

Company Focus

Muhibbah Engineering

Bloomberg: MUHI MK | Reuters: MUHI.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

2 Mar 2015

BUY RM2.29 KLCI : 1,821.21

Price Target : 12-Month RM 3.50 (Prev RM 3.50)

Shariah Compliant: No

Reason for Report : 4Q results

Potential Catalyst: More contract wins

Where we differ: We are below consensus

Analyst

CHONG Tjen San, CFA +603 2604 3972
tjensan@alliancedbs.com

Result Summary

FY Dec (RM m)	4Q 2014	4Q 2013	3Q 2014	% Chg y-o-y	% Chg q-o-q
P&L Items					
Turnover	456.6	631.6	376.1	(27.7)	21.4
Gross Profit	456.6	631.6	376.1	(27.7)	21.4
Opg Profit	32.6	43.6	25.5	(25.3)	27.5
EBITDA	68.9	68.2	44.8	1.1	54.0
Net Profit	20.3	24.6	20.3	(17.4)	0.0
Other Data					
Opg Margin (%)	7.1	6.9	6.8		
Net Margin (%)	4.4	3.9	5.4		

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)	11.9	10.0	9.1	7.9
PE Pre Ex. (X)	11.9	10.0	9.1	7.9
EV/EBITDA (X)	11.5	7.8	7.1	6.1
Net Div Yield (%)	2.0	2.0	2.2	2.5
P/Book Value (X)	1.5	1.3	1.2	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)	432
Mkt. Cap (RMm/US\$m)	989 / 273
Avg. Daily Vol. ('000)	2,693

ICB Industry : Industrials

ICB Sector: Construction & Materials

Principal Business : Muhibbah is primarily involved in construction, fabrication of cranes and shipbuilding. These 3 core divisions carter 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.

Stronger earnings this year

- **4Q/FY14 profit in line, lifted by strong concession contribution**
- **Margins to improve, given more oil & gas jobs**
- **Decent wins YTD, expect more awards from RAPID**
- **BUY, TP RM3.50**

Highlights

- **In line.** 4Q14 net profit of RM20m (-17% y-o-y, flat q-o-q) takes 12M14 profit to RM82m, in line with our expectation but below consensus estimate. The company declared a final 4 sen dividend per share.
- **Strong concession earnings.** The star in 4Q was the Cambodian airport concession which pretax profit grew 47% q-o-q to RM15.5m, driven by strong traffic growth at Cambodian airports and a stronger USD. 12M14 passenger volume grew 12% y-o-y. The construction division booked RM5.9m pretax profit in 4Q14 (vs RM8m in 3Q14) but we expect stronger momentum the rest of the year driven by recently-secured higher-margin works. The shipyard segment pretax profit more than doubled to RM17m likely due to lumpy recognition of the Jasa Merin contract worth RM219m.

Outlook

- **Strong YTD wins.** Muhibbah's YTD wins amount to RM277m including the recent EPCIC win from Petronas Gas for the existing LNG Regasification Terminal in Melaka. This is a JV with PT JGC Indonesia, where we expect Muhibbah to hold at least 60% stake. We are also expecting more contract flows from RAPID on top of the RM116m from Tecnicas Reunidas, S.A. Group (TR). Muhibbah will likely clinch up to RM1bn worth of RAPID contracts over time, including projects other than Package 3. It also has a strong chance of securing marine-based jobs for Northport and Westport.

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 a depleting orderbook

Muhibbah Engineering

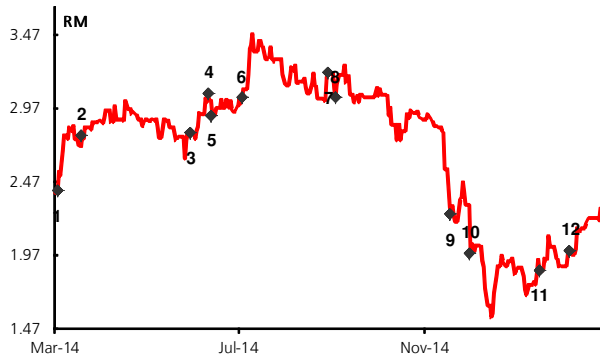
Project delays

- Leading to slower revenue recognition

Higher material price

- Leading to margin erosion

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	03 Mar 14	2.41	3.20	Buy
2:	19 Mar 14	2.79	3.20	Buy
3:	30 May 14	2.80	3.20	Buy
4:	11 Jun 14	3.07	3.20	Hold
5:	13 Jun 14	2.92	3.20	Hold
6:	03 Jul 14	3.04	3.20	Hold
7:	29 Aug 14	3.21	3.20	Hold
8:	03 Sep 14	3.04	3.20	Hold
9:	18 Nov 14	2.25	3.50	Buy
10:	01 Dec 14	1.98	3.50	Buy
11:	16 Jan 15	1.87	3.50	Buy
12:	05 Feb 15	2.00	3.50	Buy

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

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

DISCLAIMER

This report has been prepared for information purposes only by AllianceDBS Research Sdn Bhd ("ADBSR") (formerly known as HwangDBS Vickers Research Sdn Bhd), a subsidiary of Alliance Investment Bank Berhad ("AIBB") and an associate of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). DBSVH is a wholly-owned subsidiary of DBS Bank Ltd. This report is strictly confidential and is meant for circulation to clients of ADBSR, AIBB and DBSVH only or such persons as may be deemed eligible to receive such research report, information or opinion contained herein. Receipt and review of this report indicate your agreement not to distribute, reproduce or disclose in any other form or medium (whether electronic or otherwise) the contents, views, information or opinions contained herein without the prior written consent of ADBSR.

This report is based on data and information obtained from various sources believed to be reliable at the time of issuance of this report and any opinion expressed herein is subject to change without prior notice and may differ or be contrary to opinions expressed by ADBSR's affiliates and/or related parties. ADBSR does not make any guarantee, representation or warranty (whether express or implied) as to the accuracy, completeness, reliability or fairness of the data and information obtained from such sources as may be contained in this report. As such, neither ADBSR nor its affiliates and/or related parties shall be held liable or responsible in any manner whatsoever arising out of or in connection with the reliance and usage of such data and information or third party references as may be made in this report (including, but not limited to any direct, indirect or consequential losses, loss of profits and damages).

The views expressed in this report reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendation(s) or view(s) in this report. ADBSR prohibits the analyst(s) who prepared this report from receiving any compensation, incentive or bonus based on specific investment banking transactions or providing a specific recommendation for, or view of, a particular company.

This research report provides general information only and is not to be construed as an offer to sell or a solicitation to buy or sell any securities or other investments or any options, futures, derivatives or other instruments related to such securities or investments. In particular, it is highlighted that this report is not intended for nor does it have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive this report. Investors are therefore advised to make their own independent evaluation of the information contained in this report, consider their own individual investment objectives, financial situations and particular needs and consult their own professional advisers (including but not limited to financial, legal and tax advisers) regarding the appropriateness of investing in any securities or investments that may be featured in this report.

ADBSR, AIBB, DBSVH and DBS Bank Ltd, their directors, representatives and employees or any of their affiliates or their related parties may, from time to time, have an interest in the securities mentioned in this report. AIBB, DBSVH and DBS Bank Ltd, their affiliates and/or their related persons may do and/or seek to do business with the company(ies) covered in this report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell or buy such securities from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report.

AIBB, DBSVH, DBS Bank Ltd (which carries on, inter alia, corporate finance activities) and their activities are separate from ADBSR. AIBB, DBSVH and DBS Bank Ltd may have no input into company-specific coverage decisions (i.e. whether or not to initiate or terminate coverage of a particular company or securities in reports produced by ADBSR) and ADBSR does not take into account investment banking revenues or potential revenues when making company-specific coverage decisions.

ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, may beneficially own a total of 1% or more of any class of common equity securities of the subject company mentioned in this report. ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBSVUSA may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company. DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this report should contact DBSVUSA exclusively. DBS Vickers Securities (UK) Ltd is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Services Authority. Research distributed in the UK is intended only for institutional clients.

In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the overriding issue of confidentiality, available upon request to enable an investor to make their own independent evaluation of the information contained herein.



Wong Ming Tek, Executive Director

Published and Printed by
AllianceDBS Research Sdn Bhd (128540 U)
(formerly known as HWANGDBS Vickers Research Sdn Bhd)
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