

Company Guide

Muhibbah Engineering

Version 8 | Bloomberg: MUHI MK | Reuters: MUHI.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

2 May 2017

BUY

Last Traded Price (28 Apr 2017): RM2.89 (KLCI : 1,768.06)

Price Target 12-mth: RM3.38 (17% upside) (Prev RM3.10)

Shariah Compliant: Yes

Potential Catalyst: Stronger infra and crane wins

Where we differ: Our EPS assumes dilution from its proposed placement

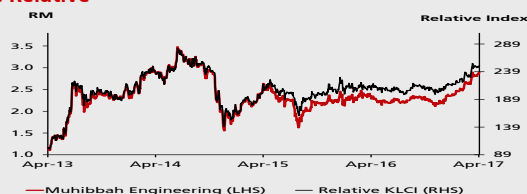
Analyst

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What's New

- **Sizeable marine-based contract win for Bintulu Port**
- **Second win this year bringing YTD wins to RM847m**
- **Raising FY17-18F EPS by 1-3%**
- **BUY maintained, raising TP to RM3.38**

Price Relative



Forecasts and Valuation

FY Dec (RM m)	2015A	2016A	2017F	2018F
Revenue	1,605	1,919	1,718	1,713
EBITDA	251	270	259	289
Pre-tax Profit	165	183	167	196
Net Profit	86.0	106	117	132
Net Pft (Pre Ex.)	86.0	106	117	132
Net Pft Gth (Pre-ex) (%)	5.4	22.7	11.3	12.2
EPS (sen)	18.2	21.8	22.7	25.4
EPS Pre Ex. (sen)	18.2	21.8	22.7	25.4
EPS Gth Pre Ex (%)	5	20	4	12
Diluted EPS (sen)	18.2	21.8	22.7	25.4
Net DPS (sen)	5.10	4.97	4.53	5.09
BV Per Share (sen)	175	202	207	228
PE (X)	15.8	13.2	12.7	11.4
PE Pre Ex. (X)	15.8	13.2	12.7	11.4
P/Cash Flow (X)	44.2	8.8	21.2	12.4
EV/EBITDA (X)	9.2	8.9	9.7	8.6
Net Div Yield (%)	1.8	1.7	1.6	1.8
P/Book Value (X)	1.6	1.4	1.4	1.3
Net Debt/Equity (X)	0.6	0.4	0.4	0.3
ROAE (%)	11.7	11.7	11.5	11.7
Earnings Rev (%):		0	1	3
Consensus EPS (sen):		N/A	24.7	27.6
Other Broker Recs:		B: 4	S: 0	H: 2

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

Beefs up infra orderbook

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 half of the stock's market capitalisation. Revenues are also in USD which can help boost its earnings given the weak MYR.

Sizeable wins for 2017. Contract flows for its infrastructure division in 2016 have been slow with just two smallish wins. Infrastructure wins for 2017 have been encouraging with a QAR356.7m (c.RM438m) win for infrastructure-related works in Qatar and a marine-based contract for Bintulu Port amounting to RM585m where it has a 51% stake in the JV. Muhibbah's 51% stake would imply a contract value of RM298m but we understand the value of works could be higher. Assuming 70%, Muhibbah's share of works could amount to RM409m. Hence, we estimate YTD wins amount to RM847m. Total construction orderbook now stands at RM1.5bn while its total outstanding orderbook including cranes and shipyard is RM2.1bn.

Valuation:

Muhibbah is a BUY with a revised SOP-derived TP of RM3.38. 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)	1,388 / 320
Major Shareholders (%)	
Mac Ngan Boon	22.1
Lembaga Tabung Haji	9.6
Free Float (%)	60.7
3m Avg. Daily Val (US\$m)	0.77

ICB Industry : Industrials / Construction & Materials

WHAT'S NEW

Infrastructure orderbook on stronger ground

Sizeable marine-based win: Clinches contract for Bintulu Port.

Raising EPS by 1-3%: We fine tune our forecasts for slightly higher FY17F new contract wins and impute figures from the latest annual report.

BUY, raising TP to RM3.38. This factors higher sustainable orderbook for its infrastructure division.

Muhibbah announced that Muhibbah Viccana JV, an entity in which it has a 51% equity interest, has been awarded a contract by the Bintulu Port Authority to design and build a supply base wharf in the second harbour basin, Bintulu Port, Bintulu, Sarawak. This would include construction of wharf, jetty and other associated facilities with a total contract value of RM585m. The estimated completion date is end-2019.

Muhibbah's 51% stake in the JV would imply a contract value of RM298m for its stake but we understand the value of works could be higher. Assuming 70%, Muhibbah's share of works could amount to RM409m. This is its second win for 2017 and brings YTD wins to RM847m (assuming 70% for this Bintulu contract and 100% for its Qatar project). Total construction orderbook now stands at RM1.5bn while its total outstanding orderbook including cranes and shipyard is RM2.1bn.

We raise our FY17-18F EPS by 1% and 3% respectively to factor in balance outstanding wins of RM500m for FY17F vs RM440m previously. We leave our new order win assumptions for FY18F unchanged at RM1bn. GP margins for this project should be within 7-9% range.

This win validates our view on Muhibbah being a well-rounded 11MP proxy having expertise in civil engineering, on-shore and offshore fabrication and also marine-based projects. This varied expertise is a blessing given it missed out on MRT Line 2 viaduct works but this will be compensated by wins from the portions of the construction value chain.

We maintain our BUY rating and raise our TP of RM3.38. The higher TP factors in a higher sustainable orderbook of RM1.4bn for its infrastructure division vs RM1.2bn previously.

SOP Value

SOP Method	Earnings / NPV	PE / WACC	Stake	Attributed Value	Per Share
Construction	60	13	100%	781	1.51
Cranes	31	14	61%	263	0.51
Cambodia airports	3,224	10%	21%	677	1.31
Road maintenance	140	8%	21%	29	0.06
SOP Value				1,750	3.38

Source: AllianceDBS

CRITICAL DATA POINTS TO WATCH

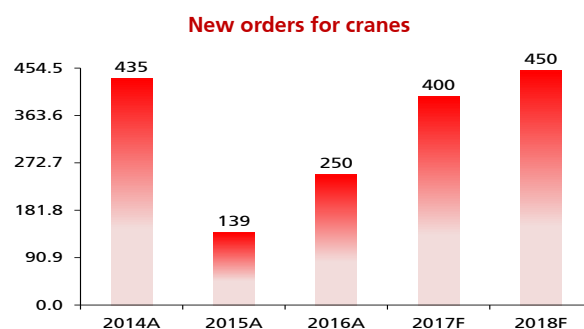
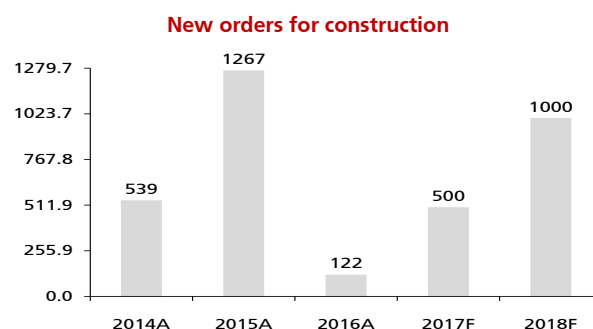
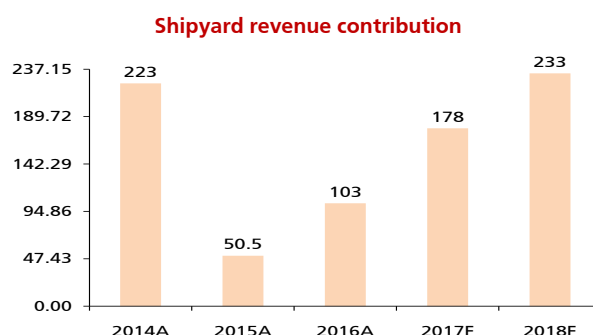
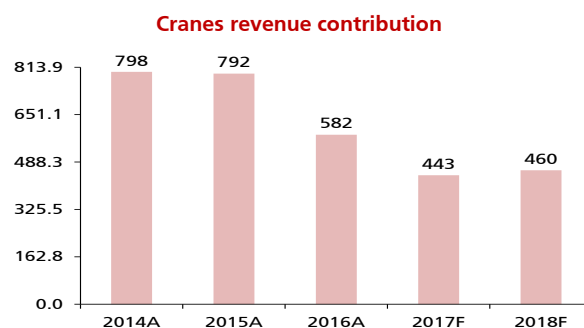
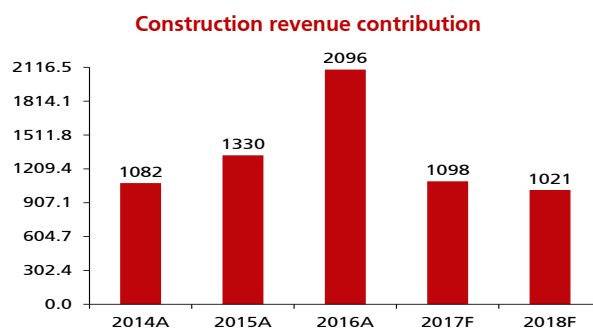
Earnings Drivers:

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. We estimate its overall orderbook now stands at RM2.1bn. 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, 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 two sizeable wins so far – one for infrastructure contract in Qatar and the other a marine-based contract for Bintulu Port.

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.



Source: Company, AllianceDBS

Muhibbah Engineering

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.

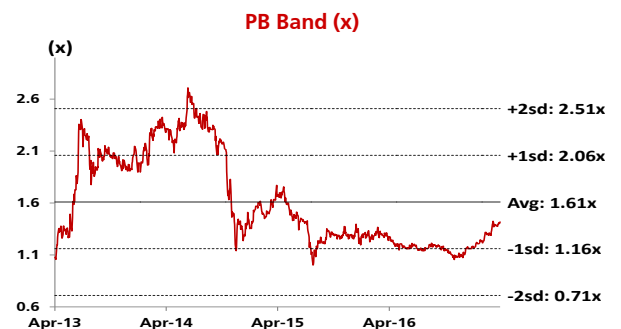
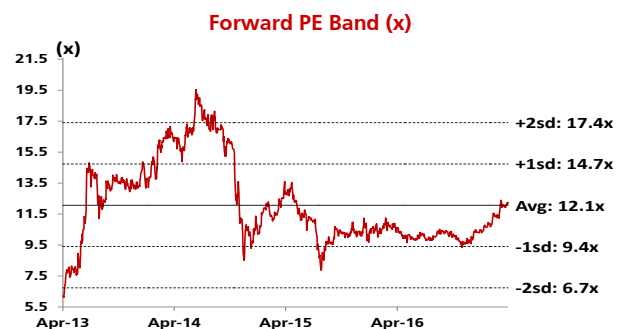
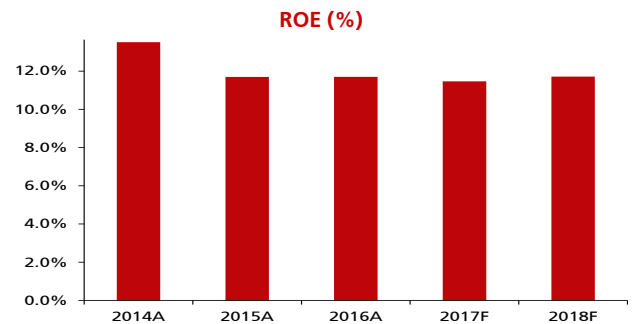
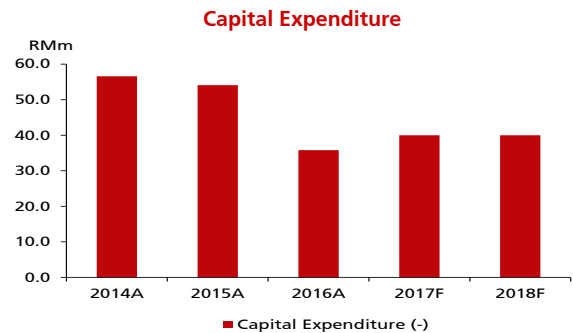
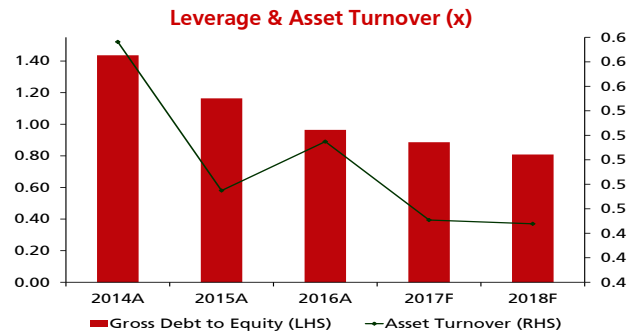
Completed landmark projects. Muhibbah has an impressive track record, having completed a list of landmark projects locally and abroad. Of significance is the LNG Regasification project for Petronas Gas in Melaka and South Klang Valley Expressway.

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

Key Assumptions

FY Dec	2014A	2015A	2016A	2017F	2018F
Construction revenue contribution	1,082	1,330	2,096	1,098	1,021
Cranes revenue contribution	798	792	582	443	460
Shipyards revenue contribution	223	50.5	103	178	233
New orders infra	539	1,267	122	500	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	1,098	1,021
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	1,718	1,713

Income Statement (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenue	1,734	1,605	1,919	1,718	1,713
Cost of Goods Sold	(1,479)	(1,343)	(1,669)	(1,460)	(1,431)
Gross Profit	254	262	250	258	283
Other Opng (Exp)/Inc	(131)	(138)	(138)	(145)	(146)
Operating Profit	123	124	112	113	137
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	49.2	62.2	88.2	81.6	85.7
Net Interest (Exp)/Inc	(28.5)	(20.7)	(18.0)	(27.2)	(26.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	144	165	183	167	196
Tax	(24.8)	(27.8)	(21.6)	(21.4)	(27.5)
Minority Interest	(37.3)	(51.3)	(55.5)	(28.2)	(36.3)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	81.6	86.0	106	117	132
Net Profit before Except.	81.6	86.0	106	117	132
EBITDA	228	251	270	259	289
Growth					
Revenue Gth (%)	(10.5)	(7.4)	19.6	(10.5)	(0.3)
EBITDA Gth (%)	10.9	10.1	7.5	(3.9)	11.5
Opg Profit Gth (%)	17.2	0.5	(9.1)	0.3	21.3
Net Profit Gth (Pre-ex) (%)	(5.6)	5.4	22.7	11.3	12.2
Margins & Ratio					
Gross Margins (%)	14.7	16.3	13.0	15.0	16.5
Opg Profit Margin (%)	7.1	7.7	5.9	6.6	8.0
Net Profit Margin (%)	4.7	5.4	5.5	6.8	7.7
ROAE (%)	13.5	11.7	11.7	11.5	11.7
ROA (%)	2.8	2.5	2.8	3.1	3.4
ROCE (%)	2.8	2.8	3.4	3.2	3.5
Div Payout Ratio (%)	23.4	27.9	22.8	20.0	20.0
Net Interest Cover (x)	4.3	6.0	6.2	4.1	5.1

Source: Company, AllianceDBS

Muhibbah Engineering

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
Invts in Associates & JVs	236	257	437	514	595
Other LT Assets	31.0	52.8	48.1	48.1	48.1
Cash & ST Invts	601	578	735	742	800
Inventory	226	301	268	240	255
Debtors	1,334	1,601	1,544	1,412	1,408
Other Current Assets	12.5	18.1	22.4	22.4	22.4
Total Assets	3,165	3,594	3,859	3,763	3,890
ST Debt	1,168	1,221	1,260	1,260	1,260
Creditor	966	1,136	1,058	840	823
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	1,071	1,179
Minority Interests	217	265	405	433	469
Total Cap. & Liab.	3,165	3,594	3,859	3,763	3,890
Non-Cash Wkg. Capital	567	751	757	815	843
Net Cash/(Debt)	(636)	(692)	(597)	(591)	(533)
Debtors Turn (avg days)	253.7	333.8	299.1	314.0	300.4
Creditors Turn (avg days)	245.4	300.2	250.3	248.3	222.6
Inventory Turn (avg days)	55.5	75.3	65.0	66.5	66.2
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	0.5
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

h Flow Statement (RMm)

FY Dec	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	144	165	183	167	196
Dep. & Amort.	55.8	65.2	69.2	64.9	66.7
Tax Paid	(24.8)	(27.8)	(21.6)	(21.4)	(27.5)
Assoc. & JV Inc/(loss)	(49.2)	(62.2)	(88.2)	(81.6)	(85.7)
Chg in Wkg.Cap.	(258)	(174)	13.4	(58.3)	(27.9)
Other Operating CF	59.9	64.1	3.65	0.0	0.0
Net Operating CF	(72.9)	30.8	159	70.7	121
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)	(23.5)
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)	(23.5)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	175	(22.8)	157	6.72	57.7
Opg CFPS (sen)	39.3	43.4	30.2	24.9	28.8
Free CFPS (sen)	(27.5)	(5.0)	25.5	5.93	15.7

Source: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	04 May 16	2.28	2.90	BUY
2:	12 May 16	2.27	3.10	BUY
3:	01 Jun 16	2.14	3.10	BUY
4:	03 Jun 16	2.25	3.10	BUY
5:	24 Jun 16	2.20	3.10	BUY
6:	11 Jul 16	2.21	3.10	BUY
7:	05 Aug 16	2.19	3.10	BUY
8:	01 Sep 16	2.24	3.10	BUY
9:	30 Nov 16	2.20	3.10	BUY
10:	11 Jan 17	2.39	3.10	BUY
11:	01 Mar 17	2.47	3.10	BUY
12:	27 Apr 17	2.88	3.10	BUY
13:	28 Apr 17	2.89	3.10	BUY

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

Source: AllianceDBS

Analyst: Chong Tjen-San

DISCLOSURE

Stock rating definitions

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 > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

DISCLAIMER

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