

FY2014 Final results update

2 March 2015

Muhibbah Engineering (M) Bhd

- Results in line
- Large RM2b orderbook to sustain near term earnings
- Diversified enough to withstand O&G slowdown
- Valuations attractive at 10.9x for 2015, maintain BUY

BUY

Share price
RM2.29

Market capitalization
RM984 million

Board
Main

Indices
FBM Emas Syariah,

Sector
Construction

Stock code
5703

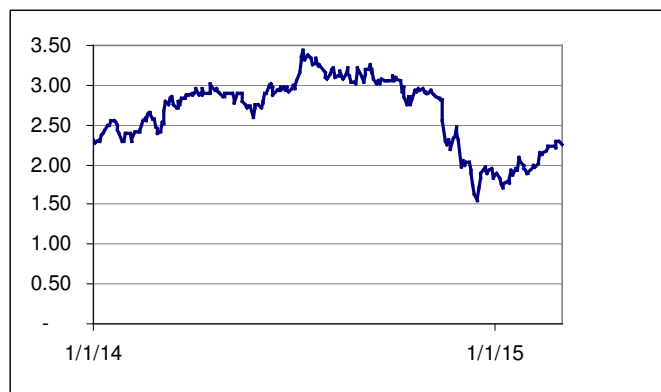
By
The Research Team

Key stock statistics	FY Dec14	FY Dec15E
EPS (sen)	19.2	21.2
P/E (x)	11.9	10.9
DPS (sen)	4.0	4.0
NTA/share (RM)	1.52	1.67
Issued capital (mil)	429.6	
52-week price range (RM)	2.10 -3.46	

Major shareholders (%)

Mac Ngan Boon	22.8%
Ooi Sen Eng	3.2%

Share Price Chart



FY 2014 Final results highlights

Year end Dec (RM mil)	2014	2013	% chg
Turnover	1,692.8	1,936.4	(12.6)
Pre-tax profit	145.2	132.6	9.5
Tax	(33.7)	(16.4)	105.8
Minority interests	(30.0)	(29.8)	0.4
Net profit	81.6	86.4	(5.6)
EPS (sen)	19.2	21.0	
Pre-tax profit margin (%)	8.6	6.8	
Net profit margin (%)	4.8	4.5	

Muhibbah Engineering's full year results for FY Dec 2014 were well within our expectations, with revenue, pre-tax and net profit all coming in within a 5% range of our forecasts.

For 2014, the company reported pre-tax profit of RM145.2 million, up 9.5% from RM132.6 million in 2013, while net profit declined 5.6% from RM86.4 million to RM81.6 million, due to a higher effective tax rate.

This was achieved on the back of revenue totaling RM1.7 billion, a decline of 12.6% as several large lower-margin projects, notably the South Klang Valley Expressway, were completed in 2013.

Muhibbah's profit growth was largely driven by the crane division, Favelle Favco, which benefitted from more deliveries and the stronger USD, and hence better overall margins. For the full year, Favelle Favco's pre-tax profit surged 40.3% growth to RM112.3 million, despite a smaller 4.4% revenue increase to RM797.9 million.

Share of associates, which comprised mostly its concessions in Malaysia and Cambodia, rose slightly from RM46.6 million to RM47.8 million.

Over the past three months, Muhibbah's order-book declined marginally from RM2.13 billion in Nov 2014 to RM2.05 billion in Feb 2015. This was commendable as the company had largely replenished its order-book, after chalking up revenue of RM457 million in 4Q2014.

Of the order book, about half – or RM1.03 billion – are for cranes, which yield higher margins. Another RM964 million are in infrastructure construction and RM57 million from the shipyard.

Outlook and recommendation

Muhibbah's share price fell sharply in mid Nov 2014, amid foreign fund redemption and concerns over the impact of plunging oil prices on its prospects. From a high of RM3.27 in Sept, the stock fell to as low as RM1.51 in Dec, before steadily recovering to last close at RM2.29.

While the low oil price environment will affect players in the oil and gas industry, we believe Muhibbah's businesses is diversified enough to withstand a temporary slowdown in the industry.

We maintain our BUY recommendation. P/E valuations are attractive at 10.9 and 9.9 times for 2015 and 2016, respectively, with largely assured near term earnings due to its large order-book that will buffer the oil & gas slowdown.

Its current order-book of RM2.1 billion is equivalent to almost 1.5 years' income. The current downturn in oil prices is widely viewed as temporary, and seen as engineered by OPEC to shake out the US shale oil industry. Most expect oil prices to resume climbing next year, which Muhibbah can comfortably ride out with its large order-book.

Despite the oil price downturn, we note that several major projects which are already at advanced implementation stages and are unlikely to be postponed. These include the Pengerang Regassification terminal and Refinery and Petrochemical Integrated Development (RAPID) projects, which Muhibbah is bidding for.

Apart from RAPID, which has an estimated budget of RM89 billion and some awards given out since June last year, other major government infrastructure projects scheduled include RM22.6 billion worth of new highways, as well as RM1 billion in port projects. These provide ample bidding opportunity for Muhibbah's infrastructure construction division.

Notably, Muhibbah earns strong recurring income from its concession business in Cambodia, where revenue is denominated in USD. With after-tax contributions from associates accounting for RM47.8 million in 2014, the concession business accounted for almost 60% of group net profit last year.

Apart from the Cambodian airports, Muhibbah also holds a 21% stake in Roadcare (M) Sdn Bhd, which has a road maintenance concession for 6,000 km of roads in central peninsular Malaysia.

The Cambodian airport operations offer an attractive exposure to Cambodia's economy, which is growing strongly, supported by the strong tourism and textile industries. The operations, under its 30% owned associate, has a concession until 2040 for the country's three airports – in Phnom Penh, Siem Reap and Sihanoukville.

For 2014, the Phnom Penh and Siem Reap airports saw a cumulative 12% growth in passenger arrivals to 5.69 million from 5.06 million. This follows from a strong 18% growth in arrivals in 2013.

Future growth will come from expansion of the two airports, as well as increased flights at the new third airport concession in Sihanoukville, the gateway to southern Cambodia's beaches and islands, manufacturing base and newly discovered oil and gas deposits.

Favelle Favco's operations, meanwhile, have over 90% of income derived from overseas, and will benefit from the weakening of the ringgit. Its cranes are used for both the construction and oil & gas sectors, although its order-book is also heavily geared towards the latter.

Profit & Loss Analysis

Year end Dec (RM mil)	2013	2014	2015E	2016E
Turnover	1,936.4	1,692.8	1,750.0	1,840.0
EBITDA	180.0	188.0	202.5	216.8
Depreciation	(54.4)	(60.3)	(62.0)	(66.0)
Associates	46.6	47.8	53.0	58.0
Interest income/(exp)	<u>(39.6)</u>	<u>(30.4)</u>	<u>(34.0)</u>	<u>(33.0)</u>
Pre-tax profit	132.6	145.2	159.5	175.8
Tax	(16.4)	(33.7)	(35.9)	(40.4)
Minorities	<u>(29.8)</u>	<u>(30.0)</u>	<u>(33.0)</u>	<u>(36.0)</u>
Net profit	86.4	81.6	90.6	99.4
Operating margin (%)	9.3	11.1	11.6	11.8
Pre-tax margin (%)	6.8	8.6	9.1	9.6
Net margin (%)	4.5	4.8	5.2	5.4
Effective tax rate (%)	12.3	23.2	22.5	23.0

Per Share Data

Year end Dec	2013	2014	2015E	2016E
EPS (sen)	21.0	19.2	21.1	23.1
P/E (x)	10.9	11.9	10.9	9.9
Dividend (sen)	4.5	5.0	4.0	4.0
Dividend yield (%)	2.0	2.2	1.7	1.7
Payout ratio (%)	21	26	19	17
Book value (RM)	1.34	1.52	1.67	1.86
Price/Book value (x)	1.71	1.51	1.37	1.23
Cashflow/share (sen)	30.1	28.9	30.9	33.4
Price/Cashflow (x)	7.6	7.9	7.4	6.9
ROE (%)	15.4	12.7	12.6	12.4



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