27 Feb 2024

Muhibbah Engineering

4Q23 earnings beat; stronger year ahead

Buy

Price
RM0.81

Target Price
RM0.95

Core 4Q23 profits (+2.7x QoQ) surprised on the upside as FY23 topline grew 44% on increased project flows. Similarly, associate contributions (RM60m vs –RM1m a year ago) greatly benefited from a doubling in Cambodia's air passenger traffic. Maintain Buy with a higher TP of RM0.95 as we raise our new win targets for infrastructure and crane contracts.

Market Data

Bloomberg Code	MUHI MK
No. of shares (m)	727.0
Market cap (RMm)	588.9
52-week high/low (RM)	0.86 / 0.58
Avg daily turnover (RMm)	2.3
KLCI (pts)	1,558.8

Source: Bloomberg, KAF

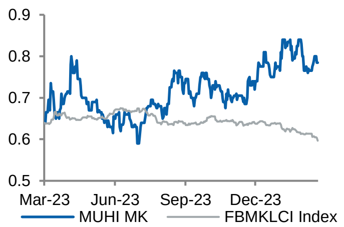
Major Shareholder (%)

Mac family & associates	(29.0%)
Free Float	71.0

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	6.2	3.3	19.2
Rel Market (%)	(0.3)	(3.6)	12.2



Source: Bloomberg, KAF

Financial Highlights

FYE Dec	2022	2023	2024F	2025F	2026F
Revenue (RMm)	896.8	1,292.1	1,460.4	1,647.7	1,786.2
Core net profit (RMm)	(6.1)	17.0	50.4	68.3	79.8
Core EPS (Sen)	(0.6)	2.4	6.7	9.1	10.6
EPS growth (%)	n/m	n/m	n/m	34.8	16.6
DPS (Sen)	0.0	0.0	1.5	2.0	2.5
Core PE (x)	n/m	n/m	12.0	8.9	7.6
Div yield (%)	0.0	0.0	1.9	2.5	3.1
ROE (%)	(1.5)	(0.6)	3.8	5.0	5.6
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
PBV(x)	0.3	0.4	0.4	0.4	0.4

Source: Company, KAF

4Q23 surpasses expectations

Muhibbah reported 4Q23 net losses of RM21m despite a 66% QoQ growth in sequential topline. The earnings drag largely came from (i) RM40m in general provisioning for long-standing claims; and (ii) unusually high tax rate (mainly due to differing tax rates in foreign jurisdictions; non-recognition of deferred tax assets; and non-deductibility of general provisions). On the other hand, the group's share of associates (mainly derived from its 21%-owned Cambodian airport concession) jumped 92% QoQ to RM27m.

Stripping off net forex movements and the lumpy general provisions (mostly coming from legacy projects that have been completed), which we deem to be one-off in nature, the group registered a core net profit of RM18m, which surpassed expectations (3Q23: RM7m; 4Q22: -RM9m). This brought FY23 core net profits to RM17m against a RM6m loss in FY22, with revenue expanding 44% YoY. Due to the headline losses, the group did not declare any dividends during the FY under review.

Accelerating billings cycle

We attribute the robust turnaround in its revenue lines to an upturn in its billings cycle and increased site activities, as newer projects secured over the last six to twelve months come to the fore. In tandem with this, the group's core net margins have gradually been on the mend (4Q23: 3.7%; 3Q23: 2.3; 4Q22: -3.4%).

Cambodian delight

For the full year, associate profits rebounded to RM60m (FY22: -RM1m), beating our estimates by a wide margin (+82%). This was on the back of a doubling in Cambodian air traffic to 4.8m passengers, as outbound travel from China picks up. The positive momentum should continue this year, as the Cambodian government has launched a specific campaign to draw more Chinese tourists into the Kingdom. Taking into account the ceasing of its Siem Reap airport concession last October, we project a marginal dip (-2% YoY) in Cambodian air traffic growth to 4.7m passengers for FY24F, before recovering strongly to 5.5m and 5.9m, respectively for FY25F-26F.

Analyst

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Raising new win targets

As of 20 February 2024, Muhibbah' outstanding orderbook stood at RM2.2b. Out of this total, its backlog of infrastructure jobs made up 62% (RM1.4b), providing a healthy orderbook/revenue cover of 2.9x. We estimate that Muhibbah secured close to RM900m worth of infrastructure jobs last year.

Going forward, we expect Muhibbah to pitch for more oil & gas projects. While the latter makes up only 5% of its current RM2b bid book, we envisage more sizeable opportunities to emerge in the months to come, as global oil majors (including Petronas) step up their capex spending.

Against a brighter job outlook, we raise our FY24F/25F new infrastructure win target by 50%/100% to RM600m and RM800m, respectively. Similarly, we also lift our FY25F replenishment target for its crane unit to RM600m (+13%), rising to RM650m in the next FY.

Maintain Buy with higher TP of RM0.95

We cut our FY24F net profit forecast by 7%, as we factor-in the full-year absence of its Siem Reap airport concession. However, FY25F earnings are now 12% higher – anchored by a stronger replenishment rate for infrastructure and crane contracts. We also introduce FY26F earnings of RM80m, implying a 17% growth YoY.

Accordingly, our TP is revised upwards from RM0.86 to RM0.95 (unchanged 30% discount to NAV). We also updated the market values for 65%-owned Favelle Favco (RM1.97, NC); and (ii) Kuantan Maritime Hub (ascribed a lower land value of RM3psf [was RM8psf], as no tangible progress has been made over the last few years).

The stock currently trades at a steep 40% discount to NAV, and 0.5x its P/BV. Net gearing ratio (inclusive of bills payable) has improved from 40% in FY22 to 32% in FY23. Alongside its rising earnings trajectory, we also expect Muhibbah to resume its dividend payments this FY; with projected DPS for FY24F/25F/26F at 1.5sen/2sen/2/5sen (payout: 25%-27% - slightly below the pre-Covid 19 historical range [FY15-19] of 28%).

Key upside/down risks

We consider major contract wins to be a key re-rating catalyst for the group. On the flip side, the development of a new-China backed airport in Phnom Penh continues to be a major point of concern, although management is evaluating all options to safeguard its existing airport concession in the capital city (the compensation formula is based on certain projected returns vs the book value method for its Siem Reap airport concession).

Exhibit 1: Financial results

YE 31 Dec (RM m)	FY22	FY23	% YoY	3Q23	4Q23	% QoQ
Turnover	**896.8**	**1,292.1**	***44.1***	**287.0**	**477.3**	***66.3***
EBIT	**37.7**	**(26.9)**	***n/m***	**(9.2)**	**(31.0)**	***n/m***
Interest income	19.4	11.4		1.7	7.0	
Interest cost	(19.8)	(27.5)		(6.6)	(3.3)	
Pre-associates/JV profit	37.3	(43.0)		(14.2)	(27.3)	
Associates/JVs	(1.2)	59.7		14.2	27.3	
Pre-exceptionals profit	36.1	16.7		0.0	0.0	
Exceptionals	(11.8)	(25.0)		(0.6)	(39.1)	
Pretax Profit	**24.3**	**66.9**	***175.2***	**35.2**	**8.6**	***(75.5)***
Taxation	(18.6)	(31.1)		(8.2)	(13.7)	
Minorities	(23.6)	(43.8)		(20.9)	(16.2)	
Net Profit	**(17.9)**	**(8.0)**	***(55.4)***	**6.1**	**(21.3)**	***n/m***
Core Net Profit	**(6.1)**	**17.0**	***n/m***	**6.7**	**17.9**	***165.2***
Core EPS (sen)	(1.0)	2.2		0.9	#DIV/0!	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	1.73	1.78		1.82	1.78	
EBIT margin (%)	4.2	(2.1)		(3.2)	(6.5)	
Pretax margin (%)	2.7	5.2		12.3	1.8	
Effective tax (%)	76.5	46.4		23.3	159.0	
Breakdown (RM m)						
Turnover						
Construction	262.5	468.4	*78.4*	131.8	123.7	*(6.2)*
Cranes	592.2	777.5	*31.3*	155.2	307.5	*98.1*
Marine ship repair & shipbuilding	42.1	46.2	*n/m*	0.0	46.2	*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	**896.8**	**1,292.1**	***44.1***	**287.0**	**477.3**	***66.3***
Pre-tax profit						
Construction	3.4	(57.7)	*n/m*	0.8	(28.9)	*n/m*
Cranes	59.6	85.0	*42.6*	19.9	31.1	*55.7*
Marine ship repair & shipbuilding	(38.9)	(20.0)	*n/m*	0.0	(20.0)	*n/m*
Concessions	0.2	59.7	*n/m*	14.5	26.4	*82.7*
Manufacturing & trading	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Total	**24.3**	**66.9**	***175.2***	**35.2**	**8.6**	***(75.5)***
Pre-tax margin (%)						
Construction	1.3	(12.3)		0.6	(23.3)	
Cranes	10.1	10.9		12.9	10.1	
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	**2.7**	**5.2**		**12.3**	**1.8**	

Source: Company, KAF

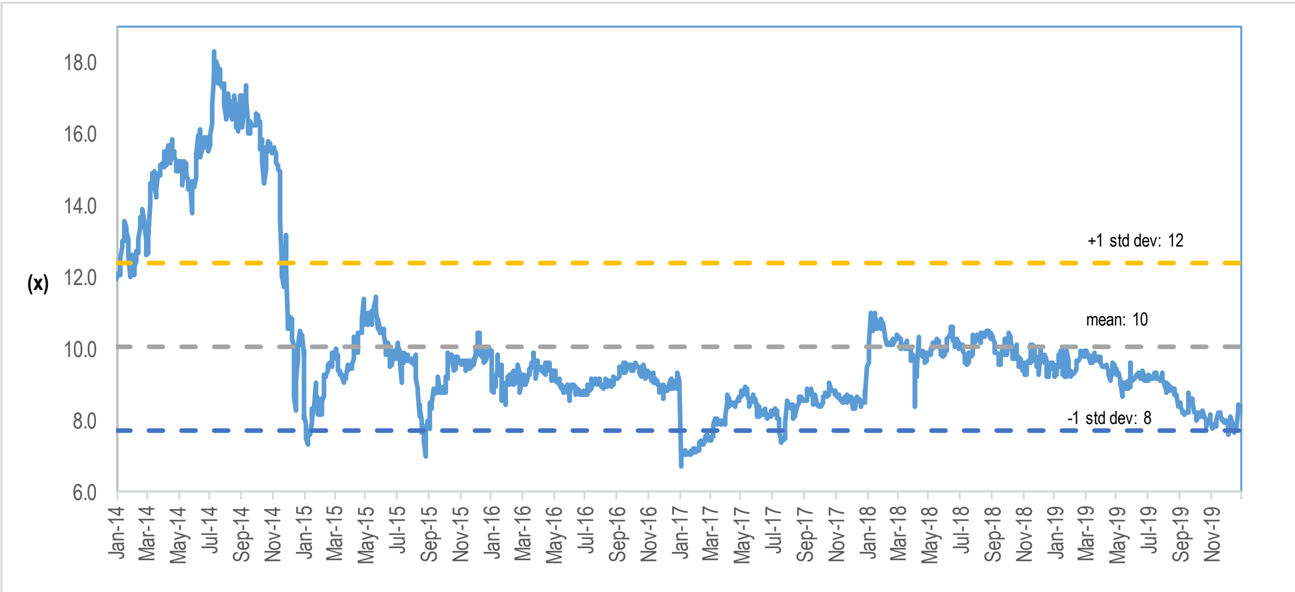
Exhibit 2: NAV calculations

Division	Value (RM) m	per share	Stake (%)	(% of NAV)	Method
Construction	344.3	0.45	various	33.3	13x FY24F construction profits
Marine shipbuilding & repair	255.8	0.34	100.0	24.7	FY22 net book value
Cranes (Favelle Favco)	298.6	0.39	64.5	28.8	Market Value
Concessions: SCA	476.2	0.62	21.0	46.0	DCF @ 7%
Roadcare	0.0	0.00	21.0	0.0	DCF @ 6.5%
Kuantan Marine Hub	65.3	0.09	100.0	6.3	Market value @ RM3psf
Gross NAV	**1,440.2**				
Net cash/(debt)*	(405.0)	(0.53)		(39.1)	As at 31 Dec 2023
Total NAV	**1,035.2**	**1.36**		**100.0**	
No of shares (m)	763.5				
NAV/share	**1.36**				
TP (less 30% discount)	**0.95**				
Upside (%)	17.2				
FY24F yield (%)	1.9				
Total return (%)	**19.0**				
Discount to NAV (%)	**(40.3)**				
Implied Target PE (x)	**14.1**				

** includes bills payables*

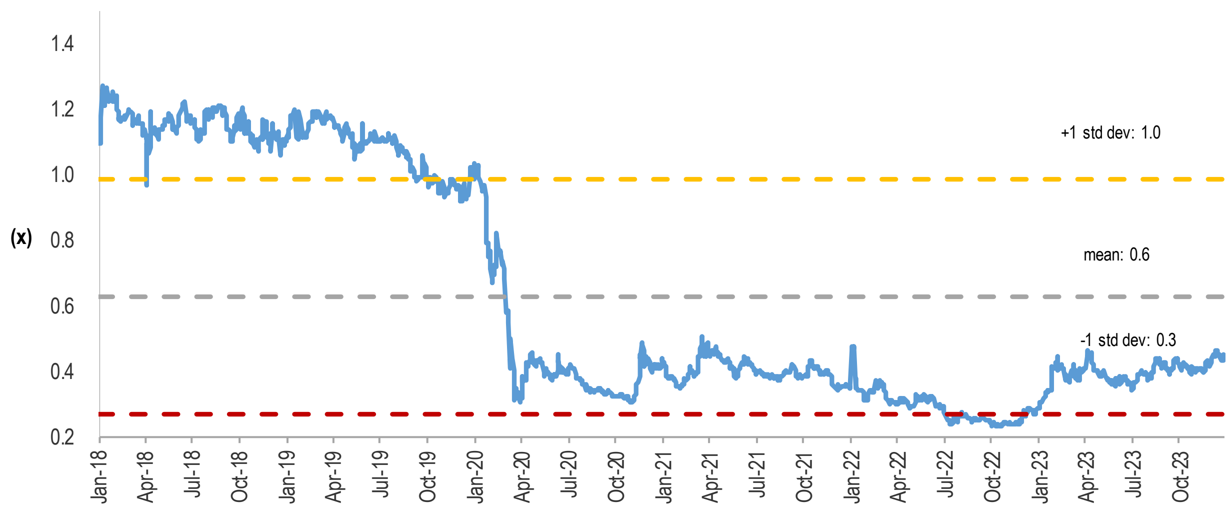
Source: Company, Bloomberg, KAF

Exhibit 3: Historical PE band



Source: Company, Bloomberg, KAF

Exhibit 4: Historical P/BV band



Source: Company, Bloomberg, KAF

Income Statement

FYE Dec (RMm)	2022	2023	2024F	2025F	2026F
Revenue	**896.8**	**1,292.1**	**1,460.4**	**1,647.7**	**1,786.2**
EBITDA	**116.9**	**123.0**	**170.0**	**195.6**	**214.2**
Depreciation/Amortisation	(79.2)	(74.7)	(98.8)	(103.4)	(108.1)
Operating income (EBIT)	37.7	48.3	71.2	92.1	106.1
Other income & associates	(1.2)	59.7	48.1	57.1	63.0
Net interest	(0.3)	(16.1)	(0.8)	(1.7)	(1.1)
Exceptional items	(11.8)	(25.0)	0.0	0.0	0.0
Pretax profit	**24.3**	**66.9**	**118.5**	**147.5**	**168.0**
Taxation	(18.6)	(31.1)	(24.2)	(28.8)	(32.5)
Minorities/pref dividends	(23.6)	(43.8)	(43.9)	(50.4)	(55.7)
Net profit	**(17.9)**	**(8.0)**	**50.4**	**68.3**	**79.8**
Core net profit	**(6.1)**	**17.0**	**50.4**	**68.3**	**79.8**

Balance Sheet

FYE Dec (RMm)	2022	2023	2024F	2025F	2026F
Fixed assets	1,133.3	1,129.8	1,140.2	1,146.3	1,148.0
Intangible assets	111.6	118.8	115.6	112.1	108.3
Other long-term assets	753.6	838.1	886.2	943.3	1,006.3
Total non-current assets	**1,998.4**	**2,086.8**	**2,142.0**	**2,201.7**	**2,262.6**
Cash & equivalent	284.7	399.6	354.1	328.5	310.5
Stock	299.9	348.1	404.4	455.1	473.8
Trade debtors	704.9	671.9	800.2	948.0	1,076.6
Other current assets	19.4	10.3	10.3	10.3	10.3
Total current assets	**1,308.9**	**1,429.9**	**1,569.0**	**1,741.9**	**1,871.2**
Trade creditors	1,028.6	1,058.6	1,197.7	1,365.4	1,478.1
Short-term borrowings	281.7	368.5	360.2	335.2	311.2
Other current liabilities	9.2	11.9	11.9	11.9	11.9
Total current liabilities	**1,319.4**	**1,439.0**	**1,569.9**	**1,712.6**	**1,801.2**
Long-term borrowings	112.2	118.1	87.4	71.4	54.4
Other long-term liabilities	115.9	153.2	153.2	153.2	153.2
Total long-term liabilities	**228.2**	**271.3**	**240.6**	**224.6**	**207.6**
Shareholders' funds	**1,259.3**	**1,290.6**	**1,340.9**	**1,396.4**	**1,459.2**
Minority interests	500.4	515.9	559.7	610.1	665.8

Cash flow Statement

FYE Dec (RMm)	2022	2023	2024F	2025F	2026F
Pretax profit	24.3	66.9	118.5	147.5	168.0
Depreciation/Amortisation	79.2	74.7	98.8	103.4	108.1
Net change in working capital	34.4	48.9	(45.5)	(30.8)	(34.5)
Others	(29.7)	(77.3)	(63.5)	(76.2)	(86.3)
Cash flow from operations	**108.2**	**113.1**	**108.3**	**143.9**	**155.2**
Capital expenditure	(68.7)	(79.9)	(105.0)	(105.0)	(105.0)
Net investments & sale of fixed assets	14.4	10.3	0.0	0.0	0.0
Others	15.5	18.1	16.8	14.4	13.3
Cash flow from investing	**(38.7)**	**(51.5)**	**(88.2)**	**(90.6)**	**(91.7)**
Debt raised/(repaid)	119.9	0.0	0.0	0.0	0.0
Equity raised/(repaid)	(157.6)	92.7	(39.0)	(41.0)	(41.0)
Dividends paid	0.0	0.0	0.0	(12.8)	(17.1)
Others	(183.9)	(160.7)	(26.7)	(25.1)	(23.4)
Cash flow from financing	**(221.6)**	**(68.0)**	**(65.7)**	**(78.9)**	**(81.5)**
Net cash flow	**(152.1)**	**(6.3)**	**(45.5)**	**(25.6)**	**(18.0)**
Net cash/(debt) b/f	**441.6**	**284.7**	**399.6**	**354.1**	**328.5**
Net cash/(debt) c/f	**280.7**	**279.7**	**354.1**	**328.5**	**310.5**

Key Ratios

FYE Dec	2022	2023	2024F	2025F	2026F
Revenue growth (%)	(10.6)	44.1	13.0	12.8	8.4
EBITDA growth (%)	(7.2)	5.2	38.3	15.0	9.5
Pretax margins (%)	2.7	5.2	8.1	9.0	9.4
Net profit margins (%)	(2.0)	(0.6)	3.4	4.1	4.5
Interest cover (x)	71.9	4.2	140.4	86.5	151.2
Effective tax rate (%)	76.5	46.4	20.5	19.5	19.3
Net dividend payout (%)	0.0	0.0	25.4	25.0	26.7
Debtors turnover (days)	287	230	200	210	220
Stock turnover (days)	173	120	130	130	125
Creditors turnover (days)	593	400	385	390	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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