Equity | Malaysia | Construction

25 Aug 2023

Muhibbah Engineering

Airport recovery gaining speed

Buy

Price
RM0.75

Target Price
RM0.86

Market Data

Bloomberg Code	MUHI MK
No. of shares (m)	728.0
Market cap (RMm)	545.3
52-week high/low (RM)	0.81 / 0.40
Avg daily turnover (RMm)	0.3
KLCI (pts)	1,444.4

Source: Bloomberg, KAF

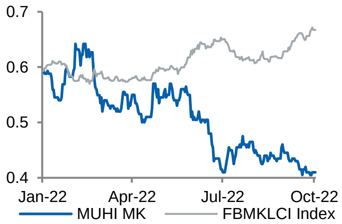
Major Shareholder (%)

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 a higher TP of RM0.86. While 1H results trailed expectations, associate contributions jumped significantly on a rebound in Cambodian air travel – 1H23 traffic of 2.5m passengers has already surpassed FY22's total by 4%. Orderbook recovery is also gaining traction – with RM783m worth of new wins already locked-in over the last nine 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)	(11.3)	53.9	61.2
Core EPS (Sen)	(2.4)	(1.6)	(1.6)	7.4	8.4
EPS growth (%)	n/m	n/m	n/m	n/m	13.6
DPS (Sen)	0.0	0.0	0.0	1.0	1.5
Core PE (x)	n/m	n/m	n/m	10.1	8.9
Div yield (%)	0.0	0.0	0.0	1.3	2.0
ROE (%)	(0.3)	(1.5)	(0.9)	4.1	4.5
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
PBV(x)	0.4	0.3	0.4	0.4	0.4

Source: Company, KAF

1H trails expectations
Muhibbah fell into the red again for the quarter ended 30 June 2023, when it reported core losses of RM12m despite a 59% QoQ surge in revenue. The main drag largely came from a slow billings rate for newly-secured work over the past few months, which are only at its infancy. It masked a strong turnaround from associate contributions (1H23: RM18m vs –RM3m in 1H22). In addition, the group provided for expected credit losses on certain jobs, which may be recovered in the subsequent quarters. This led to marginally lower losses of RM8m for 1H23 (-8% vs a year earlier).

Airport traffic surges ahead
During the first half of this year, the passenger traffic recorded by 21%-owned Cambodian associate, SCA rose to 2.5m. The robust turnaround, which has already eclipsed its total passenger traffic for FY22 (+4%), coincided with the return of Chinese travellers following border reopening in January.

The carryover momentum appears to be largely intact in 2H – July passenger traffic improved 10% over June (409k vs 370k). If it continues for the rest of the year, we believe that the final tally may surpass the Cambodian government's projections of 4.5m passengers for this year.

On the other hand, the new Siem Reap Angkor International Airport is slated to open its doors by October. According to TTG Asia, the passenger and cargo flights currently operating at the existing Siem Reap Airport (under SCA) will be transferred to the US$1.1b facility. Related to it, SCA is exploring various options as provided for in its existing concession agreement. Pending further updates, we maintain our projections for Siem Reap Airport, which is supposed to run until 2040.

Buy; TP raised to RM0.86
We raise our TP to RM0.86 on unchanged 30% discount to NAV. The key changes underpinning our higher TP are: (i) a 13% increase in Cambodian passenger traffic assumptions, to 4.3m; (ii) updating for the market value of Favelle Favco [FF] (RM1.81, NC), and book value for its shipbuilding unit; and (iii) downward adjustments to its construction and shipbuilding margins.

While 1H results came in below expectations, the pace of infrastructure works should also gradually improve in the quarters ahead.

Above, all, 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. Furthermore, orderbook recovery is also gaining traction – with RM783m worth of new wins already locked-in over the last nine months. This helped to bump up the group's outstanding orderbook to RM2b as of 18 August (construction: RM1.2b). More could come its way as the group is currently bidding for RM2.8b worth of new jobs (local to foreign split - 63:37), of which RM1.2b comes from FF.

Analyst

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

Exhibit 1: NAV calculations

Division	Value (RM) m	per share	Stake (%)	(% of NAV)	Method
Construction	231.6	0.32	various	26.1	13x ave FY23F construction profits
Marine shipbuilding & repair	255.8	0.35	100.0	28.8	FY22 net book value
Cranes (Favelle Favco)	270.6	0.37	63.7	30.5	Market Value
Concessions: SCA	440.7	0.61	21.0	49.6	DCF @ 7%
Roadcare	54.6	0.08	21.0	6.1	DCF @ 6.5%
Kuantan Marine Hub	174.2	0.24	100.0	19.6	Market value @ RM8psf
Gross NAV	**1,427.7**				
Net cash/(debt)*	(539.9)	(0.74)		(60.8)	As at 31 Dec 2022
Total NAV	**887.7**	**1.22**		**100.0**	
No of shares (m)	726.2				
NAV/share	**1.22**				
TP (less 30% discount)	**0.86**				
Total return (%)	**14.9**				
Discount to NAV (%)	**(38.6)**				

Source: Company, Bloomberg, KAF

Exhibit 2: Financial results

YE 31 Dec (RM m)	1H22	1H23	% YoY	1Q23	2Q23	% QoQ
Turnover	**371.6**	**527.7**	***42.0***	**203.7**	**324.0**	***59.0***
EBIT	**12.3**	**13.3**	***7.8***	**9.8**	**3.5**	***(64.1)***
Interest income	3.4	2.7		1.1	1.6	
Interest cost	(14.0)	(17.6)		(6.4)	(11.1)	
Pre-associates/JV profit	1.8	(1.5)		4.5	(6.0)	
Associates/JVs	(2.5)	18.2		10.2	8.0	
Pre-exceptionals profit	(0.7)	16.7		14.7	2.0	
Exceptionals	10.0	14.8		(1.9)	16.7	
Pretax Profit	**9.3**	**23.1**	***148.7***	**12.8**	**10.4**	***(19.0)***
Taxation	(4.5)	(9.2)		(4.3)	(4.9)	
Minorities	(3.0)	(6.8)		(6.5)	(0.3)	
Net Profit	**1.8**	**7.2**	***297.0***	**2.0**	**5.1**	***151.0***
Core Net Profit	**(8.2)**	**(7.6)**	***n/m***	**3.9**	**(11.5)**	***n/m***
Core EPS (sen)	(1.4)	(1.0)		0.5	(1.5)	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	1.72	1.80		1.76	1.80	
EBIT margin (%)	3.3	2.5		4.8	1.1	
Pretax margin (%)	2.5	4.4		6.3	3.2	
Effective tax (%)	48.7	39.7		33.4	47.4	
Breakdown (RM m)						
Turnover						
Construction	124.6	197.7	*58.7*	77.1	120.7	*56.5*
Cranes	247.0	314.8	*27.4*	126.6	188.2	*48.6*
Marine ship repair & shipbuilding	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Concessions	0.0	15.2	*n/m*	0.0	15.2	*n/m*
Manufacturing & trading	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Total	**371.6**	**527.7**	***42.0***	**203.7**	**324.0**	***59.0***
Pre-tax profit						
Construction	(5.9)	(29.6)	*n/m*	(11.0)	(18.6)	*n/m*
Cranes	19.6	34.0	*72.9*	14.6	19.4	*33.0*
Marine ship repair & shipbuilding	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Concessions	(4.4)	18.8	*(522.5)*	9.2	9.5	*3.3*
Manufacturing & trading	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Total	**9.3**	**23.1**	***148.7***	**12.8**	**10.4**	***(19.0)***
Pre-tax margin (%)						
Construction	(4.7)	(15.0)		(14.3)	(15.4)	
Cranes	7.9	10.8		11.5	10.3	
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	**2.5**	**4.4**		**6.3**	**3.2**	

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**	**116.2**	**191.5**	**195.4**
Depreciation/Amortisation	(75.5)	(73.7)	(102.6)	(107.3)	(111.9)
Operating income (EBIT)	46.0	38.2	13.6	84.2	83.5
Other income & associates	(28.1)	1.3	32.7	43.9	56.0
Net interest	(11.8)	(13.0)	(12.0)	(10.9)	(9.0)
Exceptional items	9.7	(6.1)	0.0	0.0	0.0
Pretax profit	**15.9**	**20.4**	**34.3**	**117.2**	**130.5**
Taxation	(13.4)	(16.6)	(13.9)	(23.2)	(23.9)
Minorities/pref dividends	(5.9)	(21.7)	(31.7)	(40.1)	(45.3)
Net profit	**(3.4)**	**(17.8)**	**(11.3)**	**53.9**	**61.2**
Core net profit	**(13.1)**	**(11.8)**	**(11.3)**	**53.9**	**61.2**

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	783.8	827.7	883.7
Total non-current assets	**1,842.2**	**2,034.0**	**2,070.1**	**2,112.7**	**2,162.9**
Cash & equivalent	441.6	277.8	227.0	233.0	256.8
Stock	308.5	293.9	281.6	323.9	350.1
Trade debtors	754.3	736.8	686.6	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**	**1,217.5**	**1,250.2**	**1,348.2**
Trade creditors	1,056.3	999.3	938.8	959.2	1,050.2
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**	**1,189.6**	**1,183.0**	**1,249.0**
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**	**1,291.0**	**1,344.9**	**1,397.6**
Minority interests	560.6	497.8	529.5	569.6	615.0

Cash flow Statement

FYE Dec (RMm)	2021	2022	2023F	2024F	2025F
Pretax profit	15.9	20.4	34.3	117.2	130.5
Depreciation/Amortisation	75.5	73.7	102.6	107.3	111.9
Net change in working capital	(223.3)	11.8	1.9	(6.4)	16.9
Others	251.9	(15.9)	(26.6)	(48.2)	(62.9)
Cash flow from operations	**120.0**	**90.0**	**112.3**	**169.9**	**196.4**
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)	3.0	2.6	2.9
Cash flow from investing	**(54.9)**	**(87.3)**	**(102.0)**	**(102.4)**	**(102.1)**
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	0.0	(8.5)
Others	(266.3)	(192.2)	(24.1)	(22.5)	(20.9)
Cash flow from financing	**(248.5)**	**(224.5)**	**(61.1)**	**(61.5)**	**(70.5)**
Net cash flow	**(183.4)**	**(221.9)**	**(50.7)**	**6.0**	**23.8**
Net cash/(debt) b/f	**621.4**	**441.6**	**277.8**	**227.0**	**233.0**
Net cash/(debt) c/f	**441.6**	**220.8**	**227.0**	**233.0**	**256.8**

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)	3.9	64.8	2.0
Pretax margins (%)	1.6	2.3	3.1	9.6	9.9
Net profit margins (%)	(0.3)	(2.0)	(1.0)	4.4	4.7
Interest cover (x)	1.4	1.6	2.9	10.7	14.4
Effective tax rate (%)	84.3	81.1	40.4	19.8	18.3
Net dividend payout (%)	0.0	0.0	0.0	15.8	20.9
Debtors turnover (days)	274	304	230	200	200
Stock turnover (days)	149	158	120	130	130
Creditors turnover (days)	509	536	400	385	390

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.

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