Equity | Malaysia | Construction

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Muhibbah Engineering

Cambodian traffic surges despite Siem Reap exit

Buy

Price
RM0.74

Target Price
RM0.86

We maintain our Buy rating on Muhibbah with an unchanged TP of RM0.86. Its 9M23 results were above expectations, with core losses narrowing substantially to –RM1m. This was largely down to a strong recovery in Cambodian air traffic, which grew 2.6x YoY over the 9M23 period. Meanwhile, 21%-owned SCA received compensation worth US$63m, after handing over its management rights for Siem Reap Airport last month.

Market Data

Bloomberg Code	MUHI MK
No. of shares (m)	727.0
Market cap (RMm)	534.3
52-week high/low (RM)	0.81 / 0.40
Avg daily turnover (RMm)	0.3
KLCI (pts)	1,447.3

Source: Bloomberg, KAF

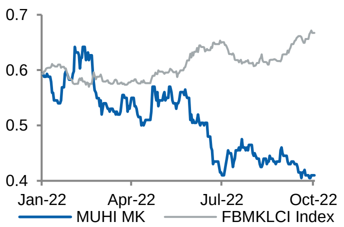
Major Shareholder (%)

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

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)	3.3	48.8	55.8
Core EPS (Sen)	(2.4)	(1.6)	0.5	6.7	7.7
EPS growth (%)	n/m	n/m	n/m	n/m	14.5
DPS (Sen)	0.0	0.0	0.1	1.5	2.0
Core PE (x)	n/m	n/m	n/m	10.9	9.6
Div yield (%)	0.0	0.0	0.1	2.0	2.7
ROE (%)	(0.3)	(1.5)	0.3	3.7	4.1
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

9M23 above expectations

Despite an 11% QoQ contraction in its topline, Muhibbah reported 3Q23 core profits of RM7m against core losses of RM12m in the preceding quarter. As a result, we deem its 9M23 results to be above expectations, with core losses narrowing substantially to -RM1m from +RM3m a year earlier.

The much-improved quarter was largely driven by a big jump in associate contributions (from RM8m in 2Q23 to RM14m in 3Q23), which was spurred by a strong recovery in its Cambodian airport operations (under 21%-owned SCA). Over the last 12 months, the group has also successfully replenished its orderbook with RM1.3b worth of infrastructure and oil & gas projects.

Strong traffic recovery despite Siem Reap exit

During the quarter under review, Muhibbah disclosed that SCA has handed-over its operational rights in Siem Reap to the new Siem Reap-Angkor International Airport, which commenced operations on 16 October. In return, SCA received cash compensation worth US$63m. Based on its effective 21% stake, we estimate Muhibbah's share of be worth RMUS$13m (~RM62m).

Based on our calculations, Siem Reap Airport accounts for up to one-fifth of SCA's passenger traffic. Nevertheless, apart from the cash compensation, the robust recovery at Phnom Penh Airport would help to negate any passenger shortfall from Siem Reap Airport going forward.

To be sure, 9M23 Cambodian passenger traffic surged 2.6x YoY to 3.7m, accounting for 86% of our previous projections for FY23. The carryover momentum continued last month; we estimate the 10M23 passenger traffic for Phnom Penh Airport to be ~87% of our previous full-year forecast. Accordingly, we raise our total Cambodian passenger traffic forecast for this year by 7% to 4.6m.

Analyst

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Buy; TP kept at RM0.86

We maintain our Buy call and TP of RM0.86, which is pegged at a 30% discount to NAV. We continue to like Muhibbah as a play on rising Chinese tourist arrivals into Cambodia. Besides, we expect sequential earnings momentum to gather pace in the quarters ahead, as new project wins from its revitalized orderbook begin to filter through.

As of 22 November, Muhibbah's total orderbook stood at RM2.4b, with infrastructure jobs making up RM1.5b or 64%. Total tenders on hand is estimated at RM2.2b (local to overseas split – 62:38)

Reflecting its improving fundamentals, Muhibbah's net gearing (including bills payable) has also improved to 35% as of 30 September vs 42% in FY22. This is supported by a near three-fold jump in operating cash flows to RM138m from a year earlier. Valuation-wise, the stock is trading at only 0.4x its BV – a tad above -1sd vs mean.

Exhibit 1: NAV calculations

Division	Value (RM)		Stake	(% of NAV)	Method
	m	per share	(%)		
Construction	223.2	0.31	various	25.1	13x ave FY23F construction profits
Marine shipbuilding & repair	255.8	0.35	100.0	28.8	FY22 net book value
Cranes (Favelle Favco)	261.7	0.36	63.7	29.5	Market Value
Concessions: SCA	458.8	0.63	21.0	51.6	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	**1,428.4**				
Net cash/(debt)*	(539.9)	(0.74)		(60.8)	As at 31 Dec 2022
Total NAV	**888.4**	**1.22**		**100.0**	
No of shares (m)	726.2				
NAV/share	**1.22**				
TP (less 30% discount)	**0.86**				
Total return (%)	**16.5**				
Discount to NAV (%)	**(39.9)**				
Implied Target PE (x)	**n/m**				

** includes bills payables*

Source: Company, Bloomberg, KAF

Exhibit 2: Financial results

YE 31 Dec (RM m)	9M22	9M23	% YoY	2Q23	3Q23	% QoQ
Turnover	**624.7**	**814.8**	***30.4***	**324.0**	**287.0**	***(11.4)***
EBIT	**32.8**	**4.1**	***(87.6)***	**3.5**	**(9.2)**	***n/m***
Interest income	4.4	4.4		1.6	1.7	
Interest cost	(18.8)	(24.2)		(11.1)	(6.6)	
Pre-associates/JV profit	18.3	(15.7)		(6.0)	(14.2)	
Associates/JVs	(1.8)	32.4		8.0	14.2	
Pre-exceptionals profit	16.6	16.7		2.0	0.0	
Exceptionals	(2.8)	14.1		16.7	(0.6)	
Pretax Profit	**13.8**	**58.3**	***n/m***	**10.4**	**35.2**	***239.8***
Taxation	(6.3)	(17.4)		(4.9)	(8.2)	
Minorities	(6.9)	(27.6)		(0.3)	(20.9)	
Net Profit	**0.5**	**13.3**	***n/m***	**5.1**	**6.1**	***19.2***
Core Net Profit	**3.3**	**(0.9)**	***n/m***	**(11.5)**	**6.7**	***n/m***
Core EPS (sen)	0.5	(0.1)		(1.5)	0.9	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	1.74	1.82		1.80	1.82	
EBIT margin (%)	5.2	0.5		1.1	(3.2)	
Pretax margin (%)	2.2	7.2		3.2	12.3	
Effective tax (%)	45.7	29.8		47.4	23.3	
Breakdown (RM m)						
Turnover						
Construction	230.7	344.7	*49.4*	135.8	131.8	*(3.0)*
Cranes	394.0	470.0	*19.3*	188.2	155.2	*(17.5)*
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	**624.7**	**814.8**	***30.4***	**324.0**	**287.0**	***(11.4)***
Pre-tax profit						
Construction	(11.5)	(28.8)	*n/m*	(18.6)	0.8	*n/m*
Cranes	29.0	53.9	*85.6*	19.4	19.9	*2.9*
Marine ship repair & shipbuilding	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Concessions	(3.8)	33.2	*n/m*	9.5	14.5	*51.7*
Manufacturing & trading	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Total	**13.8**	**58.3**	***n/m***	**10.4**	**35.2**	***239.8***
Pre-tax margin (%)						
Construction	(5.0)	(8.4)		(13.7)	0.6	
Cranes	7.4	11.5		10.3	12.9	
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	**2.2**	**7.2**		**3.2**	**12.3**	

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**	**127.2**	**184.2**	**190.8**
Depreciation/Amortisation	(75.5)	(73.7)	(102.6)	(107.3)	(111.9)
Operating income (EBIT)	46.0	38.2	24.6	76.9	78.9
Other income & associates	(28.1)	1.3	39.9	45.7	54.0
Net interest	(11.8)	(13.0)	(12.0)	(10.8)	(9.0)
Exceptional items	9.7	(6.1)	0.0	0.0	0.0
Pretax profit	**15.9**	**20.4**	**52.5**	**111.8**	**123.9**
Taxation	(13.4)	(16.6)	(15.0)	(22.5)	(23.5)
Minorities/pref dividends	(5.9)	(21.7)	(34.2)	(40.5)	(44.6)
Net profit	**(3.4)**	**(17.8)**	**3.3**	**48.8**	**55.8**
Core net profit	**(13.1)**	**(11.8)**	**3.3**	**48.8**	**55.8**

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	790.9	836.6	890.7
Total non-current assets	**1,842.2**	**2,034.0**	**2,077.2**	**2,121.7**	**2,169.8**
Cash & equivalent	441.6	277.8	229.5	240.1	253.9
Stock	308.5	293.9	278.4	326.2	351.5
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**	**1,216.8**	**1,259.6**	**1,346.7**
Trade creditors	1,056.3	999.3	928.1	966.0	1,054.5
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**	**1,178.9**	**1,189.8**	**1,253.3**
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**	**1,305.7**	**1,353.6**	**1,396.6**
Minority interests	560.6	497.8	532.0	572.4	617.0

Cash flow Statement

FYE Dec (RMm)	2021	2022	2023F	2024F	2025F
Pretax profit	15.9	20.4	52.5	111.8	123.9
Depreciation/Amortisation	75.5	73.7	102.6	107.3	111.9
Net change in working capital	(223.3)	11.8	(5.5)	5.6	15.3
Others	251.9	(15.9)	(34.9)	(49.4)	(60.5)
Cash flow from operations	**120.0**	**90.0**	**114.7**	**175.2**	**190.6**
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)	3.1	2.7	2.9
Cash flow from investing	**(54.9)**	**(87.3)**	**(101.9)**	**(102.3)**	**(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	(0.9)	(12.8)
Others	(266.3)	(192.2)	(24.1)	(22.5)	(20.9)
Cash flow from financing	**(248.5)**	**(224.5)**	**(61.1)**	**(62.4)**	**(74.7)**
Net cash flow	**(183.4)**	**(221.9)**	**(48.2)**	**10.5**	**13.8**
Net cash/(debt) b/f	**621.4**	**441.6**	**277.8**	**229.5**	**240.1**
Net cash/(debt) c/f	**441.6**	**220.8**	**229.5**	**240.1**	**253.9**

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)	13.8	44.7	3.6
Pretax margins (%)	1.6	2.3	4.8	9.1	9.4
Net profit margins (%)	(0.3)	(2.0)	0.3	4.0	4.3
Interest cover (x)	1.4	1.6	4.4	10.3	13.8
Effective tax rate (%)	84.3	81.1	28.5	20.2	18.9
Net dividend payout (%)	0.0	0.0	25.5	26.2	30.5
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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