29 May 2023

Buy

Price
RM0.62

Target Price
RM0.80

Bloomberg code
MUHI MK

Equity | Malaysia | Construction

Flashnote

Muhibbah Engineering

Swings back to profits

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	14.5	7.7	6.2
Div yield (%)	0.0	0.0	0.8	1.6	2.4
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	0.3	0.3	0.3

Source: Company, KAF

- We maintain our Buy rating on Muhibbah at unchanged TP of RM0.80 (30% discount to NAV).
- Muhibbah reported higher sequential core profits of RM4m in 1Q23 - a vast improvement from core losses of RM22m in the preceding quarter.
- As expected, the encouraging turnaround in its Cambodian airport operations (under 21% owned SCA) helped boost its share of associate profits to RM10m from RM3m a quarter earlier. However, turnover slipped 22% to RM204m on lower billings from its cranes division.
- While its results only made up 13% of our full year forecast (consensus: 14%), we are keeping our FY23F estimates, as subsequent quarters are expected to play catch up.
- Apart from Cambodia, we expect progress recognition for its better-yielding jobs to gradually improve in the coming quarters.
- Muhibbah’s outstanding orderbook stood at RM1.7b as of 22 May 2023. This comprises infrastructure orders, which touched the RM1b mark again; and the balance RM700m - from its cranes division (including RM88m from Intelligent Automation Group).
- New contract momentum is ticking up, as the group successfully topped up RM85m worth of crane orders through 63%-owned subsidiary Favelle Favco (RM1.85, NC) earlier this month.
- Through three contracts, the tower cranes are to be delivered by 2Q24/1Q25.
- This was on the back of another RM611m worth of oil & gas and building jobs that was amassed over the last six months.
- Similarly, SCA registered total passenger traffic of 1.3m in 1Q23, or ~28% of the Cambodian government’s projections of 4.6m for this year (KAF: 3.8m). This was much higher than only 195k passengers for 1Q21 (+6.5x YoY).
- Moving forward, the imminent return of Chinese travellers should provide a significant kick to air passenger growth in the Kingdom, once transitional issues (e.g. visa approvals) are ironed out.
- Following completion of its funding raising exercise last year, Muhibbah’s net gearing position remains relatively comfortable at 43% as of 31 March 2023 (inclusive of bills payable worth RM446m), with positive operating cash flows of RM22m.

Analyst

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

Exhibit 1: Financial results

YE 31 Dec (RM m)	1Q22	1Q23	% YoY	4Q22	1Q23	% QoQ
Turnover	**175.2**	**203.7**	***16.3***	**261.1**	**203.7**	***(22.0)***
EBIT	**14.4**	**9.8**	***(31.9)***	**(40.3)**	**9.8**	***n/m***
Interest income	0.6	1.1		1.9	1.1	
Interest cost	(6.7)	(6.4)		38.1	(6.4)	
Pre-associates/JV profit	8.3	4.5		(0.3)	4.5	
Associates/JVs	(4.6)	10.2		3.1	10.2	
Pre-exceptionals profit	3.7	14.7		2.7	14.7	
Exceptionals	(2.3)	(1.9)		3.9	(1.9)	
Pretax Profit	**1.3**	**12.8**	***n/m***	**6.6**	**12.8**	***92.5***
Taxation	(1.7)	(4.3)		(10.3)	(4.3)	
Minorities	0.8	(6.5)		(14.8)	(6.5)	
Net Profit	**0.5**	**2.0**	***n/m***	**(18.4)**	**2.0**	***n/m***
Core Net Profit	**2.8**	**3.9**	***39.9***	**(22.3)**	**3.9**	***n/m***
Core EPS (sen)	0.6	0.5		(3.6)	0.5	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	2.28	1.76		1.80	1.8	
EBIT margin (%)	8.2	4.8		(15.4)	4.8	
Pretax margin (%)	0.8	6.3		2.5	6.3	
Effective tax (%)	123.8	33.4		154.5	33.4	
Breakdown (RM m)						
Turnover						
Construction	79.5	77.1	*(3.0)*	66.8	77.1	*15.4*
Cranes	95.7	126.6	*32.3*	194.3	126.6	*(34.8)*
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	**175.2**	**203.7**	***16.3***	**261.1**	**203.7**	***(22.0)***
Pre-tax profit						
Construction	3.8	(11.0)	*n/m*	(29.4)	(11.0)	*n/m*
Cranes	2.7	14.6	*n/m*	30.4	14.6	*(52.1)*
Marine ship repair & shipbuilding	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Concessions	(5.1)	9.2	*n/m*	5.6	9.2	*65.1*
Manufacturing & trading	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Total	**1.3**	**12.8**	***n/m***	**6.6**	**12.8**	***92.5***
Pre-tax margin (%)						
Construction	4.7	(14.3)		(44.0)	(14.3)	
Cranes	2.8	11.5		15.7	11.5	
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	**0.8**	**6.3**		**2.5**	**6.3**	

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

The information and opinions contained in this report have been compiled and arrived at based on information obtained from sources believed to be reliable and made in good faith. Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made by KAF Equities Sdn Bhd as to the accuracy, completeness or correctness of such information and opinion.

Any recommendations referred to herein may involve significant risk and may not be suitable for all investors, who are expected to make their own investment decisions at their own risk. Descriptions of any company or companies or their securities are not intended to be complete and this report is not, and should not, be construed as an offer, or a solicitation of an offer, to buy or sell any securities or any other financial instruments. KAF Equities Sdn Bhd, their Directors, Representatives or Officers may have positions or an interest in any of the securities or any other financial instruments mentioned in this report. All opinions are solely of the author, and subject to change without notice.

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