

Muhibbah Engineering (MUHI MK) : BUY

Mkt. Cap: US\$322m | **3m Avg. Daily Val:** US\$0.48m

Last Traded Price (6 Oct 2017): RM2.84

Price Target 12-mth: RM3.60 (27% upside) (Prev RM3.60)

Analyst

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Extends win in Qatar

- Wins another RM121m Qatar contract
- YTD wins reaching RM1bn
- Potential M&A for Favco to provide new growth avenue
- BUY, TP of RM3.60 based on SOP

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)	13.0	10.7	9.5	8.8
PE Pre Ex. (X)	13.0	10.7	9.5	8.8
P/Cash Flow (X)	8.6	19.4	11.3	18.7
EV/EBITDA (X)	8.8	8.9	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

Another Qatar win. Muhibbah has announced its third contract win for FY17F. This is an additional work order for the construction of complementary utilities and pavements with all associated works at Um Alhoul Special Economic Zone (QEZ-3), Qatar for QAR105.8m (RM121m). Muhibbah's stake in the entity which won the contract is 49% but we understand it will be doing the majority of the works.

Extension of work for prior Qatar contract. The contract represents an added amount for its earlier RM438m contract in the Economic Zones Company of Qatar (Manateq). To recap, Manateq was established by the Minister of Business and Trade of the State of Qatar and is owned by the Qatari Government. Manateq is the leading developer and operator of specialised economic zones, logistic parks, and warehousing parks in Qatar.

YTD wins inching up. Infrastructure wins for 2017 have been encouraging with YTD wins of c.RM1bn. The other wins are the initial Manateq project in Qatar and a marine-based contract for Bintulu Port. We assume a balance of less than RM400m new wins for FY17F. Total construction orderbook now stands at RM1.5bn while its total outstanding orderbook (including cranes and shipyard) is RM2bn.

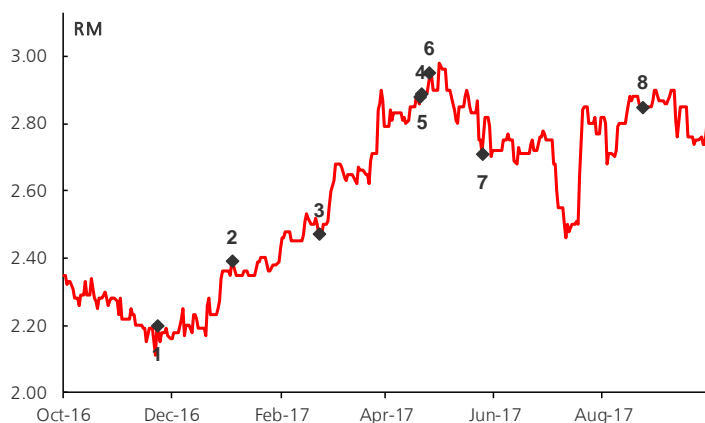
An added boost for Favco. One of the key concerns we had on Muhibbah was its crane business. Given the high exposure to offshore oil and gas cranes, its orderbook has fallen from a peak of c.RM1bn to

Flash Note

RM536m as at end-August 2017. Hence, the recent proposed acquisition of 70% stake in four companies specialising in integrated industrial automation solutions will be key growth driver for Favco. The purchase price of RM87m translates into 8x FY16 earnings while there is a contingent consideration if the target companies achieve a certain profit threshold for FY17-19F. We understand the profit track record for FY13-FY16 has been commendable with net profit ranging from RM15m-22m with net margins of c.15%. Favco's balance sheet is rock solid with a net cash of RM356m as at 30 June 2017.

BUY rating and TP maintained. Muhibbah represents a well-rounded proxy to the Malaysian construction sector with varied expertise in civil engineering, marine-based construction and offshore fabrication works. While it hasn't had a meaningful presence for the MRT and LRT projects as yet, this has been compensated by more marine-based projects. Valuations are still at a bargain, trading at an FY18F PE of 9x on the back of a 3-year EPS CAGR of 14% for FY16-FY19F.

Target Price & Ratings History



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

Source: AllianceDBS

Analyst: Tjen San CHONG

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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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