Shariah Compliant

Refinitiv ESG Combined Score: C

Malaysia

November 28, 2023 - 5:27 PM

ADD *(no change)*

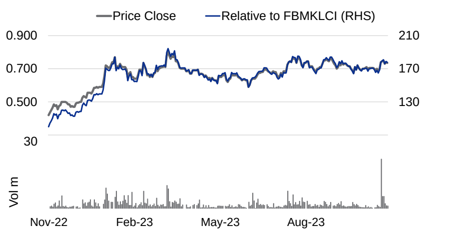
Consensus ratings*:	Buy 2	Hold 1	Sell 0

Current price:	RM0.735
Target price:	RM0.895
Previous target:	RM0.895
Up/downside:	21.8%
CGS-CIMB / Consensus:	6.0%
Reuters:	MUHI.KL
Bloomberg:	MUHI MK
Market cap:	US$114.2m
	RM534.7m
Average daily turnover:	US$0.28m
	RM1.29m
Current shares o/s	727.0m
Free float:	73.3%

**Source: Bloomberg*

Key financial forecasts

	Dec-23F	Dec-24F	Dec-25F
Net Profit (RMm)	23.46	49.40	63.18
Core EPS (RM)	0.032	0.068	0.087
Core EPS Growth		111%	28%
FD Core P/E (x)	22.77	10.82	8.46
Recurring ROE	1.79%	3.67%	4.55%
P/BV (x)	0.40	0.39	0.38
DPS (RM)	0.010	0.027	0.043
Dividend Yield	1.32%	3.70%	5.91%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.3	2.1	75
Relative (%)	3.9	1.8	77.6

Major shareholders	% held
Mac Ngan Boon	21.0
FIL Ltd & Pandanus Partners L.P.	5.7

Analyst(s)

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Muhibbah Engineering

Strong earnings recovery across all divisions

- 3Q23 earnings recovery across all divisions is encouraging; construction pretax profit back in the black.
- Orderbook of RM2.4bn has exceeded pre-Covid 19 levels; execution is key.
- Reiterate Add and TP of RM0.90.

3Q23 showed a marked improvement across all divisions

- Muhibbah Engineering (Muhibbah) reported 3Q23 headline net profit of RM6.1m. However, stripping out some one-offs, 3Q23 core net profit was RM7.7m (bringing 9M23 core net profit to RM7.9m (vs. core net loss of RM8m in 9M22). This was on the back of a 20% increase in 9M23 revenue to RM814.8m.
- We deem the results to be in line with our and Bloomberg consensus estimates as we expect a strong 4Q, driven by a seasonal strong quarter for its Cambodia airport concession and continued improvement in construction earnings.
- We are encouraged that all its divisions showed yoy and qoq improvement in 3Q23. In particular, its construction division made RM8.3m in pretax profit in 3Q23 (vs. loss before tax of RM1m in 2Q23 and loss before tax of RM11m in 3Q23). Pretax profit for its crane business in 3Q23 jumped 113% yoy and 3% qoq to RM19.9m.
- 3Q23 associate profit contribution of RM14m (vs. 2Q23 RM8m and 3Q22 of RM0.8m), which is largely from its Cambodia airport concession, showed a strong recovery. 9M23 clocked 3.7m passenger arrivals, a 162% yoy jump, but 3Q23 passenger arrivals were largely flat qoq at 1.2m. As a comparison, passenger arrivals in 2019 were 11.6m.

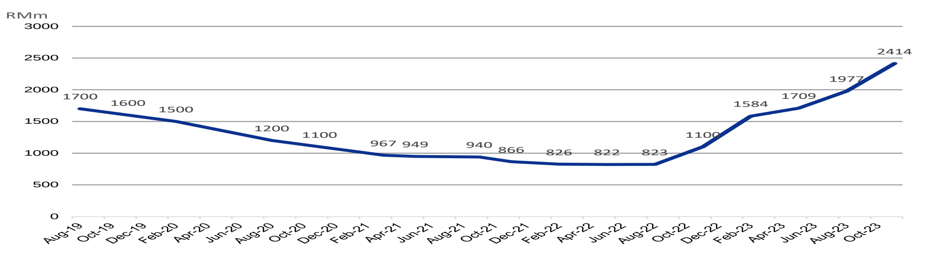
Needs to execute on peak orderbook

- Muhibbah won two contract wins amounting to RM479m in Nov 23, bringing YTD wins for construction to RM652m and its total construction orderbook to RM1.5bn as at Nov 23 (RM2.4bn including cranes). Contract flows have been picking up, and since 3Q22 with more Petronas driven projects and its orderbook of RM2.4bn, have exceeded Aug 2019 levels of RM1.7bn.
- While contract flows have been encouraging, the key to a sustainable re-rating of the stock price would be more solid execution and in turn earnings delivery, in our view.
- The new Siem Reap Airport, which was developed by a consortium of state-owned companies from China's Yunnan province under a 55-year build-operate-transfer deal, started operations in Oct 23. Hence, the previous airport concession which was run by the Vinci-Muhibbah JV ended in Oct 23 and compensation has been made. Muhibbah disclosed that this amounted to US$63m. We have accounted for this in our earnings forecasts and SOP valuation.

Reiterate Add and TP of RM0.90

- We reiterate our Add rating and TP of RM0.90 based on SOP. We continue to like Muhibbah as a distressed proxy for a recovery in tourist arrivals with its Cambodian airport concessions (Phnom Penh and Silhanoukville), while its marine expertise and Petronas fabrication licence also enables it to clinch more Petronas jobs. Key downside risks are patchy execution track record which may lead to earnings disappointment and higher raw material costs which may impact margins. Re-rating catalysts include better earnings delivery and stronger-than-expected recovery in tourist arrivals for its Cambodia airport concession.

Figure 1: Muhibbah's total orderbook has exceeded 2019 levels



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Results comparison yoy and qoq

	3QFY23 RMm	3QFY22 RMm	% change	2QFY23 RMm	% change
Revenue	287.0	253.0	13%	324.0	-11%
Operating expense	-260.7	-245.4	6%	-317.8	-18%
EBIT	26.4	7.6	245%	6.2	326%
Interest income	1.7	1.0	74%	1.6	5%
Finance cost	-7.1	-4.9	45%	-5.5	29%
Share of associate results	14.2	0.8	1770%	8.0	77%
Profit before taxation	35.2	4.5	686%	10.4	240%
Taxation	-8.2	-1.8	363%	-4.9	67%
Net income	27.0	2.7	899%	5.4	396%
Minority interest	-20.9	-4.0	425%	-0.3	6587%
Atributed to shareholders	6.1	-1.3	-579%	5.1	19%
Exceptional items	-1.6	-8.1	-81%	5.4	-129%
Core net profit	7.7	6.8	12%	-0.2	-3190%
Quarterly segmentals					
	3QFY23 RMm	3QFY22 RMm	% change	2QFY23 RMm	% change
Construction	8.3	-11.4	-1.7	-1.0	-9.0
Cranes	19.9	9.4	1.1	19.4	0.0
Concessions	14.4	0.7	20.6	9.6	0.5
Eliminations	-7.5	5.8	-2.3	-17.5	-0.6
Profit before taxation	35.2	4.5	6.9	10.4	2.4

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Peers comparison (Prices as at 28 Nov 23)

Company	Bbg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US$ m)	P/E (x) CY23F	P/E (x) CY24F	P/E (x) CY25F	2-year EPS CAGR (%)	P/BV (x) CY23F	P/BV (x) CY24F	Recurring ROE (%) CY23F	Dividend Yield (%) CY23F
Gamuda	GAM MK	Add	4.54	5.65	2,624	13.3	12.0	10.6	5.1%	1.10	1.03	8.5%	7.5%
IJM Corp Bhd	IJM MK	Add	1.86	2.15	1,393	18.5	15.2	13.3	17.5%	0.65	0.63	3.7%	2.0%
WCT Holdings	WCTHG MK	Add	0.48	0.71	145	9.1	7.5	6.7	4.7%	0.17	0.17	1.9%	1.6%
Sunway Construction Group Bhd	SCGB MK	Add	1.86	2.14	512	17.1	14.4	12.3	7.4%	2.98	2.70	18.4%	3.0%
Muhibbah Engineering	MUHI MK	Add	0.74	0.90	114	22.8	10.8	8.5	na	0.40	0.39	1.8%	1.3%
HSS Engineers	HSS MK	Add	1.01	1.21	107	18.8	13.8	11.7	30.7%	1.91	1.74	10.9%	1.6%
YTL Corporation	YTL MK	Add	1.55	1.91	3,631	14.8	12.8	13.2	69.9%	1.16	1.11	8.3%	3.2%
Malayan Cement Bhd	LMC MK	Add	4.10	5.55	1,148	28.1	20.8	17.2	51.9%	0.90	0.88	3.3%	1.1%
Sunway Bhd	SWB MK	Add	1.95	2.57	2,067	15.3	13.7	13.8	7.7%	0.74	0.70	5.1%	1.9%
Malaysia average						**16.1**	**12.0**	**10.3**	**8.7%**	**1.1**	**1.0**	**6.8%**	**3.1%**

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(RMm)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	**897**	**1,155**	**1,238**	**1,281**
Gross Profit	**184**	**191**	**235**	**243**
Operating EBITDA	**116**	**107**	**146**	**150**
Depreciation And Amortisation	-73	-87	-88	-90
Operating EBIT	**43**	**20**	**58**	**61**
Financial Income/(Expense)	-0	2	0	-1
Pretax Income/(Loss) from Assoc.	-1	23	41	62
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	**42**	**45**	**99**	**121**
Exceptional Items	-18	0	0	0
Pre-tax Profit	**24**	**45**	**99**	**121**
Taxation	-19	-6	-15	-15
Exceptional Income - post-tax				
Profit After Tax	**6**	**39**	**84**	**106**
Minority Interests	-24	-16	-35	-42
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**-18**	**23**	**49**	**63**
Recurring Net Profit	-14	23	49	63
Fully Diluted Recurring Net Profit	**-14**	**23**	**49**	**63**

Balance Sheet

(RMm)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	298	246	312	398
Total Debtors	737	918	984	1,018
Inventories	294	317	330	341
Total Other Current Assets	22	22	22	22
Total Current Assets	**1,351**	**1,503**	**1,648**	**1,779**
Fixed Assets	1,174	1,119	1,062	1,003
Total Investments	722	744	783	844
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	138	138	138	138
Total Non-current Assets	**2,034**	**2,000**	**1,982**	**1,984**
Short-term Debt	280	305	330	355
Current Portion of Long-Term Debt				
Total Creditors	581	634	659	682
Other Current Liabilities	446	446	446	446
Total Current Liabilities	**1,306**	**1,385**	**1,435**	**1,483**
Total Long-term Debt	110	110	110	110
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	169	169	169	169
Total Non-current Liabilities	**279**	**279**	**279**	**279**
Total Provisions	0	0	0	0
Total Liabilities	**1,585**	**1,663**	**1,714**	**1,761**
Shareholders' Equity	1,302	1,326	1,368	1,412
Minority Interests	498	514	548	591
Total Equity	**1,800**	**1,839**	**1,916**	**2,002**

Cash Flow

(RMm)	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	116.4	107.4	146.5	150.3
Cash Flow from Invt. & Assoc.	1.2	(22.8)	(41.0)	(61.6)
Change In Working Capital	13.0	(150.8)	(53.2)	(22.6)
(Incr)/Decr in Total Provisions	2.3	18.1	20.5	22.6
Other Non-Cash (Income)/Expense	(38.5)	4.7	20.6	39.0
Other Operating Cashflow	71.6	0.0	0.0	0.0
Net Interest (Paid)/Received	(0.3)	1.9	0.1	(1.4)
Tax Paid	(18.6)	(5.8)	(15.1)	(15.4)
Cashflow From Operations	**147.0**	**(47.3)**	**78.2**	**110.9**
Capex	(219.5)	(30.0)	(30.0)	(30.0)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0
Other Investing Cashflow	132.2	0.0	0.0	0.0
Cash Flow From Investing	**(87.3)**	**(30.0)**	**(30.0)**	**(30.0)**
Debt Raised/(repaid)	(204.8)	25.0	25.0	25.0
Proceeds From Issue Of Shares	119.9	0.0	0.0	0.0
Shares Repurchased				
Dividends Paid	(141.2)	0.0	(7.0)	(19.8)
Preferred Dividends				
Other Financing Cashflow	14.4	0.0	0.0	0.0
Cash Flow From Financing	**(211.8)**	**25.0**	**18.0**	**5.2**
Total Cash Generated	(152.1)	(52.3)	66.2	86.2
Free Cashflow To Equity	**(145.1)**	**(52.3)**	**73.2**	**105.9**
Free Cashflow To Firm	**79.5**	**(59.2)**	**68.7**	**103.5**

Key Ratios

	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	(10.6%)	28.8%	7.2%	3.5%
Operating EBITDA Growth	(2.8%)	(7.7%)	36.4%	2.6%
Operating EBITDA Margin	13.0%	9.3%	11.8%	11.7%
Net Cash Per Share (RM)	-0.12	-0.23	-0.17	-0.09
BVPS (RM)	1.79	1.82	1.88	1.94
Gross Interest Cover	2.19	1.12	2.84	2.69
Effective Tax Rate	76.5%	12.8%	15.3%	12.8%
Net Dividend Payout Ratio	NA	30.0%	40.0%	50.0%
Accounts Receivables Days	305.7	261.4	281.1	285.2
Inventory Days	154.3	115.6	118.0	118.0
Accounts Payables Days	305.2	229.9	236.1	236.0
ROIC (%)	3.73%	1.51%	4.06%	4.25%
ROCE (%)	2.85%	1.81%	3.42%	3.40%
Return On Average Assets	0.70%	1.08%	2.36%	2.89%

12-mth Fwd FD P/E (x) - Muhibbah Engineering

Key Drivers

	Dec-22A	Dec-23F	Dec-24F	Dec-25F
New orders for construction	N/A	300.0	400.0	500.0
New orders for cranes	N/A	400.0	400.0	400.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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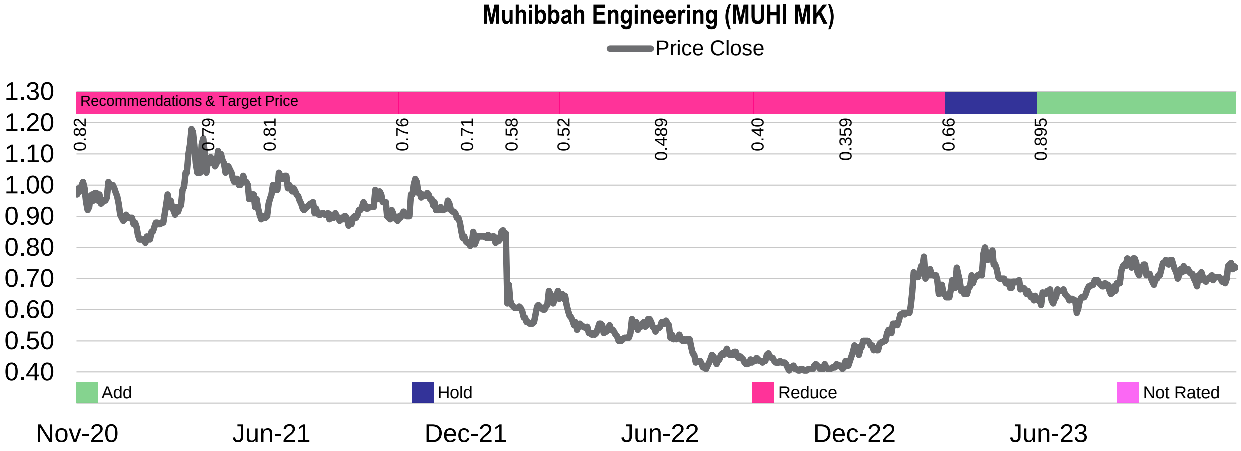
Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2023 634 companies under coverage for quarter ended on 30 September 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework

Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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