

Muhibbah Engineering (MUHI MK) : BUY

Mkt. Cap: US\$330m | 3m Avg. Daily Val: US\$0.47m

Last Traded Price (29 Nov 2017): RM2.82

Price Target 12-mth: RM3.60 (28% upside) (Prev RM3.60)

Analyst

Tjen San CHONG, CFA +60 3 26043972; tjensan@alliancedbs.com

Improving balance sheet and cash flow

- In-line 3Q17 results
- Key highlight was strong y-o-y growth for associates (largely Cambodia Airports)
- Balance sheet showed further improvement
- Maintain BUY and SOP-based TP of RM3.60

Forecasts and Valuation

FY Dec (RMm)	2016A	2017F	2018F	2019F
Revenue	1,919	1,718	1,713	1,905
EBITDA	270	270	301	324
Pre-tax Profit	183	178	207	229
Net Profit	106	129	143	155
Net Pft (Pre Ex.)	106	129	143	155
Net Pft Gth (Pre-ex) (%)	22.7	21.8	11.6	8.3
EPS (sen)	21.9	26.7	29.7	32.2
EPS Pre Ex. (sen)	21.9	26.7	29.7	32.2
EPS Gth Pre Ex (%)	23	22	12	8
Diluted EPS (sen)	21.9	26.7	29.7	32.2
Net DPS (sen)	4.98	5.33	5.95	6.45
BV Per Share (sen)	203	224	249	275
PE (X)	12.9	10.6	9.5	8.8
PE Pre Ex. (X)	12.9	10.6	9.5	8.8
P/Cash Flow (X)	8.6	19.2	11.2	18.6
EV/EBITDA (X)	8.8	8.8	7.9	7.4
Net Div Yield (%)	1.8	1.9	2.1	2.3
P/Book Value (X)	1.4	1.3	1.1	1.0
Net Debt/Equity (X)	0.4	0.4	0.3	0.3
ROAE (%)	11.7	12.5	12.6	12.3

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

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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What's New

Within expectations. Muhibbah recorded a 3Q17 headline net profit of RM28m (+24% y-o-y, -26% q-o-q), bringing 9M17 net profit to RM95m (+30% y-o-y). This was in line with our and consensus estimates.

Group pretax profit higher y-o-y. For 9M17, its group pretax profit was higher by 56% to RM163m. In terms of the segmental breakdown, construction contributed RM89m, cranes RM65m, concessions RM83m and there was group elimination of RM71m. With a RM1.7bn infrastructure orderbook (as at October 2017), this should ensure earnings visibility for more than a year.

Higher associate earnings. 9M17 associate earnings jumped 48% to RM93m. The strong growth largely stemmed from robust traffic volume growth for its Cambodian airport concessions that now contribute an estimated 50% of its bottomline. Total passenger volume for 9M17 was up 26% y-o-y to 6.3m and it is expected to reach 8-8.5m in 12M17. The 4Q of the calendar year is typically a strong quarter due to the year-end festivities.

The number of passengers at Phnom Penh and Siem Reap airports in 9M17 grew 24% and 22% to 3.049m and 3.014m, respectively, while that of Silhanoukville airport jumped 162% to 239k.

Operating cash flow and balance sheet show improvements

As at 30 September 2017, Muhibbah's operating cash flow was RM388m and balance sheet was in a net debt position of RM331m (net gearing of 0.2x). This contrasts with operating cash flow of RM215m and net debt of RM410m (net gearing of 0.3x) as at 30 June 2017. This was due to the last payment received arising

Flash Note

from the variation order for its legacy project in the Middle East.

Infrastructure division. Muhibbah has not won any viaduct packages for the LRT 3 and MRT 2. It remains unperturbed where its strategy is to conserve resources for projects which have better profitability. A case in point is the MRT Line 1 noise barrier contract worth RM202m whose margin, we gather, was very high. It is hopeful of winning similar noise barrier package for the MRT Line 2 which may be announced soon given all the large viaduct packages have already been awarded.

There is no target for orderbook replenishment for FY18F but we believe that anything from RM500m-RM1bn is achievable. It will continue to bid for contracts in Qatar where it believes the current embargo led by Saudi Arabia may work to its benefit with less competition there from the other Middle East contractors. Besides the upcoming FIFA World Cup in 2022, the Um Alhoul Special Economic Zone has some 8,400 acres to be developed over the next 20 years. Its strategy in Qatar has been to bid for more strategic types of contracts which are backed by the government.

Infrastructure job wins for 2017 have been encouraging with YTD wins of c.RM1bn. Its total construction orderbook now stands at RM1.7bn while its total outstanding orderbook including cranes and shipyard is RM2.2bn.

Quarterly / Interim Income Statement (RMm)

FY Dec	3Q2016	2Q2017	3Q2017	% chg yoy	% chg qoq
Revenue	385	468	372	(3.3)	(20.4)
Other Oper. (Exp)/Inc	(363)	(442)	(341)	(6.1)	(22.9)
Operating Profit	21.7	25.4	31.3	44.3	23.3
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	12.2	42.3	18.4	51.3	(56.4)
Net Interest (Exp)/Inc	(6.6)	(4.2)	0.88	nm	nm
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	27.3	63.6	50.7	85.6	(20.3)
Tax	5.29	(9.8)	(2.8)	(152.9)	(71.5)
Minority Interest	(10.0)	(15.9)	(19.9)	(98.4)	25.1
Net Profit	22.6	37.8	28.0	23.9	(26.1)
Net profit bef Except.	22.6	37.8	28.0	23.9	(26.1)
EBITDA	33.9	67.7	49.8	46.8	(26.5)
Margins (%)					
Opg Profit Margins	5.6	5.4	8.4		
Net Profit Margins	5.9	8.1	7.5		

Source of all data: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	30 Nov 16	2.20	3.10	BUY
2:	11 Jan 17	2.39	3.10	BUY
3:	01 Mar 17	2.47	3.10	BUY
4:	27 Apr 17	2.88	3.10	BUY
5:	28 Apr 17	2.89	3.10	BUY
6:	02 May 17	2.95	3.38	BUY
7:	01 Jun 17	2.71	3.60	BUY
8:	30 Aug 17	2.85	3.60	BUY
9:	09 Oct 17	2.84	3.60	BUY
10:	21 Nov 17	2.77	3.60	BUY

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

Source: AllianceDBS

Analyst: Tjen San CHONG

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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

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Sources for all charts and tables are AllianceDBS unless otherwise specified.

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DBS Regional Research Offices

HONG KONG

DBS Vickers (Hong Kong) Ltd

Contact: Paul Yong
18th Floor Man Yee Building
68 Des Voeux Road Central
Central, Hong Kong
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Participant of the Stock Exchange of Hong Kong

MALAYSIA

AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: research@id.dbsvickers.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 657 7831
Fax: 66 2 658 1269
e-mail: research@th.dbsvickers.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand