

Company Flash Note

Muhibbah Engineering

Bloomberg: MUHI MK | Reuters: MUHI.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

5 Feb 2015

BUY RM1.98 KLCI : 1,803.02

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

Shariah Compliant: Yes

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (RM m)	2013A	2014F	2015F	2016F
Revenue	1,936	1,559	1,750	1,753
EBITDA	206	172	200	216
Pre-tax Profit	133	108	132	144
Net Profit	86	81	97	107
Net Pft (Pre Ex.)	86	81	97	107
EPS (sen)	20.4	19.2	22.9	25.2
EPS Pre Ex. (sen)	20.4	19.2	22.9	25.2
EPS Gth (%)	nm	(6)	20	10
EPS Gth Pre Ex (%)	(43)	(6)	20	10
Diluted EPS (sen)	20.4	19.2	22.9	25.2
Net DPS (sen)	4.5	3.8	4.6	5.0
BV Per Share (sen)	133.2	147.8	166.9	187.6
PE (X)	9.7	10.3	8.6	7.8
PE Pre Ex. (X)	9.7	10.3	8.6	7.8
P/Cash Flow (X)	2.3	53.0	12.7	6.7
EV/EBITDA (X)	7.2	8.9	7.7	7.0
Net Div Yield (%)	2.3	1.9	2.3	2.5
P/Book Value (X)	1.5	1.3	1.2	1.1
Net Debt/Equity (X)	0.6	0.6	0.5	0.4
ROAE (%)	17.0	13.6	14.6	14.2

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

Delivering on RAPID, still trading at bargain valuation

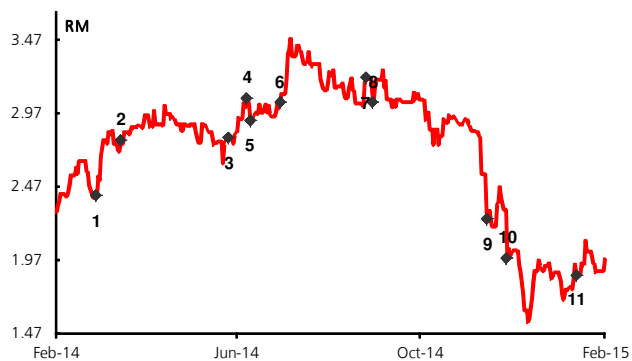
- First win for the year is maiden RAPID contract
- Expect more contracts from RAPID, more marine infrastructure jobs
- Market still assigning negligible value for infrastructure and shipyard operations and Petronas license
- BUY, TP RM3.50

Maiden win for the year. Muhibbah announced it has received a contract from Tecnicas Reunidas, S.A. Group (TR) to design and build temporary construction facilities and accommodation camp for Package III in RAPID for USD32m (RM116m). The contract is for a year starting 1Q15 and ending in 1Q16. This is the company's first win for 2015 and a maiden contract at RAPID. We conservatively expect margins to be better at high-single-digit compared to ~5% for normal civil engineering works.

Expect more RAPID contracts. We expect Muhibbah to clinch up to RM1bn worth of RAPID contracts over time, including projects other than Package 3. However, Muhibbah is now unlikely to clinch the sizeable >RM1bn Pengerang jetty works – for which it is one of two contenders – because of pricing. Its competitor and lowest bidder is a foreign company which has become more competitive because its home currency has depreciated sharply. We are comforted that Muhibbah has exercised financial discipline by not sacrificing margins, and appropriately allocating resources for higher-margin projects. Muhibbah also has a strong chance of securing marine-based jobs for Northport and Westport. There is no change to our forecasts as this win had been anticipated.

Bargain valuation, BUY. Valuation remains a bargain at only 8x FY15 PE and 1.1x P/NTA. At this level, the market appears to assign negligible value for the infrastructure and shipyard operations, and the Petronas fabrication license. This is after stripping out its 60.3% stake in Favco and DCF value for the Cambodia airport concession. We reiterate our BUY rating and TP of RM3.50 based on 15x FY15F PE (sector average).

Target Price & Ratings History



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

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

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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