Equity | Malaysia | Construction

31 Aug 2022

Muhibbah Engineering

Recovery path still tricky despite new job win

We maintain our Hold call on Muhibbah with lower TP of RM0.48, as 2Q22 slipped into the red again with core losses at RM11m despite 12% revenue uplift QoQ and improvements with its Cambodian airport operations. On a more positive note, the group scored a new job win worth RM240m from Petronas – its first major contract for FY22F.

Hold

Price
RM0.44

Target Price
RM0.48

Market Data

Bloomberg Code	MUHI MK
No. of shares (m)	728.0
Market cap (RMm)	320.3
52-week high/low (RM)	1.00 / 0.41
Avg daily turnover (RMm)	0.6
KLCI (pts)	1,512.1

Source: Bloomberg, KAF

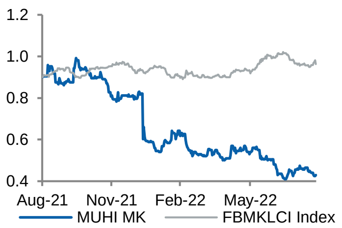
Major Shareholder (%)

Mac family & associates	(29.0%)
FIL Ltd	(5.9%)
Free Float	65.1

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	(19.3)	(31.4)	(52.1)
Rel Market (%)	(17.1)	(27.3)	(49.4)



Source: Bloomberg, KAF

Financial Highlights

FYE Dec	2020	2021	2022F	2023F	2024F
Revenue (RMm)	1,199.6	1,004.9	920.1	1,100.9	1,306.5
Core net profit (RMm)	(31.7)	(13.0)	2.9	27.9	56.1
Core EPS (Sen)	(6.0)	(2.4)	0.4	3.8	7.7
EPS growth (%)	n/m	n/m	n/m	n/m	101.2
DPS (Sen)	0.0	0.0	0.0	0.5	1.0
Core PE (x)	n/m	n/m	109.5	11.4	5.6
Div yield (%)	0.0	0.0	0.0	1.1	2.3
ROE (%)	(11.2)	(0.3)	0.2	2.1	4.1
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
PBV(x)	0.5	0.4	0.2	0.2	0.2

Source: Company, KAF

Losses again in 2Q

Muhibbah reported a small headline profit of RM1m in 2Q22 despite 12% revenue uplift QoQ. Excluding forex movements, we estimate that the group actually fell into the red again with core losses of RM11m (1H22: -RM8m).

Sequential performance was affected by lower billings from its construction division following completion of major projects, while newly procured contracts will only commence in 3Q22. This was partly mitigated by a rebound in the performance of its crane unit, as productivity picked-up after its facilities were impacted by Covid-19 cases in the preceding quarter.

Its share of associate contributions returned to positive territory, at RM2m, with 1H losses narrowing sharply to RM3m vs RM16m a year ago. The turnaround was largely attributable to improving traffic from its Cambodian airport operations, albeit from a very low base.

Scores RM240m job win from Petronas

In conjunction with its 2Q22 results release, Muhibbah announced that it has procured a new contract from Petronas Carigali. The Letter of Award was accepted by Muhibbah as the consortium lead partner. This was for the Procurement, Construction and Commissioning (PCC) of Module 9 and Pipeline for the integrated Bekok Oil project, located towards Terengganu's offshore.

The total contract value is approximately RM240m and is slated for completion within an 18 month period. The latest win represents its first major contract win for FY22F, adding to earlier waste heat recovery (WHR) orders worth RM50m from Siemens that was secured in February.

This would bump up Muhibbah's outstanding orderbook to RM1.1b as of 30 August. Of these, construction accounts for RM503m with its crane unit making up the balance RM560m (inclusive of RM141m from Intelligent Automation). Meanwhile, Muhibbah's active tender book stands at RM2.8b (local – 62%; foreign – 38% [mainly from WHR bids]).

Hold; TP reduced to RM0.48

Regardless of its fresh contract win, we maintain our Hold and cut our TP to RM0.48 (from RM0.50; NAV discount unchanged at 45%) following a downward revision to earnings. In particular, Muhibbah's recovery path continues to be uneven amid a challenging backdrop although order flows have improved of late. We also believe that the group needs to start delivering on new M&A or value-accretive investments to justify its cash call earlier this year.

Analyst

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Exhibit 1: Financial results

YE 31 Dec (RM m)	1H21	1H22	% YoY	1Q22	2Q22	% QoQ
Turnover	**507.5**	**371.6**	***(26.8)***	**175.2**	**196.4**	***12.1***
EBIT	**35.4**	**12.3**	***(65.1)***	**14.4**	**(2.0)**	***n/m***
Interest income	3.2	3.4		0.6	2.9	
Interest cost	(19.3)	(14.0)		(6.7)	(7.3)	
Pre-associates/JV profit	19.2	1.8		8.3	(6.5)	
Associates/JVs	(16.2)	(2.5)		(4.6)	2.1	
Pre-exceptionals profit	3.0	(0.7)		3.7	(4.4)	
Exceptionals	12.7	10.0		(2.3)	12.4	
Pretax Profit	**15.7**	**9.3**	***(40.8)***	**1.3**	**8.0**	***n/m***
Taxation	(5.8)	(4.5)		(1.7)	(2.9)	
Minorities	(3.5)	(3.0)		0.8	(3.8)	
Net Profit	**6.5**	**1.8**	***(72.2)***	**0.5**	**1.3**	***186.1***
Core Net Profit	**(6.2)**	**(8.2)**	***n/m***	**2.8**	**(11.0)**	***n/m***
Core EPS (sen)	(1.3)	(1.4)		0.6	(1.7)	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	2.29	1.72		2.28	1.72	
EBIT margin (%)	7.0	3.3		8.2	(1.0)	
Pretax margin (%)	3.1	2.5		0.8	4.0	
Effective tax (%)	36.7	48.7		123.8	36.0	
Breakdown (RM m)						
Turnover						
Construction	226.0	124.6	*(44.9)*	79.5	45.1	*(43.3)*
Cranes	281.5	247.0	*(12.3)*	95.7	151.3	*58.1*
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	**507.5**	**371.6**	***(26.8)***	**175.2**	**196.4**	***12.1***
Pre-tax profit						
Construction	(2.0)	(5.9)	*n/m*	3.8	(9.7)	*n/m*
Cranes	31.9	19.6	*(38.5)*	2.7	17.0	*n/m*
Marine ship repair & shipbuilding	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Concessions	(14.3)	(4.4)	*n/m*	(5.1)	0.7	*n/m*
Manufacturing & trading	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Total	**15.7**	**9.3**	*(40.8)*	**1.3**	**8.0**	***n/m***
Pre-tax margin (%)						
Construction	(0.9)	(4.7)		4.7	(21.4)	
Cranes	11.3	7.9		2.8	11.2	
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	**3.1**	**2.5**		**0.8**	**4.0**	

Source: Company, KAF

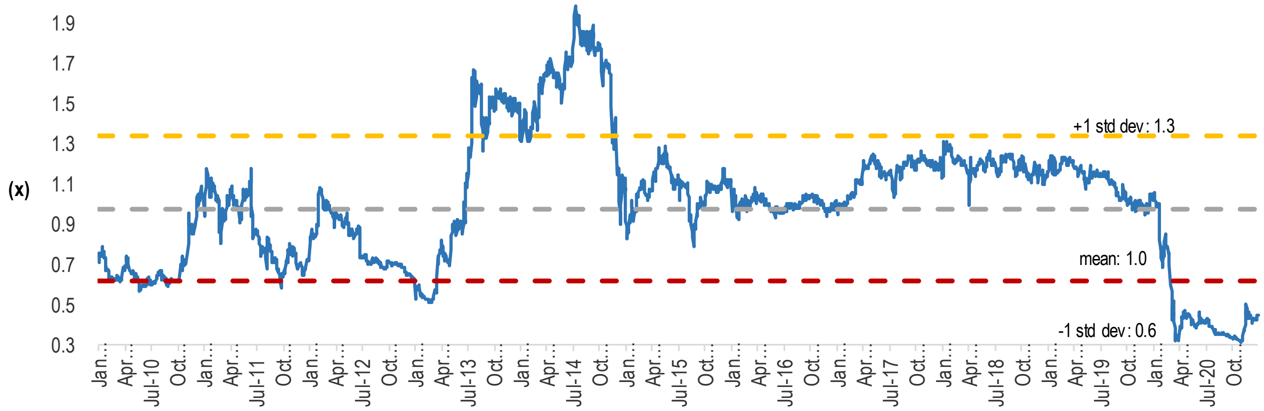
Exhibit 2: NAV calculations

Division	Value (RM) m	per share	Stake (%)	(% of NAV)	Method
Construction	98.2	0.13	various	15.6	7x ave FY22F construction profits
Cranes (Favelle Favco)	256.0	0.35	61.2	40.6	Market Value
Concessions: SCA	414.0	0.57	21.0	65.6	DCF @ 7%
Roadcare	63.6	0.09	21.0	10.1	DCF @ 6.5%
Kuantan Marine Hub	174.2	0.24	100.0	27.6	Market value @ RM8psf
Gross NAV	**1,006.1**				
Net cash/(debt)*	(562.0)	(0.77)		(89.1)	As at 31 Dec 2021
Assumed proceeds from rights issue & conversion of ESOS	186.9	0.26		29.6	ESOS - RM2.25; rights issue - RM0.50
Total NAV	**631.0**	**0.87**		**100.0**	
No of shares (m)	728.0				
NAV/share	**0.87**				
TP (less 45% discount)	**0.48**				
Upside (%)	9.6				
Discount to NAV (%)	**(49.8)**				
Implied Target PE (x)	**n/m**				

** includes bills payables*

Source: Company, Bloomberg, KAF

Exhibit 3: Historical P/BV



Source: Company, Bloomberg, KAF

Income Statement

FYE Dec (RMm)	2020	2021	2022F	2023F	2024F
Revenue	**1,199.6**	**1,004.9**	**920.1**	**1,100.9**	**1,306.5**
EBITDA	**110.9**	**127.1**	**129.9**	**158.7**	**190.5**
Depreciation/Amortisation	(79.2)	(76.0)	(93.9)	(98.5)	(103.2)
Operating income (EBIT)	31.7	51.1	36.1	60.2	87.3
Other income & associates	12.5	(30.2)	8.8	25.3	45.4
Net interest	(9.1)	(13.1)	(11.4)	(7.9)	(6.9)
Exceptional items	(91.3)	9.7	0.0	0.0	0.0
Pretax profit	**(56.2)**	**17.4**	**33.5**	**77.5**	**125.8**
Taxation	(27.9)	(15.7)	(13.0)	(19.9)	(26.5)
Minorities/pref dividends	(38.9)	(5.1)	(17.6)	(29.7)	(43.2)
Net profit	**(123.0)**	**(3.3)**	**2.9**	**27.9**	**56.1**
Core net profit	**(31.7)**	**(13.0)**	**2.9**	**27.9**	**56.1**

Balance Sheet

FYE Dec (RMm)	2020	2021	2022F	2023F	2024F
Fixed assets	1,052.3	1,028.0	1,042.1	1,051.9	1,057.3
Intangible assets	91.2	91.6	89.6	87.3	84.7
Other long-term assets	731.6	718.8	727.6	752.8	798.2
Total non-current assets	**1,875.1**	**1,838.3**	**1,859.2**	**1,892.0**	**1,940.2**
Cash & equivalent	621.4	441.3	511.2	454.9	447.1
Stock	328.0	308.5	85.7	113.6	134.5
Trade debtors	833.7	765.4	605.0	723.9	859.0
Other current assets	21.4	18.0	18.0	18.0	18.0
Total current assets	**1,804.5**	**1,533.2**	**1,219.9**	**1,310.4**	**1,458.7**
Trade creditors	1,378.3	1,062.6	666.7	772.4	914.8
Short-term borrowings	372.3	420.7	300.2	276.2	252.2
Other current liabilities	15.2	13.8	13.8	13.8	13.8
Total current liabilities	**1,765.8**	**1,497.1**	**980.8**	**1,062.5**	**1,180.9**
Long-term borrowings	161.4	130.9	124.7	108.7	92.7
Other long-term liabilities	81.2	81.3	81.3	81.3	81.3
Total long-term liabilities	**242.6**	**212.3**	**206.0**	**190.0**	**174.0**
Shareholders' funds	**1,086.7**	**1,102.3**	**1,314.9**	**1,342.8**	**1,393.7**
Minority interests	584.5	559.8	577.4	607.1	650.3

Cash flow Statement

FYE Dec (RMm)	2020	2021	2022F	2023F	2024F
Pretax profit	(56.2)	17.4	33.5	77.5	125.8
Depreciation/Amortisation	79.2	76.0	93.9	98.5	103.2
Net change in working capital	154.1	(228.0)	(12.7)	(41.1)	(13.7)
Others	38.3	247.3	(0.4)	(27.3)	(55.0)
Cash flow from operations	**215.4**	**112.7**	**114.2**	**107.6**	**160.3**
Capital expenditure	(70.1)	(41.1)	(105.0)	(105.0)	(105.0)
Net investments & sale of fixed assets	21.7	2.9	0.0	0.0	0.0
Others	(6.9)	(19.1)	7.5	7.7	7.0
Cash flow from investing	**(55.3)**	**(57.2)**	**(97.5)**	**(97.3)**	**(98.0)**
Debt raised/(repaid)	0.1	0.0	209.8	0.0	0.0
Equity raised/(repaid)	17.4	17.9	(126.7)	(40.0)	(40.0)
Dividends paid	(12.1)	0.0	0.0	0.0	(5.2)
Others	(123.2)	(262.3)	(29.9)	(26.6)	(25.0)
Cash flow from financing	**(117.8)**	**(244.5)**	**53.2**	**(66.6)**	**(70.1)**
Net cash flow	**42.3**	**(188.9)**	**70.0**	**(56.3)**	**(7.8)**
Net cash/(debt) b/f	**575.9**	**621.4**	**441.3**	**511.2**	**454.9**
Net cash/(debt) c/f	**621.4**	**441.3**	**511.2**	**454.9**	**447.1**

Key Ratios

FYE Dec	2020	2021	2022F	2023F	2024F
Revenue growth (%)	(22.0)	(16.2)	(8.4)	19.7	18.7
EBITDA growth (%)	(44.1)	14.6	2.2	22.1	20.1
Pretax margins (%)	(4.7)	1.7	3.6	7.0	9.6
Net profit margins (%)	(10.3)	(0.3)	0.3	2.5	4.3
Interest cover (x)	(6.2)	1.3	2.9	9.8	18.1
Effective tax rate (%)	(49.6)	90.0	38.8	25.7	21.1
Net dividend payout (%)	n/m	0.0	0.0	18.5	18.4
Debtors turnover (days)	254	278	240	240	240
Stock turnover (days)	126	146	45	50	50
Creditors turnover (days)	528	502	350	340	340

Source: Bloomberg, 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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