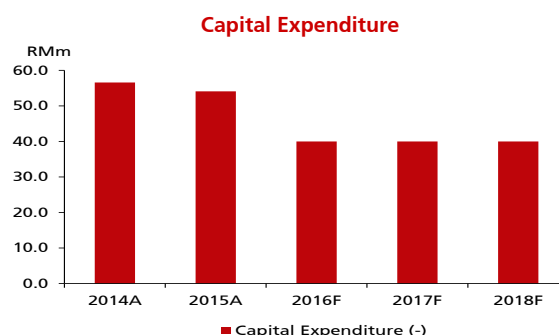
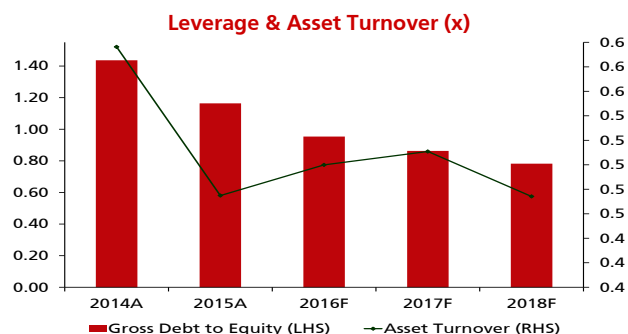
Completed landmark projects. Muhibbah has an impressive track record, having completed a list of landmark projects locally and abroad. Of significance is the LNG Regasification project for Petronas Gas in Melaka and South Klang Valley Expressway.

Key Risks:

Delays in project flows and sudden spikes in raw material costs could dampen its earnings outlook.

Company Background

Muhibbah is primarily involved in construction, fabrication of cranes and shipbuilding. These three core divisions cater largely for the O&G sector. It also holds a 21% associate stake in two concessions, namely the Cambodian airports and Federal road maintenance in Malaysia.



Source: Company, AllianceDBS

Muhibbah Engineering

Key Assumptions

FY Dec	2014A	2015A	2016F	2017F	2018F
Construction revenue	1,082	1,330	1,203	1,161	1,025
Cranes revenue contribution	798	792	358	443	460
Shipyards revenue contribution	223	50.5	193	178	223
New orders for construction	539	1,267	772	850	1,000
New orders for cranes	435	139	250	400	450

Segmental Breakdown

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenues (RMm)					
Construction	1,082	1,330	1,203	1,161	1,025
Cranes	798	792	358	443	460
Ships	223	50.5	193	178	223
Inter-segment	(369)	(568)	0.0	0.0	0.0
Total	1,734	1,605	1,754	1,781	1,707

Income Statement (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenue	1,734	1,605	1,754	1,781	1,707
Cost of Goods Sold	(1,479)	(1,343)	(1,522)	(1,523)	(1,441)
Gross Profit	254	262	231	258	266
Other Opng (Exp)/Inc	(131)	(138)	(135)	(146)	(147)
Operating Profit	123	124	96.3	113	120
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	49.2	62.2	65.3	73.1	79.7
Net Interest (Exp)/Inc	(28.5)	(20.7)	(12.6)	(8.6)	(4.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	144	165	149	177	195
Tax	(24.8)	(27.8)	(20.9)	(26.0)	(28.9)
Minority Interest	(37.3)	(51.3)	(28.2)	(34.4)	(38.1)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	81.6	86.0	99.8	117	128
Net Profit before Except.	81.6	86.0	99.8	117	128
EBITDA	228	251	225	251	267
Growth					
Revenue Gth (%)	(10.5)	(7.4)	9.3	1.6	(4.2)
EBITDA Gth (%)	10.9	10.1	(10.3)	11.6	6.1
Opg Profit Gth (%)	17.2	0.5	(22.1)	17.1	6.3
Net Profit Gth (Pre-ex) (%)	(5.6)	5.4	16.1	17.1	9.7
Margins & Ratio					
Gross Margins (%)	14.7	16.3	13.2	14.5	15.6
Opg Profit Margin (%)	7.1	7.7	5.5	6.3	7.0
Net Profit Margin (%)	4.7	5.4	5.7	6.6	7.5
ROAE (%)	13.5	11.7	11.2	11.6	11.6
ROA (%)	2.8	2.5	2.8	3.4	3.6
ROCE (%)	2.8	2.8	3.5	4.2	4.6
Div Payout Ratio (%)	23.4	21.8	20.0	20.0	20.0
Net Interest Cover (x)	4.3	6.0	7.6	13.2	28.0

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Dec	3Q2015	4Q2015	1Q2016	2Q2016	3Q2016
Revenue	394	432	482	406	385
Cost of Goods Sold	0.0	0.0	0.0	0.0	0.0
Gross Profit	394	432	482	406	385
Other Oper. (Exp)/Inc	(354)	(403)	(464)	(372)	(363)
Operating Profit	39.5	29.0	18.1	34.5	21.7
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	14.4	20.0	18.3	14.1	12.2
Net Interest (Exp)/Inc	(3.5)	(8.0)	(2.5)	(5.6)	(6.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	50.5	41.0	34.0	43.1	27.3
Tax	(11.1)	(1.5)	(8.1)	(8.2)	5.29
Minority Interest	(16.3)	(19.4)	(2.1)	(8.1)	(10.0)
Net Profit	23.0	20.1	23.8	26.8	22.6
Net profit bef Except.	23.0	20.1	23.8	26.8	22.6
EBITDA	65.9	62.9	36.5	48.7	33.9

Growth

Revenue Gth (%)	(4.1)	9.7	11.6	(15.7)	(5.3)
EBITDA Gth (%)	16.8	(4.6)	(42.0)	33.4	(30.3)
Opg Profit Gth (%)	22.8	(26.6)	(37.5)	90.4	(37.1)
Net Profit Gth (Pre-ex) (%)	19.4	(12.8)	18.3	12.9	(15.9)

Margins

Gross Margins (%)	100.0	100.0	100.0	100.0	100.0
Opg Profit Margins (%)	10.0	6.7	3.8	8.5	5.6
Net Profit Margins (%)	5.8	4.6	4.9	6.6	5.9

Balance Sheet (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Net Fixed Assets	725	785	819	798	776
Invt in Associates & JVs	236	257	318	386	461
Other LT Assets	31.0	52.8	52.8	52.8	52.8
Cash & ST Invt	601	578	522	583	681
Inventory	226	301	250	250	257
Debtors	1,334	1,601	1,441	1,464	1,403
Other Current Assets	12.5	18.1	18.1	18.1	18.1
Total Assets	3,165	3,594	3,421	3,553	3,649
ST Debt	1,168	1,221	1,146	1,146	1,146
Creditor	966	1,136	876	876	829
Other Current Liab	38.8	33.6	33.6	33.6	33.6
LT Debt	69.3	48.9	48.9	48.9	48.9
Other LT Liabilities	61.9	64.2	64.2	64.2	64.2
Shareholder's Equity	644	826	960	1,056	1,161
Minority Interests	217	265	293	328	366
Total Cap. & Liab.	3,165	3,594	3,421	3,553	3,649
Non-Cash Wkg. Capital	567	751	800	823	815
Net Cash/(Debt)	(636)	(692)	(673)	(612)	(514)
Debtors Turn (avg days)	253.7	333.8	316.6	297.7	306.5
Creditors Turn (avg days)	245.4	300.2	251.7	219.4	226.6
Inventory Turn (avg days)	55.5	75.3	69.0	62.7	67.4
Asset Turnover (x)	0.6	0.5	0.5	0.5	0.5
Current Ratio (x)	1.0	1.0	1.1	1.1	1.2
Quick Ratio (x)	0.9	0.9	1.0	1.0	1.0
Net Debt/Equity (X)	0.7	0.6	0.5	0.4	0.3
Net Debt/Equity ex MI (X)	1.0	0.8	0.7	0.6	0.4
Capex to Debt (%)	4.6	4.3	3.3	3.3	3.3
Z-Score (X)	1.1	1.1	1.2	1.3	1.3

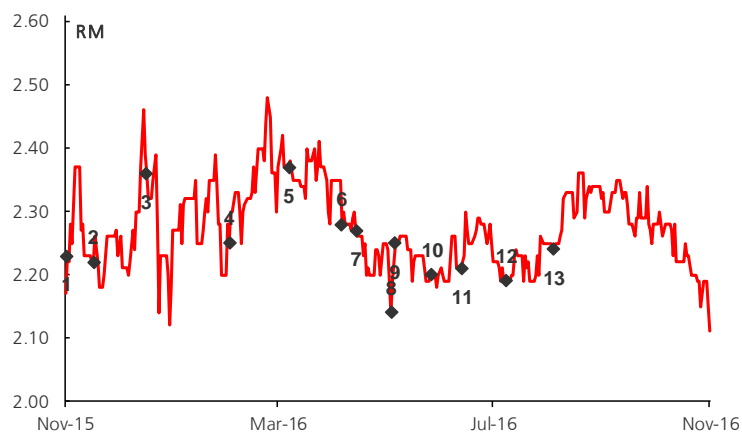
Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Pre-Tax Profit	144	165	149	177	195
Dep. & Amort.	55.8	65.2	63.7	65.5	67.3
Tax Paid	(24.8)	(27.8)	(20.9)	(26.0)	(28.9)
Assoc. & JV Inc/(loss)	(49.2)	(62.2)	(65.3)	(73.1)	(79.7)
Chg in Wkg.Cap.	(258)	(174)	(48.8)	(22.5)	7.35
Other Operating CF	59.9	64.1	0.0	0.0	0.0
Net Operating CF	(72.9)	30.8	77.7	121	161
Capital Exp.(net)	(56.6)	(54.1)	(40.0)	(40.0)	(40.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(45.6)	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	66.6	60.7	0.0	0.0	0.0
Net Investing CF	(35.6)	6.56	(40.0)	(40.0)	(40.0)
Div Paid	(18.9)	(19.1)	(18.7)	(20.0)	(23.4)
Chg in Gross Debt	362	32.9	(75.0)	0.0	0.0
Capital Issues	(13.7)	19.6	0.0	0.0	0.0
Other Financing CF	(46.4)	(93.5)	0.0	0.0	0.0
Net Financing CF	283	(60.2)	(93.7)	(20.0)	(23.4)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	175	(22.8)	(56.1)	61.2	97.9
Opg CFPS (sen)	39.3	43.4	26.2	27.7	29.7
Free CFPS (sen)	(27.5)	(5.0)	7.80	15.7	23.4

Source: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	30 Nov 15	2.23	2.90	BUY
2:	15 Dec 15	2.22	2.90	BUY
3:	14 Jan 16	2.36	2.90	BUY
4:	01 Mar 16	2.25	2.90	BUY
5:	04 Apr 16	2.37	2.90	BUY
6:	04 May 16	2.28	2.90	BUY
7:	12 May 16	2.27	3.10	BUY
8:	01 Jun 16	2.14	3.10	BUY
9:	03 Jun 16	2.25	3.10	BUY
10:	24 Jun 16	2.20	3.10	BUY
11:	11 Jul 16	2.21	3.10	BUY
12:	05 Aug 16	2.19	3.10	BUY
13:	01 Sep 16	2.24	3.10	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Chong Tjen-San

AllianceDBS recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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 i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 30 Nov 2016 08:31:30 (MYT)

Dissemination Date: 30 Nov 2016 08:33:55 (MYT)

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