InsiderAsia
by Asia Analytica

2Q FY2017 results update **30 Aug 2017**

Muhibbah Engineering (M) Bhd

- 2Q2017 results within expectations
- Large RM1.93b order-book to underpin earnings
- Stable oil prices auger well for future O&G capex
- Attractive valuations, maintain BUY

BUY

Share price
RM2.86

Market capitalization
RM1,374 million

Board
Main

Indices
FBM Emas Syariah,

Sector
Construction

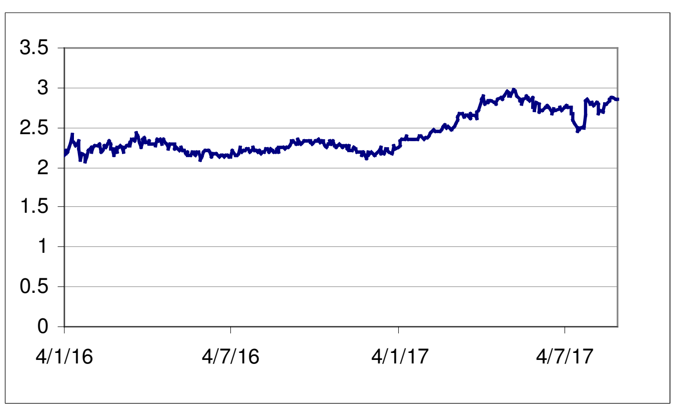
Stock code
5703

By
The Research Team

Key stock statistics	FY Dec16	FY Dec17E
EPS (sen)	22.2	23.9
P/E (x)	12.9	12.0
DPS (sen)	5.5	5.5
NTA/share (RM)	2.04	2.22
Issued capital (mil)	480.5	
52-week price range (RM)	2.09 - 2.99	

Major shareholders (%)	
Mac Ngan Boon	15.3%
Lembaga Tabung Haji	9.6%

Share Price Chart



2Q FY2017 results highlights

Year end Dec (RM mil)	1H2017	1H2016	% chg
Turnover	709.4	888.1	(20.1)
Pre-tax profit	112.4	89.6	25.5
Tax	(14.3)	(16.3)	(12.1)
Minority interests	(31.0)	(22.7)	36.2
Net profit	67.1	50.6	32.8
EPS (sen)	13.98	10.74	
Pre-tax profit margin (%)	15.9	10.1	
Net profit margin (%)	9.5	5.7	

Muhibbah Engineering's results for 2Q FY Dec 2017 were ahead of our expectations. Cumulative six-month net profit rose 32.8% to RM67.1 million and accounted for 59% of our full year forecast of RM114.7 million.

Revenue for the half year declined 20.1% to RM709.4 million while pre-tax profit increased 25.5% to RM112.4 million.

For 2Q2017, Muhibbah's net profit surged 41.1% y-y from RM26.8 million to RM37.8 million, and 29% from RM29.3 million in 1Q2017.

Revenue for the quarter increased 15.1% y-y to RM467.8 million. Revenue and profits grew as more of its newly secured projects got underway. The disproportionately higher growth in profits during the quarter was also helped by variation charges received from an overseas project.

The concession business continues to drive Muhibbah's profits. After-tax contributions from associates doubled from RM19 million to RM42.3 million.

The associates reflect Muhibbah's concession businesses, which consist of 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.

Favelle Favco, the crane manufacturing arm, saw a 20.4% y-y decline in pre-tax profit to RM21.1 million for 2Q2017, on the back of a 9.1% y-y decline in revenue to RM151.1 million. Compared with 1Q2017 though, its performance improved vs pre-tax profit of RM16.8 million and revenue of RM114.3 million.

Outlook and recommendation

We maintain our **BUY** recommendation and earnings forecasts.

We expect net profit to grow 8.7% to RM114.7 million in 2017 and 7.7% to RM123.5 million in 2018, with EPS of 23.9 sen and 25.7 sen respectively. Our EPS forecast has been enhanced slightly with the proposed 10% private placement exercise called off. The stock is trading on attractive P/E multiples of 12 and 11.1 times for 2017-2018, respectively, and 1.18x book by 2018.

We expect Muhibbah's top-line to pick up steam in the coming quarters as the company works through some of its newly secured large projects.

Major projects secured this year include the Second Harbour Basin project at Bintulu port (secured in April 2017, valued at RM584.8 million) and the MANATEQ industrial zone project in Qatar (secured in Jan 2017, valued at RM438.1 million).

Muhibbah's orderbook totaled RM1.93 billion as at 24 Aug 2017, compared with RM2.1 billion as at 24 May 2017. Of the order-book, RM1.39 billion are for infrastructure construction projects and RM536 million for cranes.

This will underpin earnings in the next few years. The company has demonstrated a strong ability to secure major projects locally and abroad, with a high order-book replenishment rate.

We like Muhibbah's attractive valuations and resilient earnings base. It enjoys strong recurring income from its concessions balanced by more cyclical income from construction and cranes.

Despite a previously high exposure to the oil and gas industry, the company has weathered through the sector's downturn well. For jobs in the sector, it has largely focused on the US$27 billion Refinery and Petrochemical Integrated Development (RAPID) project in Pengerang, Johor, where construction is ongoing.

The worst for the oil and gas sector appears over, and crude oil prices have stabilized near the US$50 per barrel mark. Stable oil prices should start to spur new investments, which will benefit Muhibbah in the future.

Muhibbah had also secured a number of high profile jobs overseas, in recognition of its growing international stature and competitiveness.

In Jan 2017, it secured a RM438 million contract from the Qatari government-owned Economic Zones Company of Qatar (Manateq) for the construction of roads and infrastructure works at Um Alhoul Economic Zone (Qatar Economic Zone 3) in Doha, Qatar.

At present, the blockade on Qatar by its neighbours in June has had minimal economic impact on the tiny gas-rich country's economy. Large infrastructure projects are still ongoing in preparation for the World Cup in 2022, and Muhibbah's project there is progressing well.

Notably, this was Muhibbah's second major contract win from the Qatar government, the first being the building of catering facilities for the Hamad International Airport in Doha.

There is admittedly some uncertainty over new major projects due to the blockade. But once the blockade is inevitably lifted or resolved, we would expect Muhibbah to bid for new projects given its track record there.

Over the longer term, Muhibbah will also be developing a new shipyard in Kuantan with ancillary industrial facilities for ship building, repair and offshore fabrication works.

In June 2016, it announced the acquisition of a 99-year leasehold land measuring 500 acres in Kuantan for RM26.45 million, or just RM1.21 psf. The land, acquired from the Pahang state government, would be developed into the proposed Kuantan Maritime Hub over a period of 10 years. 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.

Meanwhile, the Cambodian airport concession operations are providing steady earnings. Earnings are derived in USD and the airports are benefitting from rising passenger traffic and a recently completed expansion exercise at the two main airports (Phnom Penh and Siem Reap) and higher arrivals in Sihanoukville as more flights are added.

In 1H2017, passenger arrivals for the 3 Cambodian airports rose 23% to 4.2 million, with Sihanoukville seeing a jump from 44,000 to 143,000 passengers.

Profit & Loss Analysis

Year end Dec (RM mil)	2015	2016	2017E	2018E
Turnover	1,707.5	1,918.8	1,900.0	2,065.0
EBITDA	195.7	201.3	229.0	257.2
Depreciation	(65.2)	(69.5)	(73.0)	(75.0)
Associates	86.2	83.8	86.0	90.0
Interest income/(exp)	(38.3)	(44.1)	(40.0)	(44.0)
Pre-tax profit	178.4	171.4	202.0	228.2
Tax	(27.8)	(10.8)	(30.3)	(45.6)
Minorities	(63.0)	(55.1)	(57.0)	(59.0)
Net profit	87.5	105.5	114.7	123.5
Operating margin (%)	11.5	10.5	12.1	12.5
Pre-tax margin (%)	10.4	8.9	10.6	11.0
Net margin (%)	5.1	5.5	6.0	6.0
Effective tax rate (%)	15.6	6.3	15.0	20.0

Per Share Data

Year end Dec	2015	2016	2017E	2018E
EPS (sen)	19.1	22.2	23.9	25.7
P/E (x)	15.0	12.9	12.0	11.1
Dividend (sen)	5.0	5.5	5.5	5.5
Dividend yield (%)	1.7	1.9	1.9	1.9
Payout ratio (%)	27	25	23	21
Book value (RM)	1.79	2.04	2.22	2.43
Price/Book value (x)	1.60	1.41	1.29	1.18
Cashflow/share (sen)	27.5	30.5	33.0	34.9
Price/Cashflow (x)	10.4	9.4	8.7	8.2
Gearing (%) (including bills payables)	83	61	53	44
ROE (%)	10.4	10.8	10.8	10.6

Comments & contact: info@insiderasia.com *Tel: 03-77218060* *Fax: 03- 77218061*

Asia Analytica Sdn Bhd *Suite 3B, Level 3, Menara KLK, 1 Jalan PJU7/6, Mutiara Damanasara, 47810 Petaling Jaya, Selangor, Malaysia*