22 Nov 2022

Muhibbah Engineering

Quarterly improvements

Hold

Price
RM0.42

Target Price
RM0.45

We maintain our Hold recommendation on Muhibbah with a higher TP of RM0.45, (50% discount to NAV). The higher TP takes into account a better-than-expected 3Q22, with core profits improving quite significantly to RM12m (vs RM11 losses in the preceding quarter. However, further share price improvements are largely dependent on continued order flows, with orderbook levels largely unchanged at ~RM1.1b qoq.

Market Data

Bloomberg Code	MUHI MK
No. of shares (m)	728.0
Market cap (RMm)	305.7
52-week high/low (RM)	0.90 / 0.40
Avg daily turnover (RMm)	0.2
KLCI (pts)	1,448.0

Source: Bloomberg, KAF

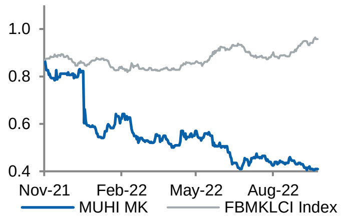
Major Shareholder (%)

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

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	(4.5)	(23.6)	(52.8)
Rel Market (%)	-	(18.0)	(50.3)



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)	8.8	27.9	56.1
Core EPS (Sen)	(6.0)	(2.4)	1.2	3.8	7.7
EPS growth (%)	n/m	n/m	n/m	n/m	101.3
DPS (Sen)	0.0	0.0	0.0	0.5	1.0
Core PE (x)	n/m	n/m	34.4	10.8	5.4
Div yield (%)	0.0	0.0	0.0	1.2	2.4
ROE (%)	(11.2)	(0.3)	0.1	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

3Q22: better than expected

For the reporting quarter ended September 2022, Muhibbah delivered a much better quarterly performance. Core profits was higher-than expectations, surging to RM12m against RM11m losses in the preceding quarter. It also made some provisions relating to expected credit losses for its infrastructure and crane units.

Topline surged 29% QoQ to RM253m on improvement in work activities. after progress at its crane manufacturing facilities were impacted by Covid-19 quarantine procedures in 1H22 and higher component/shipping costs due to the Russia-Ukraine conflict.

In tandem with this, the group's core pre-tax margins also improved to 6.8% vs -2.3% in 2Q22. On a 9M basis, core profits stood at RM3m, reversing the RM12m losses it incurred a year ago.

Cambodian air traffic bounces off lows

For 9M22, total air traffic for 21%-owned SCA jumped to 1.4m passengers, much higher as compared to only 182k a year earlier. This was to be expected, in our view given the phased re-opening of global air traffic movements.

Notably, we estimate that SCA has managed to chalked up small profits over the last two quarter. This led to a sharp reversal of 9M22 associate losses at RM2m (9M21: -RM21m).

On the contrary, we opine that occasional lockdowns in China are likely to tamp a stronger turnaround in Cambodia's air traffic, which is still way below the pre-Covid 19 levels.

Outlook

Due to the better-than-expected 3Q22 results, we raise our TP to RM0.45 (from RM0.43) on unchanged 50% discount to NAV. We have also assigned a value to the Kuantan Maritime Hub landbank (from RM6psf to RM7psf) and updated the market value for Favelle Favco.

However, further share price improvements are largely dependent on continued order flows, with orderbook levels largely unchanged at ~RM1.1b qoq.

The group's tenderbook is about RM2.3b currently (local vs overseas – 57:43). Among others, it is hopeful of seeing positive outcomes for one or two bids involving oil & gas as well as infrastructure works by year-end.

Besides, there has yet to be any tangible updates on any new investment or M&A proposals.

Analyst

Mak Hoy Ken
(603) 2171 0508
mak.hoyken@kaf.com.my

Exhibit 1: Financial performance

YE 31 Dec (RM m)	9M21	9M22	% YoY	2Q22	3Q22	% QoQ
Turnover	**701.5**	**624.7**	***(11.0)***	**196.4**	**253.0**	***28.8***
EBIT	**41.5**	**32.8**	***(20.9)***	**(2.0)**	**20.4**	***n/m***
Interest income	3.7	4.4		2.9	1.0	
Interest cost	(25.2)	(18.8)		(7.3)	(4.9)	
Pre-associates/JV profit	20.0	18.3		(6.5)	16.5	
Associates/JVs	(21.2)	(1.8)		2.1	0.8	
Pre-exceptionals profit	(1.2)	16.6		(4.4)	17.3	
Exceptionals	19.4	(2.8)		12.4	(12.8)	
Pretax Profit	**18.2**	**13.8**	***(24.3)***	**8.0**	**4.5**	***(43.8)***
Taxation	(9.9)	(6.3)		(2.9)	(1.8)	
Minorities	(0.5)	(6.9)		(3.8)	(4.0)	
Net Profit	**7.8**	**0.5**	***(93.2)***	**1.3**	**(1.3)**	***n/m***
Core Net Profit	**(11.7)**	**3.3**	***n/m***	**(11.0)**	**11.5**	***n/m***
Core EPS (sen)	(2.4)	0.5		(1.7)	1.6	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	2.30	1.74		1.72	1.74	
EBIT margin (%)	5.9	5.2		(1.0)	8.1	
Pretax margin (%)	2.6	2.2		4.0	1.8	
Effective tax (%)	54.3	45.7		36.0	39.6	
Breakdown (RM m)						
Turnover						
Construction	284.3	230.7	*(18.9)*	45.1	106.1	*135.4*
Cranes	417.2	394.0	*(5.6)*	151.3	146.9	*(2.9)*
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	**701.5**	**624.7**	***(11.0)***	**196.4**	**253.0**	***28.8***
Pre-tax profit						
Construction	(10.1)	(11.5)	*n/m*	(9.7)	(5.6)	*n/m*
Cranes	47.0	29.0	*(38.2)*	17.0	9.4	*(44.5)*
Marine ship repair & shipbuilding	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Concessions	(18.8)	(3.8)	*n/m*	0.7	0.7	*2.3*
Manufacturing & trading	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Total	**18.2**	**13.8**	***(24.3)***	**8.0**	**4.5**	***(43.8)***
Pre-tax margin (%)						
Construction	(3.5)	(5.0)		(21.4)	(5.3)	
Cranes	11.3	7.4		11.2	6.4	
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	**2.6**	**2.2**		**4.0**	**1.8**	

Source: Company, KAF

Exhibit 2: NAV calculations

Division	Value (RM)		Stake	(% of NAV)	Method
	m	per share	(%)		
Construction	162.9	0.22	various	25.0	7x ave FY22F construction profits
Cranes (Favelle Favco)	235.8	0.32	61.2	36.1	Market Value
Concessions: SCA	413.0	0.57	21.0	63.3	DCF @ 7%
Roadcare	63.6	0.09	21.0	9.7	DCF @ 6.5%
Kuantan Marine Hub	152.5	0.21	100.0	23.4	Market value @ RM7psf
Gross NAV	**1,027.7**				
Net cash/(debt)*	(562.0)	(0.77)		(86.1)	As at 31 Dec 2021
Assumed proceeds from rights issue & conversion of ESOS	186.9	0.26		28.6	ESOS - RM2.25; rights issue - RM0.50
Total NAV	**652.7**	**0.90**		**100.0**	
No of shares (m)	728.0				
NAV/share	**0.90**				
TP (less 50% discount)	**0.45**				
Upside (%)	8.0				
Discount to NAV (%)	**(53.7)**				
Implied Target PE (x)	**n/m**				

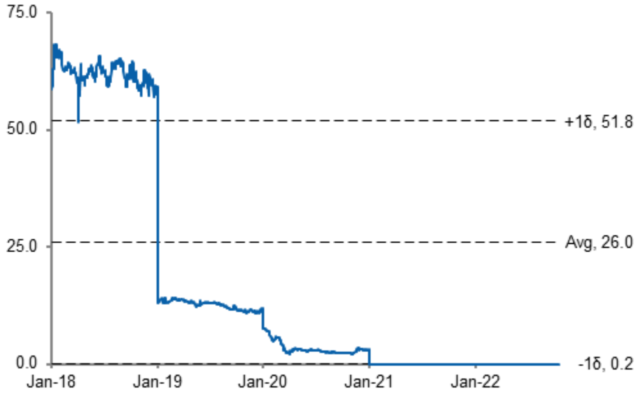
** includes bills payables*

Source: Company, Bloomberg, KAF

Exhibit 3: PB Band chart

Source: Company, KAF, Bloomberg

Exhibit 4: PE Band chart



Source: Company, KAF, Bloomberg

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**	**140.0**	**158.7**	**190.5**
Depreciation/Amortisation	(79.2)	(76.0)	(93.9)	(98.5)	(103.2)
Operating income (EBIT)	31.7	51.1	46.2	60.2	87.3
Other income & associates	12.5	(30.2)	0.1	25.3	45.4
Net interest	(9.1)	(13.1)	(11.4)	(7.9)	(6.9)
Exceptional items	(91.3)	9.7	(7.2)	0.0	0.0
Pretax profit	**(56.2)**	**17.4**	**27.7**	**77.5**	**125.8**
Taxation	(27.9)	(15.7)	(12.2)	(19.9)	(26.6)
Minorities/pref dividends	(38.9)	(5.1)	(13.9)	(29.7)	(43.2)
Net profit	**(123.0)**	**(3.3)**	**1.6**	**27.9**	**56.1**
Core net profit	**(31.7)**	**(13.0)**	**8.8**	**27.9**	**56.1**

Balance Sheet

FYE Dec (RMm)	2020	2021	2022F	2023F	2024F
Fixed assets	1,052.1	1,027.8	1,041.9	1,051.7	1,057.1
Intangible assets	91.2	91.6	89.6	87.3	84.7
Other long-term assets	731.6	718.8	718.9	744.1	789.5
Total non-current assets	**1,874.9**	**1,838.1**	**1,850.3**	**1,883.1**	**1,931.4**
Cash & equivalent	621.4	441.3	507.5	458.6	450.8
Stock	328.0	308.5	84.6	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**	**1,215.1**	**1,314.1**	**1,462.4**
Trade creditors	1,378.3	1,062.6	658.2	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**	**972.3**	**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**	**1,313.6**	**1,341.5**	**1,392.4**
Minority interests	584.5	559.8	573.7	603.4	646.6

Cash flow Statement

FYE Dec (RMm)	2020	2021	2022F	2023F	2024F
Pretax profit	(56.2)	17.4	27.7	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)	(20.1)	(33.7)	(13.7)
Others	38.3	247.3	9.1	(27.3)	(55.1)
Cash flow from operations	**215.4**	**112.7**	**110.5**	**115.0**	**160.2**
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	7.1
Cash flow from investing	**(55.3)**	**(57.2)**	**(97.5)**	**(97.3)**	**(97.9)**
Debt raised/(repaid)	17.4	17.9	(126.7)	(40.0)	(40.0)
Equity raised/(repaid)	0.1	0.0	209.8	0.0	0.0
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)**	**66.2**	**(48.9)**	**(7.8)**
Net cash/(debt) b/f	**575.9**	**621.4**	**441.3**	**507.5**	**458.6**
Net cash/(debt) c/f	**621.4**	**441.3**	**507.5**	**458.6**	**450.8**

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	10.2	13.3	20.1
Pretax margins (%)	(4.7)	1.7	3.0	7.0	9.6
Net profit margins (%)	(10.3)	(0.3)	0.2	2.5	4.3
Interest cover (x)	(6.2)	1.3	2.4	9.8	18.3
Effective tax rate (%)	(49.6)	90.0	44.1	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

Dato' Ahmad Bin Kadis
Managing Director
KAF Equities Sdn Bhd (Reg No. 198501002182)