24 Feb 2023

Muhibbah Engineering

Upside to airport recovery

Buy

Price
RM0.68

Target Price
RM0.80

Market Data

Bloomberg Code	MUHI MK
No. of shares (m)	728.0
Market cap (RMm)	494.4
52-week high/low (RM)	0.84 / 0.40
Avg daily turnover (RMm)	0.3
KLCI (pts)	1,457.7

Source: Bloomberg, KAF

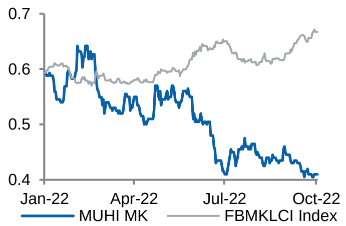
Major Shareholder (%)

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

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	11.1	(3.8)	(38.4)
Rel Market (%)	10.0	(4.0)	(38.5)



Source: Bloomberg, KAF

We maintain our Buy rating on Muhibbah with an unchanged TP of RM0.80. With January traffic already making up ~11% of our FY23F forecast (+14% MoM), we expect significant upside to Muhibbah's Cambodian airports as they receive more Chinese travelers. This is on the back of a resurgence in order flows; the company has already secured three new contracts worth a combined RM611m within just three months.

Financial Highlights

FYE Dec	2021	2022	2023F	2024F	2025F
Revenue (RMm)	1,003.7	885.8	1,089.6	1,224.9	1,312.3
Core net profit (RMm)	(13.1)	(11.8)	30.9	58.2	72.0
Core EPS (Sen)	(2.4)	(1.6)	4.3	8.0	9.9
EPS growth (%)	n/m	n/m	n/m	88.4	23.9
DPS (Sen)	0.0	0.0	0.5	1.0	1.5
Core PE (x)	n/m	n/m	16.0	8.5	6.9
Div yield (%)	0.0	0.0	0.7	1.5	2.2
ROE (%)	(0.3)	(1.5)	2.3	4.3	5.1
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
PBV(x)	0.4	0.3	0.4	0.4	0.3

Source: Company, KAF

FY22 results: Below expectations
Muhibbah slipped into core losses of RM22m (3Q22: +RM12m) in 4Q22, despite a small 3% revenue uplift QoQ. The main drag came from a higher share of MI for Favelle Favco (RM1.84, NC) and tax expenses. In addition, there could have been some prudent adjustments/impairments to its operations as the company completed the balance of its Middle East jobs during the quarter.

Yet, we are unperturbed. Coming off a cleaner slate, we project FY23F to recover with core profits of RM31m, rising to RM58m-RM72m over the next two years. This view is mainly anchored by a recovery in its Cambodian airport operations (under 21%-owned SCA).

Cambodian upside
Cambodia's air travel scene rebounded 8.8x last year to 2.4m passengers. Unsurprisingly, this was mainly because of a steep narrowing of losses in Cambodia. This helped the group to eke out a small share of associate profits (RM1.3m) against a RM30m loss a year earlier.

Notably, January traffic (+14%) already makes up ~11% of our FY23F passenger volumes of 3.8m, suggesting considerable upside as rising numbers of Chinese travellers visit the Kingdom again.

Order book momentum continues
About one and a half weeks ago, Muhibbah clinched an office and factory building contract from the Penang Development Corp (PDC). The RM173m contract is scheduled to be delivered within a 14-month timeframe. Inclusive of this latest win, it has already secured three new contracts worth a combined RM611m within a space of three months. This helped lift its construction order book to RM1b – and to RM1.6b group-wide (including RM575m from cranes/Intelligent Automation).

Buy
We continue to rate Muhibbah as a Buy given its leverage to China's reopening, with its US$-backed airport receipts acting as a shield against renewed strength in the dollar. Further sharp price action is possible in the coming months if the group can surprise with fresh orders from its crane and shipbuilding segments. As of 31 December, net gearing remained at a manageable level of 39% (inclusive of bills payable).

Analyst

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

Exhibit 1: NAV calculations

Division	Value (RM) m	Value (RM) per share	Stake (%)	(% of NAV)	Method
Construction	347.4	0.48	various	41.7	13x ave FY23F construction profits
Marine shipbuilding & repair	126.6	0.17	100.0	15.2	Estimated FY21 net book value
Cranes (Favelle Favco)	264.6	0.36	61.2	31.7	Market Value
Concessions: SCA	405.8	0.56	21.0	48.7	DCF @ 7%
Roadcare	54.6	0.08	21.0	6.6	DCF @ 6.5%
Kuantan Marine Hub	174.2	0.24	100.0	20.9	Market value @ RM8psf
Gross NAV	**1,373.2**				
Net cash/(debt)*	(539.9)	(0.74)		(64.8)	As at 31 Dec 2022
Total NAV	**833.3**	**1.15**		**100.0**	
No of shares (m)	726.2				
NAV/share	**1.15**				
TP (less 30% discount)	**0.80**				
Total return (%)	**18.1**				
Discount to NAV (%)	**(40.7)**				
Implied Target PE (x)	**(49.6)**				

** includes bills payables*

Source: Company, Bloomberg, KAF

Exhibit 2: Financial results

YE 31 Dec (RM m)	FY21	FY22	% YoY	3Q22	4Q22	% QoQ
Turnover	**1,003.7**	**885.8**	***(11.7)***	**253.0**	**261.1**	***3.2***
EBIT	**48.2**	**(7.5)**	***n/m***	**20.4**	**(40.3)**	***n/m***
Interest income	8.2	6.2		1.0	1.9	
Interest cost	(19.9)	19.2		(4.9)	38.1	
Pre-associates/JV profit	36.5	18.0		16.5	(0.3)	
Associates/JVs	(30.2)	1.3		0.8	3.1	
Pre-exceptionals profit	6.2	19.3		17.3	2.7	
Exceptionals	9.7	1.1		(12.8)	3.9	
Pretax Profit	**15.9**	**20.4**	***28.3***	**4.5**	**6.6**	***48.4***
Taxation	(13.4)	(16.6)		(1.8)	(10.3)	
Minorities	(5.9)	(21.7)		(4.0)	(14.8)	
Net Profit	**(3.4)**	**(17.8)**	***n/m***	**(1.3)**	**(18.4)**	***n/m***
Core Net Profit	**(13.1)**	**(19.0)**	***n/m***	**11.5**	**(22.3)**	***n/m***
Core EPS (sen)	(2.7)	(3.0)		1.6	#DIV/0!	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	2.28	1.80		1.74	1.80	
EBIT margin (%)	4.8	(0.8)		8.1	(15.4)	
Pretax margin (%)	1.6	2.3		1.8	2.5	
Effective tax (%)	84.3	81.1		39.6	154.5	
Breakdown (RM m)						
Turnover						
Construction	387.4	297.4	*(23.2)*	106.1	66.8	*(37.1)*
Cranes	616.3	588.3	*(4.5)*	146.9	194.3	*32.3*
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	**1,003.7**	**885.8**	***(11.7)***	**253.0**	**261.1**	***3.2***
Pre-tax profit						
Construction	(24.7)	(40.9)	*n/m*	(5.6)	(29.4)	*n/m*
Cranes	67.5	59.5	*(11.9)*	9.4	30.4	*223.3*
Marine ship repair & shipbuilding	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Concessions	(26.9)	1.8	*n/m*	0.7	5.6	*n/m*
Manufacturing & trading	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Total	**15.9**	**20.4**	***28.3***	**4.5**	**6.6**	***48.4***
Pre-tax margin (%)						
Construction	(6.4)	(13.7)		(5.3)	(44.0)	
Cranes	10.9	10.1		6.4	15.7	
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	**1.6**	**2.3**		**1.8**	**2.5**	

Source: Company, KAF

Income Statement

FYE Dec (RMm)	2021	2022	2023F	2024F	2025F
Revenue	**1,003.7**	**885.8**	**1,089.6**	**1,224.9**	**1,312.3**
EBITDA	**121.6**	**111.9**	**173.3**	**203.0**	**218.4**
Depreciation/Amortisation	(75.5)	(73.7)	(102.6)	(107.3)	(111.9)
Operating income (EBIT)	46.0	38.2	70.7	95.7	106.4
Other income & associates	(28.1)	1.3	27.0	40.8	52.2
Net interest	(11.8)	(13.0)	(13.7)	(14.1)	(12.0)
Exceptional items	9.7	(6.1)	0.0	0.0	0.0
Pretax profit	**15.9**	**20.4**	**83.9**	**122.5**	**146.6**
Taxation	(13.4)	(16.6)	(20.5)	(24.6)	(27.9)
Minorities/pref dividends	(5.9)	(21.7)	(32.5)	(39.7)	(46.6)
Net profit	**(3.4)**	**(17.8)**	**30.9**	**58.2**	**72.0**
Core net profit	**(13.1)**	**(11.8)**	**30.9**	**58.2**	**72.0**

Balance Sheet

FYE Dec (RMm)	2021	2022	2023F	2024F	2025F
Fixed assets	1,027.3	1,174.3	1,180.1	1,181.7	1,178.9
Intangible assets	93.7	108.7	106.2	103.4	100.3
Other long-term assets	721.2	751.1	778.0	818.8	871.0
Total non-current assets	**1,842.2**	**2,034.0**	**2,064.3**	**2,103.9**	**2,150.1**
Cash & equivalent	441.6	277.8	53.9	92.6	98.9
Stock	308.5	293.9	287.2	320.3	342.9
Trade debtors	754.3	736.8	626.9	671.2	719.1
Other current assets	18.5	22.2	22.2	22.2	22.2
Total current assets	**1,522.8**	**1,330.6**	**990.2**	**1,106.2**	**1,183.0**
Trade creditors	1,056.3	999.3	662.7	763.7	817.6
Short-term borrowings	410.0	277.9	242.3	215.3	190.3
Other current liabilities	11.8	8.5	8.5	8.5	8.5
Total current liabilities	**1,478.1**	**1,285.7**	**913.6**	**987.5**	**1,016.4**
Long-term borrowings	141.5	121.4	120.0	108.0	92.0
Other long-term liabilities	82.4	157.4	157.4	157.4	157.4
Total long-term liabilities	**223.9**	**278.8**	**277.4**	**265.4**	**249.4**
Shareholders' funds	**1,102.4**	**1,302.3**	**1,333.2**	**1,387.1**	**1,450.6**
Minority interests	560.6	497.8	530.4	570.1	616.7

Cash flow Statement

FYE Dec (RMm)	2021	2022	2023F	2024F	2025F
Pretax profit	15.9	20.4	83.9	122.5	146.6
Depreciation/Amortisation	75.5	73.7	102.6	107.3	111.9
Net change in working capital	(223.3)	11.8	(220.0)	23.7	(16.6)
Others	251.9	(15.9)	(25.8)	(43.4)	(60.1)
Cash flow from operations	**120.0**	**90.0**	**(59.1)**	**210.1**	**181.8**
Capital expenditure	(42.1)	(46.5)	(105.0)	(105.0)	(105.0)
Net investments & sale of fixed assets	3.6	13.7	0.0	0.0	0.0
Others	(16.4)	(54.4)	1.3	(0.5)	(0.1)
Cash flow from investing	**(54.9)**	**(87.3)**	**(103.7)**	**(105.5)**	**(105.1)**
Debt raised/(repaid)	0.0	119.9	0.0	0.0	0.0
Equity raised/(repaid)	17.7	(152.2)	(37.0)	(39.0)	(41.0)
Dividends paid	0.0	0.0	0.0	(4.3)	(8.5)
Others	(266.3)	(192.2)	(24.1)	(22.5)	(20.9)
Cash flow from financing	**(248.5)**	**(224.5)**	**(61.1)**	**(65.8)**	**(70.5)**
Net cash flow	**(183.4)**	**(221.9)**	**(223.9)**	**38.7**	**6.3**
Net cash/(debt) b/f	**621.4**	**441.6**	**277.8**	**53.9**	**92.6**
Net cash/(debt) c/f	**441.6**	**220.8**	**53.9**	**92.6**	**98.9**

Key Ratios

FYE Dec	2021	2022	2023F	2024F	2025F
Revenue growth (%)	(16.3)	(11.7)	23.0	12.4	7.1
EBITDA growth (%)	9.6	(8.0)	55.0	17.1	7.6
Pretax margins (%)	1.6	2.3	7.7	10.0	11.2
Net profit margins (%)	(0.3)	(2.0)	2.8	4.7	5.5
Interest cover (x)	1.4	1.6	6.1	8.7	12.2
Effective tax rate (%)	84.3	81.1	24.4	20.1	19.1
Net dividend payout (%)	0.0	0.0	13.8	14.7	17.8
Debtors turnover (days)	274	304	210	200	200
Stock turnover (days)	149	158	130	130	130
Creditors turnover (days)	509	536	300	310	310

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)