

Malaysia Company Guide

Muhibbah Engineering

Version 7 | Bloomberg: MUHI MK | Reuters: MUHI.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Mar 2017

BUY

Last Traded Price (28 Feb 2017): RM2.50 (KLCI : 1,693.77)

Price Target 12-mth: RM3.10 (24% upside) (Prev RM3.10)

Potential Catalyst: Higher orders for construction and cranes, stronger passenger arrivals for airports

Where we differ: Our EPS for FY17-18F assumes dilution from the proposed private placement

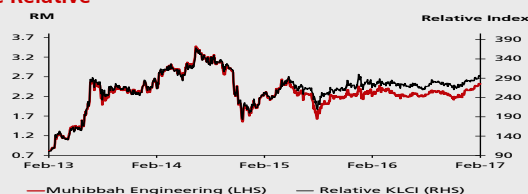
Analyst

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What's New

- **4Q16 results slightly above expectations**
- **Infrastructure orderbook on stronger footing**
- **FY16 Cambodian airport traffic volume grew 9% y-o-y**
- **Maintain BUY and TP of RM3.10, based on SOP**

Price Relative



Forecasts and Valuation

FY Dec (RM m)	2015A	2016A	2017F	2018F
Revenue	1,605	1,919	1,770	1,689
EBITDA	251	259	263	286
Pre-tax Profit	165	171	171	192
Net Profit	86.0	106	117	128
Net Pft (Pre Ex.)	86.0	106	117	128
Net Pft Gth (Pre-ex) (%)	5.4	22.8	10.5	9.7
EPS (sen)	18.2	21.9	22.5	24.7
EPS Pre Ex. (sen)	18.2	21.9	22.5	24.7
EPS Gth Pre Ex (%)	5	20	3	10
Diluted EPS (sen)	18.2	21.9	22.5	24.7
Net DPS (sen)	5.10	4.97	4.50	4.94
BV Per Share (sen)	175	202	207	227
PE (X)	13.7	11.4	11.1	10.1
PE Pre Ex. (X)	13.7	11.4	11.1	10.1
P/Cash Flow (X)	38.3	7.6	25.0	8.3
EV/EBITDA (X)	8.5	8.5	8.9	8.0
Net Div Yield (%)	2.0	2.0	1.8	2.0
P/Book Value (X)	1.4	1.2	1.2	1.1
Net Debt/Equity (X)	0.6	0.4	0.4	0.3
ROAE (%)	11.7	11.7	11.4	11.4
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		22.0	23.6	25.0
Other Broker Recs:		B: 5	S: 0	H: 1

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

Scarcity premium contractor

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 9% to 7.0m in FY16. We estimate its 21% stake in the Cambodia airport concession to be worth RM677m (DCF, WACC 10% 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.

Still needs more wins. Contract flows for its infrastructure division 2016 have been slow with just two wins, 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. It started 2017 firmer with a QAR356.7m (c.RM438m) win for infrastructure-related works in Qatar. Though it has a 49% interest in the JV which won this contract, it will do most of the work. For its crane division, it has also replenished orders by RM64m early this year, largely coming from tower related cranes. Its total outstanding orderbook as at February 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)	1,201 / 270
Major Shareholders (%)	
Mac Ngan Boon	22.1
Lembaga Tabung Haji	9.6
Free Float (%)	60.7
3m Avg. Daily Val (US\$m)	0.44

ICB Industry : Industrials / Construction & Materials

WHAT'S NEW

4Q16 slightly above expectations

4Q16 results slightly above expectations: This was due to higher associate earnings and a lower tax rate.

Construction profits offset lower crane earnings: Its construction division still has an orderbook of RM1bn, which is sufficient for visibility of about a year.

BUY, TP RM3.10: Muhibbah still represents an all-round 11MP proxy in Malaysia with experience in most parts of the infrastructure value chain.

Beat expectations. 4Q16 headline net profit came in at RM32m (+61% y-o-y, +44% q-o-q), bringing its FY16 net profit to RM106m. This was slightly above our forecast and consensus estimate, due to higher associate earnings and a lower effective tax rate (export incentive allowance for crane division).

Higher construction offset lower crane earnings. For FY16, the construction division registered a pretax profit of RM99m, which represents 12% growth on a y-o-y basis. With a RM1bn infrastructure orderbook (as at February 2017), this should ensure decent earnings visibility for about another year.

The crane business under Favelle Favco posted a decline of 33% y-o-y in FY16 pretax profit to RM80m. 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. Its total outstanding orderbook stood at RM620m (as at February 2017) which is sufficient for earnings visibility until 2017. Out of this amount, c.63% comes from offshore cranes (vs peak of 95%). It is quite commendable that it has managed to reduce its dependency on offshore cranes by increasing the exposure to tower cranes.

Higher associate earnings. FY16 associate earnings jumped 46% to RM88m. The strong growth is likely from higher earnings from Roadcare from the concession renewal while there was billings recognised for the construction portion of the Phnom Penh airport concession. FY16 traffic volume grew by 9% to 7.0m passengers. Phnom Penh and Siem Reap airports showed passenger growth of 10% and 6% to 3.4m and 3.5m, respectively, while Silhanoukville passengers grew by 66% to 157k (coming from a low base).

Infrastructure division – strong start to the year. Muhibbah started 2017 on a firm footing with a contract win in Qatar worth QAR356.7m (c.RM438m). Muhibbah has a 49% stake in the JV and its JV partner is Manateq, a leading developer and operator of specialised economic zones, logistic parks, and warehousing parks in Qatar. While a 49% stake for Muhibbah would imply a contract value of RM215m, we understand Muhibbah will be doing the majority of works. Hence, the total contract value could be a lot higher.

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2015	3Q2016	4Q2016	% chg yoy	% chg qoq
Revenue	432	385	646	49.5	67.7
Other Oper. (Exp)/Inc	(403)	(363)	(614)	52.5	69.1
Operating Profit	29.0	21.7	31.6	8.7	45.3
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	20.0	12.2	20.8	4.1	70.7
Net Interest (Exp)/Inc	(8.0)	(6.6)	(3.6)	54.5	45.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	41.0	27.3	48.7	18.8	78.5
Tax	(1.5)	5.29	0.16	(110.6)	(96.9)
Minority Interest	(19.4)	(10.0)	(16.5)	15.0	64.5
Net Profit	20.1	22.6	32.4	61.3	43.6
Net profit bef Except.	20.1	22.6	32.4	61.3	43.6
EBITDA	62.9	33.9	52.4	(16.7)	54.4
Margins (%)					
Opg Profit Margins	6.7	5.6	4.9		
Net Profit Margins	4.6	5.9	5.0		

Source of all data: Company, AllianceDBS

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

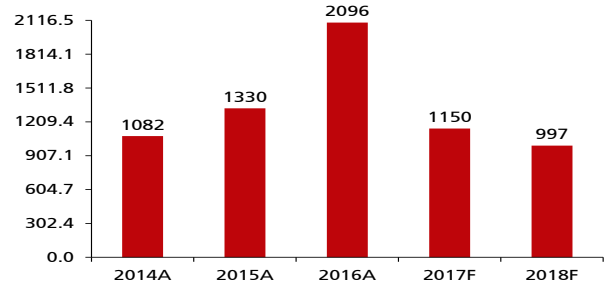
Still a well-rounded 11MP proxy. Muhibbah’s construction franchise differs from the other bread and butter contractors given its varied expertise in the whole spectrum of the infrastructure chain. With its Petronas licence and marine-based expertise, Muhibbah is poised to clinch more ports and potentially 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 February 2017). 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. For 2017, it has started the year strongly with a sizeable win in Qatar.

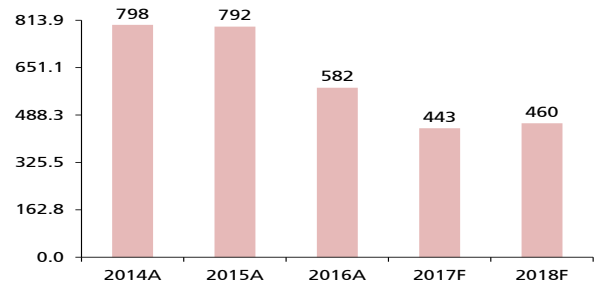
Cambodia airports to double capacity. Effective July 2016, the Siam Reap and Phnom Penh airports will double their existing capacity to 12m passengers. The US\$85m capex has been financed by only one year of operating cashflow, which suggests the airports are cash cows. Passenger arrivals reached 7.0m in 2016 (+9 % y-o-y), led by the recovery in Chinese tourists. Phnom Penh and Siem Reap airports showed passenger growth of 10% and 6% to 3.4m and 3.5m, respectively, while Silhanoukville passengers grew by 66% to 157k (coming from a low base). 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 RM620m (as at February 2017) which is sufficient for earnings visibility until 2017. Out of this amount, c.63% comes from offshore cranes (vs a peak of 95%). It is quite commendable that it has managed to reduce its dependency on offshore cranes by increasing the exposure to tower cranes. Locally, Favelle Favco has won a total of RM64m new orders so far this year largely for tower cranes. 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.

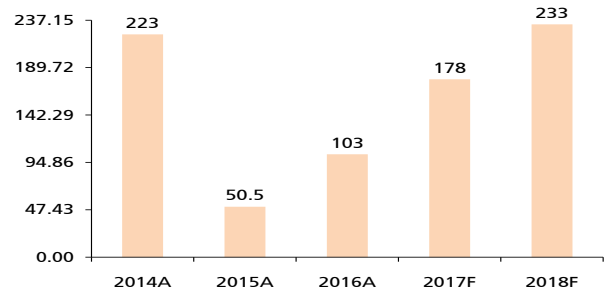
Construction revenue contribution



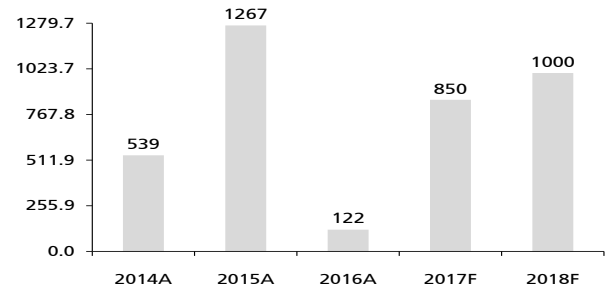
Cranes revenue contribution



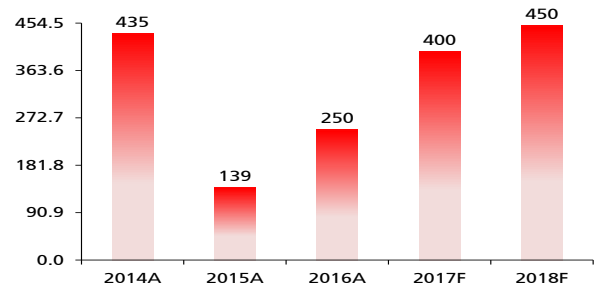
Shipyard revenue contribution



New orders for construction



New orders for cranes



Source: Company, AllianceDBS

Balance Sheet:

Needs bigger balance sheet. Muhibbah's shareholder's funds as at 31 December 2016 stood at RM1.4bn (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 lower its 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.

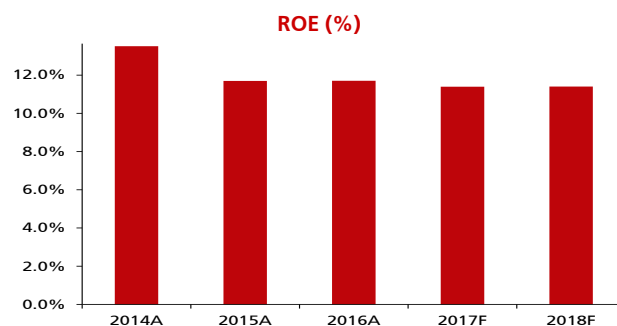
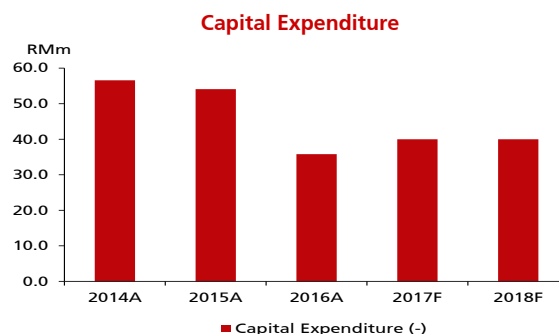
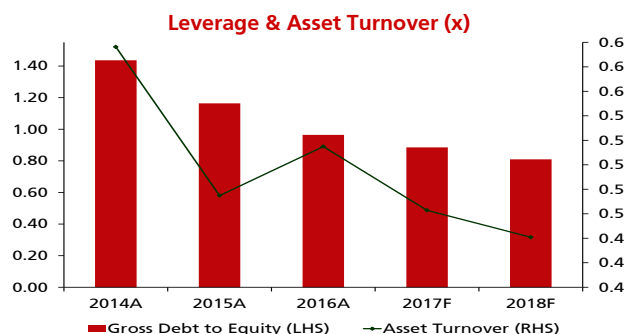
Completed landmark projects. Muhibbah has an impressive track record, having completed a list of landmark projects locally and abroad. Of significance is the LNG Regasification project for Petronas Gas in Melaka and South Klang Valley Expressway.

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	2016A	2017F	2018F
New orders for construction	539	1,267	122	850	1,000
New orders for cranes	435	139	250	400	450

Segmental Breakdown

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenues (RMm)					
Construction	1,082	1,330	2,096	1,150	997
Cranes	798	792	582	443	460
Ships	223	50.5	103	178	233
Inter-segment	(369)	(568)	(862)	0.0	0.0
Total	1,734	1,605	1,919	1,770	1,689

Income Statement (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenue	1,734	1,605	1,919	1,770	1,689
Cost of Goods Sold	(1,479)	(1,343)	(1,743)	(1,505)	(1,406)
Gross Profit	254	262	175	266	284
Other Opng (Exp)/Inc	(131)	(138)	(69.4)	(145)	(146)
Operating Profit	123	124	106	121	138
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	49.2	62.2	83.8	77.5	81.4
Net Interest (Exp)/Inc	(28.5)	(20.7)	(18.3)	(27.3)	(26.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	144	165	171	171	192
Tax	(24.8)	(27.8)	(10.8)	(23.3)	(27.8)
Minority Interest	(37.3)	(51.3)	(55.1)	(30.8)	(36.7)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	81.6	86.0	106	117	128
Net Profit before Except.	81.6	86.0	106	117	128
EBITDA	228	251	259	263	286
Growth					
Revenue Gth (%)	(10.5)	(7.4)	19.6	(7.8)	(4.6)
EBITDA Gth (%)	10.9	10.1	3.3	1.5	8.7
Opg Profit Gth (%)	17.2	0.5	(14.3)	13.7	14.4
Net Profit Gth (Pre-ex) (%)	(5.6)	5.4	22.8	10.5	9.7
Margins & Ratio					
Gross Margins (%)	14.7	16.3	9.1	15.0	16.8
Opg Profit Margin (%)	7.1	7.7	5.5	6.8	8.2
Net Profit Margin (%)	4.7	5.4	5.5	6.6	7.6
ROAE (%)	13.5	11.7	11.7	11.4	11.4
ROA (%)	2.8	2.5	2.8	3.1	3.3
ROCE (%)	2.8	2.8	3.4	3.1	3.4
Div Payout Ratio (%)	23.4	27.9	22.7	20.0	20.0
Net Interest Cover (x)	4.3	6.0	5.8	4.4	5.1

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Dec	4Q2015	1Q2016	2Q2016	3Q2016	4Q2016
Revenue	432	482	406	385	646
Other Oper. (Exp)/Inc	(403)	(464)	(372)	(363)	(614)
Operating Profit	29.0	18.1	34.5	21.7	31.6
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	20.0	18.3	14.1	12.2	20.8
Net Interest (Exp)/Inc	(8.0)	(2.5)	(5.6)	(6.6)	(3.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	41.0	34.0	43.1	27.3	48.7
Tax	(1.5)	(8.1)	(8.2)	5.29	0.16
Minority Interest	(19.4)	(2.1)	(8.1)	(10.0)	(16.5)
Net Profit	20.1	23.8	26.8	22.6	32.4
Net profit bef Except.	20.1	23.8	26.8	22.6	32.4
EBITDA	62.9	36.5	48.7	33.9	52.4

Growth

Revenue Gth (%)	9.7	11.6	(15.7)	(5.3)	67.7
EBITDA Gth (%)	(4.6)	(42.0)	33.4	(30.3)	54.4
Opg Profit Gth (%)	(26.6)	(37.5)	90.4	(37.1)	45.3
Net Profit Gth (Pre-ex) (%)	(12.8)	18.3	12.9	(15.9)	43.6

Margins

Opg Profit Margins (%)	6.7	3.8	8.5	5.6	4.9
Net Profit Margins (%)	4.6	4.9	6.6	5.9	5.0

Balance Sheet (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F
Net Fixed Assets	725	785	804	784	762
Invt in Associates & JVs	236	257	437	510	587
Other LT Assets	31.0	52.8	48.1	48.1	48.1
Cash & ST Invt	601	578	735	723	816
Inventory	226	301	268	247	250
Debtors	1,334	1,601	1,544	1,455	1,389
Other Current Assets	12.5	18.1	22.4	22.4	22.4
Total Assets	3,165	3,594	3,859	3,790	3,874
ST Debt	1,168	1,221	1,260	1,260	1,260
Creditor	966	1,136	1,058	866	809
Other Current Liab	38.8	33.6	19.0	19.0	19.0
LT Debt	69.3	48.9	73.1	73.1	73.1
Other LT Liabilities	61.9	64.2	66.8	66.8	66.8
Shareholder's Equity	644	826	978	1,070	1,175
Minority Interests	217	265	405	435	472
Total Cap. & Liab.	3,165	3,594	3,859	3,790	3,874
Non-Cash Wkg. Capital	567	751	757	840	834
Net Cash/(Debt)	(636)	(692)	(597)	(610)	(517)
Debtors Turn (avg days)	253.7	333.8	299.1	309.2	307.2
Creditors Turn (avg days)	245.4	300.2	239.2	243.9	228.2
Inventory Turn (avg days)	55.5	75.3	62.1	65.3	67.8
Asset Turnover (x)	0.6	0.5	0.5	0.5	0.4
Current Ratio (x)	1.0	1.0	1.1	1.1	1.2
Quick Ratio (x)	0.9	0.9	1.0	1.0	1.1
Net Debt/Equity (X)	0.7	0.6	0.4	0.4	0.3
Net Debt/Equity ex MI (X)	1.0	0.8	0.6	0.6	0.4
Capex to Debt (%)	4.6	4.3	2.7	3.0	3.0
Z-Score (X)	1.2	1.1	1.3	1.3	1.4

Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	144	165	171	171	192
Dep. & Amort.	55.8	65.2	69.4	64.9	66.7
Tax Paid	(24.8)	(27.8)	(10.8)	(23.3)	(27.8)
Assoc. & JV Inc/(loss)	(49.2)	(62.2)	(83.8)	(77.5)	(81.4)
Chg in Wkg.Cap.	(258)	(174)	13.4	(82.9)	6.37
Other Operating CF	59.9	64.1	(0.6)	0.0	0.0
Net Operating CF	(72.9)	30.8	159	51.9	156
Capital Exp.(net)	(56.6)	(54.1)	(35.8)	(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	13.1	0.0	0.0
Net Investing CF	(35.6)	6.56	(22.7)	(40.0)	(40.0)
Div Paid	(18.9)	(19.1)	(24.0)	(24.0)	(23.3)
Chg in Gross Debt	362	32.9	63.2	0.0	0.0
Capital Issues	(13.7)	19.6	5.76	0.0	0.0
Other Financing CF	(46.4)	(93.5)	(23.8)	0.0	0.0
Net Financing CF	283	(60.2)	21.2	(24.0)	(23.3)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	175	(22.8)	157	(12.1)	93.0
Opg CFPS (sen)	39.3	43.4	30.2	26.0	28.9
Free CFPS (sen)	(27.5)	(5.0)	25.5	2.30	22.5

Source: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	01 Mar 16	2.25	2.90	BUY
2:	04 Apr 16	2.37	2.90	BUY
3:	04 May 16	2.28	2.90	BUY
4:	12 May 16	2.27	3.10	BUY
5:	01 Jun 16	2.14	3.10	BUY
6:	03 Jun 16	2.25	3.10	BUY
7:	24 Jun 16	2.20	3.10	BUY
8:	11 Jul 16	2.21	3.10	BUY
9:	05 Aug 16	2.19	3.10	BUY
10:	01 Sep 16	2.24	3.10	BUY
11:	30 Nov 16	2.20	3.10	BUY
12:	11 Jan 17	2.39	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: 28 Feb 2017 19:52:27 (MYT)

Dissemination Date: 1 Mar 2017 08:52:43 (MYT)

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