31 May 2022

Hold

Price
RM0.54

Target Price
RM0.60

Bloomberg code
MUHI MK

Equity | Malaysia | Construction

Flashnote

Muhibbah Engineering

1Q below as crane earnings slip

Financial Highlights

FYE Dec	2020	2021	2022F	2023F	2024F
Revenue (RMm)	1,199.6	1,004.9	1,029.0	1,150.4	1,306.5
Core net profit (RMm)	(31.7)	(13.0)	31.5	52.9	82.7
Core EPS (Sen)	(6.0)	(2.4)	4.1	6.9	10.7
EPS growth (%)	n/m	n/m	n/m	68.0	56.5
DPS (Sen)	0.0	0.0	0.5	1.0	2.0
Core PE (x)	n/m	n/m	13.2	7.9	5.0
Div yield (%)	0.0	0.0	0.9	1.9	3.7
ROE (%)	(11.2)	(0.3)	2.6	3.9	5.8
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
PBV(x)	0.5	0.4	0.3	0.3	0.3

Source: Company, KAF

- We maintain our Hold rating on Muhibbah with an unchanged TP of RM0.60 (45% discount vs NAV). The group reported 1Q22 results that fell below expectations with no major provisions being made. Despite returning a small core profit of RM3m, it only made up 9% of our full-year forecast.
- Nevertheless, we keep our earnings estimates for now in view of some initial signs of recovery in its Cambodian airport operations, which warrants further observations.
- In line with this, MRCB's share of associate losses almost halved QoQ to RM4.6m (1Q21: RM6.6m). As the global aviation industry gradually recovers, Cambodia is seeing rising air traffic volumes along with a resumption of flights by several airlines.
- This improving trend can be observed from a 151% YoY leap in Cambodian air traffic passenger growth to 195k – albeit from a depleted base.
- We also understand that sequential air traffic flows expanded further in April – with 4M22 figures more than doubling vs the corresponding period last year.
- On the contrary, Favelle Favco's (RM1.80, NC) contributions fell as its quarterly earnings underwhelmed (QoQ: -87%; YoY: -79%).
- We learnt that production levels at Favelle Favco's crane unit was impacted, as some of its operational staff and workers had to be quarantined for a period due to the discovery of Covid-19 cases.
- Muhibbah's outstanding orderbook stood at RM822m as of 24 May, or c.0.8x its FY21 revenue. Infrastructure construction made up RM293m of its backlog, with the balance RM529m coming from crane orders (including RM91m from Intelligent Automation).
- Muhibbah's active tenderbook stands at RM3.1b, with a 75%:25% split between local and overseas bids. Following completion of its rights issue, investor attention will turn towards Muhibbah's ability to deliver new investment prospects.
- Besides, we still view the emergence of Chinese-backed airport investments as a longer-term threat that could tamp any initial bounce in its Cambodian operations.
- In early April, Xinhua cited Cambodian premier Hun Sen as saying that the Chinese-invested Siem Reap Angkor International Airport will play a vital role to boost the kingdom's economy and tourism activities when it opens its doors in October 2023.
- Covering ~700 ha, the new airport is licensed and being invested by Angkor International Airport Investment (Cambodia), an affiliate of China's Yunnan Investment Holdings Ltd. The airport is being developed under the 55-year build-operate-transfer (BOT) model, inclusive of a five-year construction period.

Analyst

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Exhibit 1: Financial results

YE 31 Dec (RM m)	1Q21	1Q22	% YoY	4Q21	1Q22	% QoQ
Turnover	**218.0**	**175.2**	***(19.7)***	**303.3**	**175.2**	***(42.2)***
EBIT	**6.7**	**14.4**	***114.8***	**9.6**	**14.4**	***49.2***
Interest income	1.4	0.6		4.6	0.6	
Interest cost	(9.8)	(6.7)		3.8	(6.7)	
Pre-associates/JV profit	(1.7)	8.3		18.0	8.3	
Associates/JVs	(6.6)	(4.6)		(9.0)	(4.6)	
Pre-exceptionals profit	(8.3)	3.7		9.0	3.7	
Exceptionals	14.9	(2.3)		(9.8)	(2.3)	
Pretax Profit	**6.6**	**1.3**	***(79.5)***	**(0.8)**	**1.3**	***n/m***
Taxation	(1.4)	(1.7)		(5.8)	(1.7)	
Minorities	0.1	0.8		(4.5)	0.8	
Net Profit	**5.3**	**0.5**	***(91.2)***	**(11.1)**	**0.5**	***n/m***
Core Net Profit	**(9.6)**	**2.8**	***n/m***	**(1.3)**	**2.8**	***n/m***
Core EPS (sen)	(2.0)	0.6		(0.3)	0.6	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	2.29	2.28		2.28	2.28	
EBIT margin (%)	3.1	8.2		3.2	8.2	
Pretax margin (%)	3.0	0.8		(0.3)	0.8	
Effective tax (%)	21.2	123.8		(742.8)	123.8	
Breakdown (RM m)						
Turnover						
Construction	89.7	79.5	*(11.4)*	104.3	79.5	*(23.8)*
Cranes	128.4	95.7	*(25.5)*	199.1	95.7	*(51.9)*
Marine ship repair & shipbuilding	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Concessions	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Manufacturing & trading	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Total	**218.0**	**175.2**	***(19.7)***	**303.3**	**175.2**	***(42.2)***
Pre-tax profit						
Construction	1.0	3.8	*268.7*	(13.1)	3.8	*n/m*
Cranes	12.7	2.7	*(78.9)*	20.4	2.7	*(86.9)*
Marine ship repair & shipbuilding	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Concessions	(7.2)	(5.1)	*n/m*	(8.2)	(5.1)	*n/m*
Manufacturing & trading	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Total	**6.6**	**1.3**	***(79.5)***	**(0.8)**	**1.3**	***n/m***
Pre-tax margin (%)						
Construction	1.1	4.7		(12.5)	4.7	
Cranes	9.9	2.8		10.3	2.8	
Marine ship repair & shipbuilding	n/m	n/m		n/m	n/m	
Concessions	n/m	n/m		n/m	n/m	
Manufacturing & trading	n/m	n/m		n/m	n/m	
Total	**3.0**	**0.8**		**(0.3)**	**0.8**	

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Disclaimer

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