InsiderAsia
by Asia Analytica

FY2016 results update **2 Mar 2017**

Muhibbah Engineering (M) Bhd

- Full year results above expectations
- Rising international profile and order-book wins
- Concessions, RM1.73b orderbook to drive earnings
- Oil prices stabilize, attractive valuations. Maintain BUY

BUY

Share price
RM2.47

Market capitalization
RM1,186 million

Board
Main

Indices
FBM Emas Syariah,

Sector
Construction

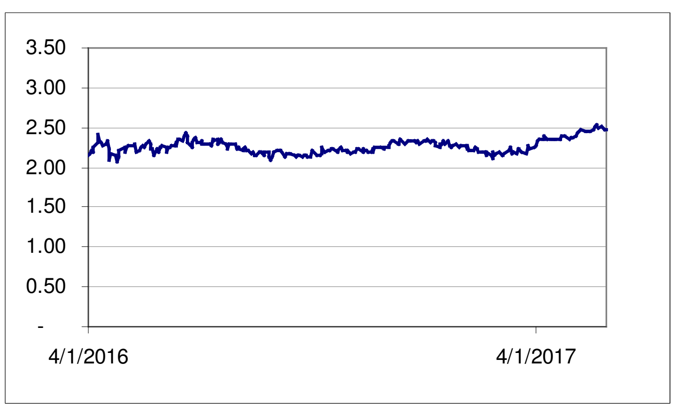
Stock code
5703

By
The Research Team

Key stock statistics	**FY Dec16**	**FY Dec17E**
EPS (sen)	22.2	22.2
P/E (x)	11.1	11.1
DPS (sen)	5.5	5.5
NTA/share (RM)	2.04	2.27
Issued capital (mil)	480.5	
52-week price range (RM)	2.09 - 2.56	

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

Share Price Chart



FY2016 full year results highlights

Year end Dec (RM mil)	2016	2015	% chg
Turnover	1,918.8	1,707.5	12.4
Pre-tax profit	171.4	178.4	(3.9)
Tax	(10.8)	(27.8)	(61.1)
Minority interests	(55.1)	(63.0)	(12.6)
Net profit	105.5	87.5	20.6
EPS (sen)	22.2	19.1	
Pre-tax profit margin (%)	8.9	10.4	
Net profit margin (%)	5.5	5.1	

Muhibbah Engineering's full year results for FY Dec 2016 were above our expectations, with pre-tax profit and net profit coming in 8% and 9% above our forecasts, respectively. The results were commendable given the slowdown faced by the construction industry, as well as the oil and gas industry to which Muhibbah is highly exposed to.

Muhibbah saw a substantial jump in revenue in 4Q2016 of RM645.7m, up 64% y-y, due to recognition of several construction projects. This boosted full year revenue by 12.4% to RM1.918 billion. Pre-tax profit was flat, down marginally by 3.9% to RM161.4 million but net profit rose 20.6% to RM105.5 million, boosted by lower taxes and minority interests.

The concession business continues to anchor Muhibbah's profits, reflecting the quality and sustainability of the group's earnings.

Restated after-tax contributions from associates amounted to RM83.8 million in 2016. This was down marginally from RM86.2 million in 2015, and accounted for half of pre-tax profit and 79% of net profit.

The concession business comprises 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, reported a 32.5% decline in pre-tax profit to RM79.8 million, on the back of a 32.9% fall in revenue to RM582.3 million due to its heavy exposure to the oil and gas sector.

Outlook and recommendation

We maintain our **BUY** recommendation.

We like Muhibbah for its attractive valuations and resilient earnings base. It enjoys strong recurring income from its concessions balanced by more cyclical income from construction and cranes that provide positive upside surprises. Medium-term earnings are backed by a large RM1.73 billion order-book, with a high order-book replenishment rate locally and overseas.

We expect Muhibbah's net profit to grow 8.7% to RM114.7 million in 2017 and 7.7% to RM123.5 million in 2018. After the proposed (but yet to be implemented) 10% placement exercise, EPS is projected at 22.2 sen for 2017 and 23.9 sen for 2018. The stock is currently trading on low P/E multiples of 11.1 and 10.4 times for 2017-2018, respectively, and just 1.1x book for 2017.

Muhibbah's order-book stood at RM1.73 billion as at 23 Feb 2017, up 5% from RM1.65 billion on 22 Nov 2016. Of the order-book, RM1.07 billion are for infrastructure construction works, RM620 million for cranes and RM35 million for the shipyard.

Apart from its attractive valuations and sustainable earnings base, we believe there are several other re-rating catalysts for the stock.

Muhibbah's international stature is growing, especially in the Middle East, where it is actively seeking projects that will buffer a slowdown in the local construction sector. Some 59% of its order-book is currently for overseas projects with 27% in the Middle East. This reflects its ability to tender competitively for international jobs against major global players.

Muhibbah recently 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.

More significantly, this is 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. With Qatar embarking on a major infrastructure spending exercise, we would not discount the possibility of more project bids and wins for Muhibbah here.

Crude oil prices have also stabilized comfortably above the US$50 per barrel mark for the past three months, providing more stability to the oil and gas sector. While the jury is still out there if prices will rise further, the consensus is that the worst for the sector is over, and a prolonged period of stable prices would help the sector plan for the next phase of capital investments.

While the recent oil and gas slowdown has adversely affected Favco, Muhibbah's infrastructure construction division has been largely unaffected due to its focus on the US$27 billion RAPID project in Pengerang, for which contracts have been awarded since mid-2015 and construction is ongoing.

Muhibbah has to-date secured RM914 million worth of contracts for the RAPID contract, which is completed to be completed in 2019. Saudi Aramco also recently proposed to invest US$7 billion into the RAPID project.

In June 2016, Muhibbah entered into an agreement with Perbadanan Setiausaha Kerajaan Pahang for the proposed acquisition of a 99-year leasehold land measuring 500 acres in Kuantan, Pahang, for RM26.45 million, or just RM1.21 psf. The land would be developed into the proposed Kuantan Maritime Hub over a period of 10 years. The acquisition provides an opportunity to develop industrial activities for ship building, ship repair works and major fabrication offshore structure in Kuantan.

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.

Arrivals at the three Cambodian airports grew 9% to 7.02 million passengers in 2016, following 2 years of robust 13% per year growth. The Phnom Penh airport saw a 10% growth in arrivals to 3.39 million passengers, while passenger arrivals at the Siem Reap airport grew 6% to 3.48 million.

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. This has doubled the collective annual capacity of its three Cambodian airports from 6 to 12 million 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	22.2	23.9
P/E (x)	12.9	11.1	11.1	10.4
Dividend (sen)	5.0	5.5	5.5	5.5
Dividend yield (%)	2.0	2.2	2.2	2.2
Payout ratio (%)	27	25	25	23
Book value (RM)	1.79	2.04	2.27	2.45
Price/Book value (x)	1.38	1.21	1.09	1.01
Cashflow/share (sen)	27.5	30.5	30.7	32.4
Price/Cashflow (x)	9.0	8.1	8.1	7.6
Gearing (%) (including bills payables)	83	61	39	32
ROE (%)	10.4	10.8	9.8	9.7

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