

3Q FY2017 results update

30 Nov 2017

Muhibbah Engineering (M) Bhd

- 3Q2017 results within expectations
- Large RM1.9b order-book to underpin earnings
- Rising oil prices auger well for more capex and jobs
- Attractive valuations, maintain BUY

BUY

Share price
RM2.84

Market capitalization
RM1,364 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)	12.8	11.9
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	10.3%

Share Price Chart



3Q FY2017 results highlights

Year end Dec (RM mil)	9M-2017	9M-2016	% chg
Turnover	1,081.8	1,273.0	(15.0)
Pre-tax profit	163.1	123.1	32.5
Tax	(17.1)	(11.0)	56.0
Minority interests	(50.9)	(39.0)	30.4
Net profit	95.1	73.1	30.1
EPS (sen)	19.80	15.43	
Pre-tax profit margin (%)	15.1	9.7	
Net profit margin (%)	8.8	5.7	

Muhibbah Engineering's results for 3Q FY Dec 2017 were within our expectations, although cumulative results for the first nine months of 2017 are ahead of our forecasts, mainly due to the earlier strong second quarter.

Cumulative nine-month net profit rose 30.1% to RM95.1 million and accounted for 83% of our full year forecast of RM114.7 million. Pre-tax profit for the nine-month period increased 32.5% to RM163.1 million while revenue declined 15% to RM1.08 billion.

For 3Q2017, Muhibbah's net profit increased 23.9% y-y from RM22.6 million to RM28 million. Revenue for the quarter was roughly flat at RM372.4 million.

The concession business continues to anchor Muhibbah's profits and provide solid recurring income. After-tax contribution from associates was roughly unchanged at RM18.4 million for the quarter, but surged 48.3% to RM94.1 million for the first nine months of 2017.

The associates comprise 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 43% y-y increase in pre-tax profit to RM26.8 million for 3Q2017, on the back of a 33% y-y rise in revenue to RM168.2 million.

Notably, its earnings are recovering strongly after being adversely affected by the oil and gas slowdown, as the bulk of its cranes are supplied to that sector. 3Q2017 was the strongest quarter this year, compared with pre-tax profit of RM16.8 million in 1Q2017 and RM21.1 million in 2Q2017.

Outlook and recommendation

We maintain our **BUY** recommendation for Muhibbah.

After a period of stabilization at the US\$50 per barrel mark, crude oil prices have been on an upward trajectory, hitting two year highs of over US\$60 per barrel. This will improve prospects for oil and gas focused players like Muhibbah – even as it has ridden through the downturn successfully with its diversified income base, anchored by strong recurring concession income.

We are maintaining our 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. At RM2.84, the stock is trading on attractive P/E multiples of 11.9 and 11 times for 2017-2018.

Muhibbah's earnings will be underpinned by its large order-book, totaling RM1.9 billion. The order-book has stayed unchanged over the last quarter, despite recognizing revenue of RM372 million in 3Q2017, as new projects were secured.

Some of the major projects secured this year include:

- (i) Second Harbour Basin project at Bintulu port, secured in April 2017 and valued at RM584.8 million,
- (ii) MANATEQ industrial zone project in Qatar, secured in Jan 2017 and valued at RM438.1 million, with additional works valued at RM120.5 million secured in Oct,
- (iii) construction of main infrastructure works for Kertih Biopolymer Park at Kertih Biopolymer Park, Kemaman, Terengganu, secured in Oct 2017 and valued at RM168 million.

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. The company has demonstrated a strong ability to secure major projects locally and abroad, with a high order-book replenishment rate.

Despite a previously high exposure to the oil and gas industry, Muhibbah 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.

With oil prices climbing again, the company should benefit if investments in the oil and gas sector start to increase. The main immediate beneficiary of higher oil prices would be Favelle Favco, as the majority of its cranes are used for the oil and gas sector.

Muhibbah has secured two jobs in Qatar this year, following its earlier successful completion of the catering facilities at Hamad International Airport in Doha.

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.

In Oct 2017, it secured additional works order totaling RM120.5 million for the same project. Notably, this was secured after the blockade on Qatar by its neighbours, which started in June 2017. Positively, the blockade has had very minimal impact on the gas-rich country.

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.

Last year, it acquired a 500 acre plot of leasehold land 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 strong, 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 Aug 2017, AirAsia started direct flights from Kuala Lumpur to Sihanoukville, with four flights a week. There are also 3 direct weekly flights from China to Sihanoukville, as the southern beach and port city starts to gain more tourism interest.

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)	14.9	12.8	11.9	11.0
Dividend (sen)	5.0	5.5	5.5	5.5
Dividend yield (%)	1.8	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)	1.59	1.40	1.28	1.17
Cashflow/share (sen)	27.5	30.5	33.0	34.9
Price/Cashflow (x)	10.3	9.3	8.6	8.1
Gearing (%) (including bills payables)	83	61	53	44
ROE (%)	10.4	10.8	10.8	10.6



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