

Company Focus

Muhibbah Engineering

Bloomberg: MUHI MK | Reuters: MUHI.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

1 Jun 2015

BUY RM2.42 KLCI : 1,747.52

Price Target : 12-Month RM 3.50

Shariah Compliant : Yes

Reason for Report : 1Q15 results

Potential Catalyst: Strong contract wins

Where we differ: We are more positive on the stock

Analyst

CHONG Tjen San, CFA +603 2604 3972

tjensan@alliancedbs.com

Result Summary

FY Dec (RM m)	1Q 2015	1Q 2014	4Q 2014	% Chg y-o-y	% Chg q-o-q
P&L Items					
Turnover	363.2	393.9	456.6	(7.8)	(20.4)
Opg Profit	26.3	15.9	32.6	64.7	(19.3)
EBITDA	42.6	43.9	68.9	(2.9)	(38.2)
Net Profit	23.3	20.2	20.3	15.5	14.8

Other Data

Opg Margin (%)	7.2	4.0	7.1
Net Margin (%)	6.4	5.1	4.4

Financial Summary

FY Dec (RM m)	2014A	2015F	2016F	2017F
Turnover	1,693	1,743	1,767	1,803
Operating Profit	111	104	113	138
EBITDA	159	214	228	258
Net Pft (Pre Ex.)	82	97	106	123
EPS (sen)	19.3	22.9	25.1	29.0
EPS Pre Ex. (sen)	19.3	22.9	25.1	29.0
EPS Gth (%)	(6)	19	10	15
EPS Gth Pre Ex (%)	(6)	19	10	15
Net DPS (sen)	4.5	4.6	5.0	5.8
BV Per Share (sen)	152.4	169.8	190.3	214.3
PE (X)	12.5	10.5	9.6	8.3
PE Pre Ex. (X)	12.5	10.5	9.6	8.3
EV/EBITDA (X)	11.8	8.0	7.3	6.3
Net Div Yield (%)	1.9	1.9	2.1	2.4
P/Book Value (X)	1.6	1.4	1.3	1.1
Net Debt/Equity (X)	0.7	0.5	0.4	0.3
ROAE (%)	13.5	14.2	14.0	14.3

At A Glance

Issued Capital (m shrs)	467
Mkt. Cap (RMm/US\$m)	1,131 / 309
Avg. Daily Vol. ('000)	1,576

ICB Industry : Industrials

ICB Sector: Construction & Materials

Principal Business : Muhibbah is primarily involved in construction, fabrication of cranes and shipbuilding. These 3 core divisions cater largely for the O&G sector. It also holds a 21% associate stake in 2 concessions, namely the Cambodian airports and Federal road maintenance in Malaysia.

Source: Company, AllianceDBS, Bloomberg Finance L.P.

Improving margins

- **1Q15 earnings in line**
- **Better profitability all round, except for shipyard**
Jasa Merin contract is at its tail end
- **Strong proxy to 11MP projects**
- **BUY, TP RM3.50**

Highlights

- **1Q15 earnings in line.** Net profit of RM23m (+16% y-o-y, +15% q-o-q) was in line, but turnover missed by 8% y-o-y and 20% q-o-q due to the timing of recognition of construction and crane orders, while the contract with Jasa Merin for its shipyard has largely been recognised.
- **Better profitability all round.** Except for the shipyard division, the other divisions (construction, cranes and concessions) recorded better profitability y-o-y and q-o-q. The construction division booked RM11m pretax profit in 1Q15 (vs RM10m in 1Q14, RM6m in 4Q14) on the back of higher margin of 4.8% (vs 3.8% in 1Q14, 1.7% in 4Q14). 1Q15 pretax profit for the Cambodian airport concessions grew 24% y-o-y to RM18m, driven by strong traffic volume growth at Cambodian airports of 12% y-o-y to 1.9m passengers, and a stronger USD. The crane business under Favelle Favco showed strong pretax profit growth of 75% y-o-y to RM30m driven by a peak orderbook of RM1bn. More recently, it also clinched RM98m worth of offshore and tower crane contracts. The shipyard segment pretax profit was only RM0.6m in 1Q15 (vs RM6m in 1Q14, RM17m in 4Q14) as the RM219m Jasa Merin contract is at its tail end.

Outlook

Infrastructure division most promising. Muhibbah believes the infrastructure sector is on a multi-year upcycle with potentially RM140bn worth of projects up for grabs. Also, raw material costs are more benign now with cement and steel prices 5% and 15% cheaper y-o-y, respectively. Muhibbah will be bidding for major projects such as RAPID, MRT Line 2 and WCE, and is quietly confident of clinching other marine-based contracts. YTD wins amount to RM277m, and it should close the year better than the RM504m wins in 2014.

Muhibbah Engineering

Cambodian airports doubling capacity. Effective July, the Siam Reap and Phnom Penh airports will double their existing capacity to 12m passengers. The US\$85m capex was financed by only one year of operating cashflow, which suggests the airports are cash cows. Passenger arrivals reached 5.7m in 2014 (+12 % y-o-y) led by a recovery in Chinese tourists (20% of total; +22% y-o-y). We estimate its 21 % stake is worth RM580m (DCF, WACC 10%, RM3.65/USD, and passenger growth 5% p.a. until 2040), which is already 63% of its market cap.

Valuation

Muhibbah is a BUY with a TP of RM3.50 based on 15x FY15F PE (sector average).

Risks

Inability to secure new jobs

- This will lead to depleting orderbook.

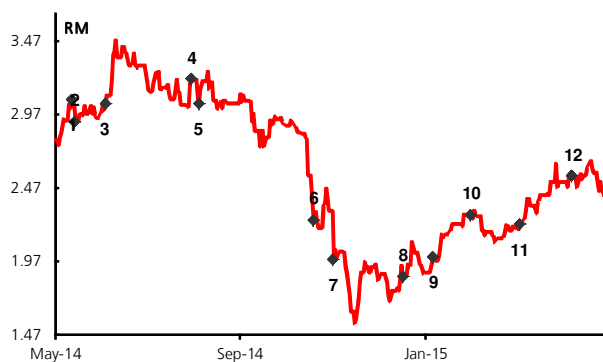
Project delays

- Leading to slower revenue recognition.

Higher material price

- Leading to margin erosion.

Target Price & Ratings History



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

S.No.	Date	Closing Price	Target Price	Rating
1:	11 Jun 14	3.07	3.20	Hold
2:	13 Jun 14	2.92	3.20	Hold
3:	03 Jul 14	3.04	3.20	Hold
4:	29 Aug 14	3.21	3.20	Hold
5:	03 Sep 14	3.04	3.20	Hold
6:	18 Nov 14	2.25	3.50	Buy
7:	01 Dec 14	1.98	3.50	Buy
8:	16 Jan 15	1.87	3.50	Buy
9:	05 Feb 15	2.00	3.50	Buy
10:	02 Mar 15	2.29	3.50	Buy
11:	03 Apr 15	2.22	3.50	Buy
12:	08 May 15	2.55	3.50	Buy

Source: AllianceDBS

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

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Wong Ming Tek, Executive Director

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AllianceDBS Research Sdn Bhd (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 email : general@alliancedbs.com