Equity | Malaysia | Construction

CIMB Securities

31 May 2024

# Muhibbah Engineering

## Awaiting Phnom Penh airport decision

# Buy

**Price**
RM0.99

**Target Price**
RM1.20

**We maintain our Buy recommendation on Muhibbah with an unchanged SOTP-based TP of RM1.20. Core profits jumped 140% yoy on the back of improved performances across all key operating units. We continue to like Muhibbah as a key proxy to a recovery in Cambodia's air passenger traffic. This is supported by a RM2bn orderbook, which includes prospective oil & gas bids worth in excess of RM2.5bn.**

### Market Data

| | |
|---|---|
| Bloomberg Code | MUHI MK |
| No. of shares (m) | 728.5 |
| Market cap (RMm) | 721.2 |
| 52-week high/low (RM) | 1.07 / 0.58 |
| Avg daily turnover (RMm) | 2.6 |
| KLCI (pts) | 1,605.4 |

Source: Bloomberg, CIMB Securities

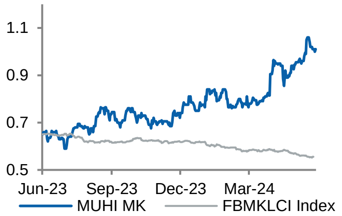
### Major Shareholder (%)

| | |
|---|---|
| Mac family & associates | (29.0%) |
| Free Float | 71.0 |

Source: Bloomberg, CIMB Securities

### Performance

| | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 29.4 | 33.8 | 61.0 |
| Rel Market (%) | 25.1 | 20.5 | 40.9 |




Source: Bloomberg, CIMB Securities

### Financial Highlights

| FYE Dec | 2022 | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|---|
| Revenue (RMm) | 896.8 | 1,292.1 | 1,460.4 | 1,657.7 | 1,846.2 |
| Core net profit (RMm) | (6.1) | 17.0 | 51.7 | 71.5 | 82.9 |
| Core EPS (Sen) | (0.6) | 2.4 | 6.9 | 9.5 | 11.0 |
| EPS growth (%) | nm | nm | nm | 37.6 | 15.7 |
| DPS (Sen) | 0.0 | 0.0 | 1.5 | 2.3 | 3.0 |
| Core PE (x) | nm | nm | 14.3 | 10.4 | 9.0 |
| Div yield (%) | 0.0 | 0.0 | 1.5 | 2.3 | 3.0 |
| ROE (%) | (1.5) | (0.6) | 3.9 | 5.2 | 5.8 |
| Net Gearing (%) | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash |
| PBV(x) | 0.3 | 0.4 | 0.5 | 0.5 | 0.5 |

Source: Company, CIMB Securities

### 1Q24 earnings jumped 140% yoy

Muhibbah reported a 140% yoy jump in 1Q24 core profits at RM9m. The stronger yoy growth was underpinned by improved performances across all key operating units. However, sequential earnings fell 47% qoq mainly on account of a 41% yoy contraction in revenue contributions from its crane business. Overall, we deem its 1Q24 results to be in line with expectations (~18% of both ours and consensus estimates), as sequential earnings momentum should accelerate in the coming quarters.

### RM2.9bn bid book

As of 31 March 2024, Muhibbah's total orderbook stood at RM2bn. Of these, the split between Infrastructure and crane related orders was 63:37. Meanwhile, Muhibbah's active tenderbook stood at RM2.9bn. The main bids relate to infrastructure works for a biopolymer park, expressways, airports, marine ports and campuses. At this juncture, oil & gas-related tenders only accounts for a small portion of its bid book (~3.3%). Yet, we anticipate over RM2.5bn worth of oil & gas job opportunities that may surface within the next few months, as major oil producers begin to crank up their capex needs.

### Cambodian air traffic recovery continues

During the quarter under review, 21%-owned SCA's Cambodian passenger traffic expanded 23% yoy to 1.2m. This constituted 23% of our FY24F forecast (5.1m passengers). Most importantly, the corresponding share of Chinese passengers has risen in tandem with total traffic growth (1Q24 – 22%; 1Q23 – 15%).

### Positive outcome to Phnom Penh airport impasse?

Based on its existing structure, we estimate Muhibbah's Cambodian operations to account for 83%/76%/71% of the group's core profits for FY24F/25F/26F. As mentioned in our company update on 17 April 2024 (Airport resolution within sight), we expect ongoing negotiations between SCA and key stakeholders of Techo International Airport (TIA) to yield positive results. Such a move would pave the way for SCA to secure management rights for Phnom Penh's new international airport (scheduled to be commercially ready by mid-2025), besides receiving equitable compensation for giving up its existing Phnom Penh airport concession. Should the airport restructuring exercise materialize, we do not discount the possibility of having Muhibbah redistributing part of its compensation package for the remaining Phnom Penh airport concession period back to its shareholders. This is in addition to Muhibbah's share of compensation worth US$13m (~RM62m) that was received in lieu of the closure of Siem Reap airport.

**Analyst**

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**Exhibit 1: Financial results**

| YE 31 Dec (RM m) | 1Q23 | 1Q24 | % YoY | 4Q23 | 1Q24 | % QoQ |
|---|---|---|---|---|---|---|
| **Turnover** | **203.7** | **327.0** | ***60.5*** | **477.3** | **327.0** | ***(31.5)*** |
| | | | | | | |
| **EBIT** | **9.8** | **9.0** | ***n/m*** | **(31.0)** | **9.0** | ***n/m*** |
| Interest income | 1.1 | 2.0 | | 7.0 | 2.0 | |
| Interest cost | (6.4) | (7.8) | | (3.3) | (7.8) | |
| Pre-associates/JV profit | 4.5 | 3.2 | | (27.3) | 3.2 | |
| Associates/JVs | 10.2 | 13.4 | | 27.3 | 13.4 | |
| Pre-exceptionals profit | 14.7 | 16.7 | | 0.0 | 16.7 | |
| Exceptionals | (1.9) | 4.7 | | (39.1) | 4.7 | |
| **Pretax Profit** | **12.8** | **30.9** | ***142.1*** | **8.6** | **30.9** | ***259.1*** |
| Taxation | (4.3) | (7.3) | | (13.7) | (7.3) | |
| Minorities | (6.5) | (9.4) | | (16.2) | (9.4) | |
| **Net Profit** | **2.0** | **14.2** | ***n/m*** | **(21.3)** | **14.2** | ***n/m*** |
| **Core Net Profit** | **3.9** | **9.5** | ***140.2*** | **17.9** | **9.5** | ***(47.1)*** |
| | | | | | | |
| Core EPS (sen) | 0.5 | 1.2 | | 2.3 | 1.2 | |
| Gross DPS (sen) | 0.0 | 0.0 | | 0.0 | 0.0 | |
| BV/share (RM) | 1.76 | 1.81 | | 1.78 | 1.8 | |
| | | | | | | |
| EBIT margin (%) | 4.8 | 2.8 | | (6.5) | 2.8 | |
| Pretax margin (%) | 6.3 | 9.5 | | 1.8 | 9.5 | |
| Effective tax (%) | 33.4 | 23.6 | | 159.0 | 23.6 | |
| | | | | | | |
| **Breakdown (RM m)** | | | | | | |
| **Turnover** | | | | | | |
| Construction | 77.1 | 130.1 | *68.8* | 123.7 | 130.1 | *5.2* |
| Cranes | 126.6 | 181.6 | *43.4* | 307.5 | 181.6 | *(40.9)* |
| Marine ship repair & shipbuilding | 0.0 | 15.3 | *n/m* | 46.2 | 15.3 | *(66.9)* |
| 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** | **203.7** | **327.0** | ***60.5*** | **477.3** | **327.0** | ***(31.5)*** |
| | | | | | | |
| **Pre-tax profit** | | | | | | |
| Construction | 4.5 | 8.7 | *91.9* | 16.6 | 8.7 | *(47.7)* |
| Cranes | 14.6 | 19.0 | *30.2* | 31.1 | 19.0 | *(38.9)* |
| Marine ship repair & shipbuilding | (15.6) | (8.8) | *n/m* | (65.5) | (8.8) | *n/m* |
| Concessions | 9.2 | 12.0 | *30.2* | 26.4 | 12.0 | *(54.5)* |
| Manufacturing & trading | 0.0 | 0.0 | *n/m* | 0.0 | 0.0 | *n/m* |
| **Total** | **12.8** | **30.9** | ***142.1*** | **8.6** | **30.9** | ***258.9*** |
| | | | | | | |
| **Pre-tax margin (%)** | | | | | | |
| Construction | 5.9 | 6.7 | | 13.4 | 6.7 | |
| Cranes | 11.5 | 10.4 | | 10.1 | 10.4 | |
| 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** | **6.3** | **9.5** | | **1.8** | **9.5** | |

Source: Company, CIMB Securities

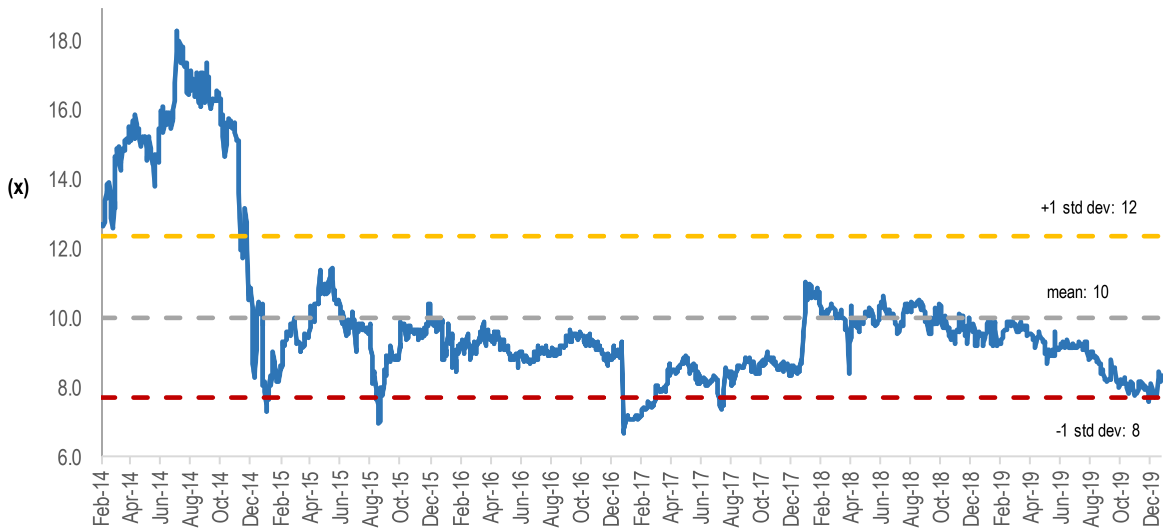
**Exhibit 2: Valuation model**

| Division | Value (RM) mn | per share | Stake (%) | (% of NAV) | Method |
|---|---|---|---|---|---|
| Construction | 379.5 | 0.50 | various | 31.1 | 13x FY25F construction profits |
| Marine shipbuilding & repair | 255.8 | 0.34 | 100.0 | 21.0 | FY22 net book value |
| Cranes (Favelle Favco) | 307.6 | 0.40 | 64.5 | 25.2 | Market Value |
| Concessions: SCA | 580.5 | 0.76 | 21.0 | 47.6 | DCF @ 7% |
| Roadcare | 34.8 | 0.05 | 21.0 | 2.9 | DCF @ 6.5% |
| Kuantan Marine Hub | 65.3 | 0.09 | 100.0 | 5.4 | Market value @ RM3psf |
| **Gross NAV** | **1,623.5** | | | | |
| Net cash/(debt)* | (405.0) | (0.53) | | (33.2) | As at 31 Dec 2023 |
| **Total NAV** | **1,218.5** | **1.60** | | **100.0** | |
| No of shares (m) | 763.5 | | | | |
| **NAV/share** | **1.60** | | | | |
| **TP (less 25% discount)** | **1.20** | | | | |
| Share price as of 30 May 2024 | 0.99 | | | | |
| Upside (%) | 20.9 | | | | |
| FY25F yield (%) | 1.5 | | | | |
| **Total return (%)** | **22.4** | | | | |
| **Discount to NAV (%)** | **(38.0)** | | | | |
| **Implied Target PE (x)** | **12.6** | | | | |

** includes bills payables*

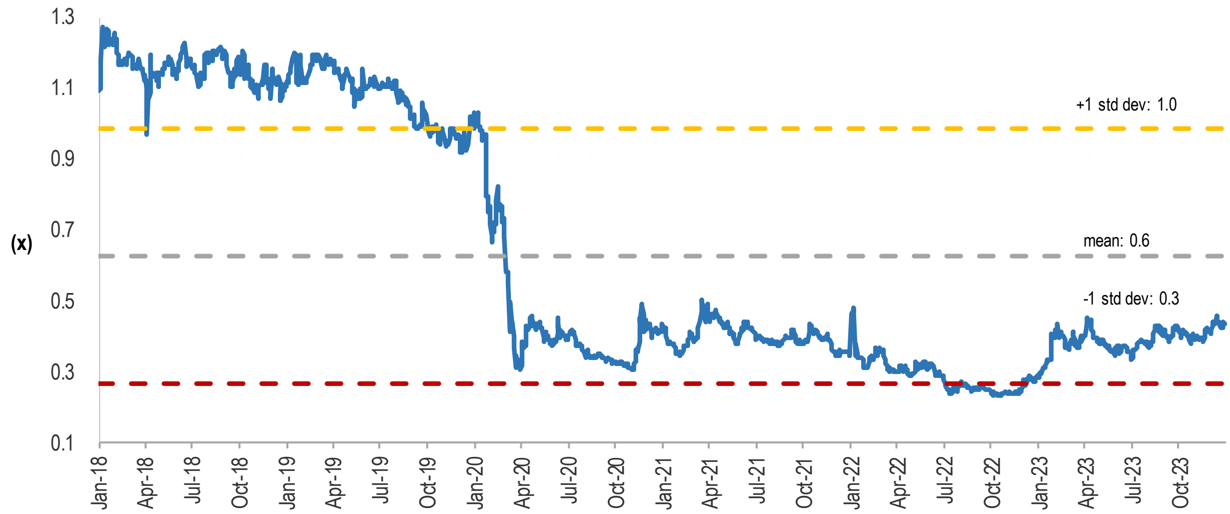
Source: Company, Bloomberg, CIMB Securities

**Exhibit 3: Historical PE band**




Source: Company, Bloomberg, CIMB Securities

**Exhibit 4: Historical PE band**




Source: Company, Bloomberg, CIMB Securities

## Income Statement

| FYE Dec (RMm) | 2022 | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|---|
| **Revenue** | **896.8** | **1,292.1** | **1,460.4** | **1,657.7** | **1,846.2** |
| **EBITDA** | **116.9** | **123.0** | **158.9** | **186.1** | **203.6** |
| Depreciation/Amortisation | (79.2) | (74.7) | (98.6) | (102.8) | (107.0) |
| Operating income (EBIT) | 37.7 | 48.3 | 60.3 | 83.3 | 96.6 |
| Other income & associates | (1.2) | 59.7 | 67.7 | 83.9 | 90.5 |
| Net interest | (0.3) | (16.1) | (9.8) | (12.9) | (12.6) |
| Exceptional items | (11.8) | (25.0) | 0.0 | 0.0 | 0.0 |
| **Pretax profit** | **24.3** | **66.9** | **118.2** | **154.3** | **174.4** |
| Taxation | (18.6) | (31.1) | (20.0) | (25.8) | (29.2) |
| Minorities/pref dividends | (23.6) | (43.8) | (46.5) | (57.1) | (62.3) |
| **Net profit** | **(17.9)** | **(8.0)** | **51.7** | **71.5** | **82.9** |
| **Core net profit** | **(6.1)** | **17.0** | **51.7** | **71.5** | **82.9** |

## Balance Sheet

| FYE Dec (RMm) | 2022 | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|---|
| Fixed assets | 1,133.2 | 1,129.7 | 1,131.3 | 1,127.0 | 1,118.8 |
| Intangible assets | 111.6 | 118.8 | 115.6 | 112.1 | 108.3 |
| Other long-term assets | 753.6 | 838.1 | 905.8 | 989.8 | 1,080.2 |
| **Total non-current assets** | **1,998.3** | **2,086.7** | **2,152.8** | **2,228.9** | **2,307.4** |
| Cash & equivalent | 284.7 | 399.6 | 354.0 | 321.5 | 295.9 |
| Stock | 299.9 | 348.1 | 407.9 | 461.3 | 495.0 |
| Trade debtors | 704.9 | 671.9 | 800.2 | 953.8 | 1,112.8 |
| Other current assets | 19.4 | 10.3 | 10.3 | 10.3 | 10.3 |
| **Total current assets** | **1,308.9** | **1,429.9** | **1,572.4** | **1,746.8** | **1,914.1** |
| Trade creditors | 1,028.6 | 1,058.6 | 1,208.0 | 1,383.8 | 1,544.5 |
| 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** | **1,580.2** | **1,730.9** | **1,867.7** |
| 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** | **1,342.2** | **1,400.9** | **1,464.7** |
| Minority interests | 500.4 | 515.9 | 562.3 | 619.4 | 681.7 |

## Cash flow Statement

| FYE Dec (RMm) | 2022 | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|---|
| Pretax profit | 24.3 | 66.9 | 118.2 | 154.3 | 174.4 |
| Depreciation/Amortisation | 79.2 | 74.7 | 98.6 | 102.8 | 107.0 |
| Net change in working capital | 34.4 | 48.9 | (38.6) | (31.2) | (32.0) |
| Others | (29.7) | (77.3) | (69.8) | (88.8) | (99.1) |
| **Cash flow from operations** | **108.2** | **113.1** | **108.2** | **137.1** | **150.3** |
| 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 | 14.2 | 12.8 |
| **Cash flow from investing** | **(38.7)** | **(51.5)** | **(88.2)** | **(90.8)** | **(92.2)** |
| Debt raised/(repaid) | (157.6) | 92.7 | (39.0) | (41.0) | (41.0) |
| Equity raised/(repaid) | 119.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends paid | 0.0 | 0.0 | 0.0 | (12.8) | (19.2) |
| Others | (183.9) | (160.7) | (26.7) | (25.1) | (23.4) |
| **Cash flow from financing** | **(221.6)** | **(68.0)** | **(65.7)** | **(78.9)** | **(83.6)** |
| **Net cash flow** | **(152.1)** | **(6.3)** | **(45.6)** | **(32.5)** | **(25.5)** |
| **Net cash/(debt) b/f** | **441.6** | **284.7** | **399.6** | **354.0** | **321.5** |
| **Net cash/(debt) c/f** | **280.7** | **279.7** | **354.0** | **321.5** | **295.9** |

## Key Ratios

| FYE Dec | 2022 | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|---|
| Revenue growth (%) | (10.6) | 44.1 | 13.0 | 13.5 | 11.4 |
| EBITDA growth (%) | (7.2) | 5.2 | 29.2 | 17.1 | 9.4 |
| Pretax margins (%) | 2.7 | 5.2 | 8.1 | 9.3 | 9.4 |
| Net profit margins (%) | (2.0) | (0.6) | 3.5 | 4.3 | 4.5 |
| Interest cover (x) | 71.9 | 4.2 | 12.0 | 12.0 | 13.8 |
| Effective tax rate (%) | 76.5 | 46.4 | 16.9 | 16.7 | 16.7 |
| Net dividend payout (%) | 0.0 | 0.0 | 24.8 | 26.9 | 30.9 |
| 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, CIMB Securities

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|---|---|
| Buy | The stock's total return is expected to exceed 10% over the next twelve (12) months. |
| Hold | The stock's total return is expected to be between 0% and positive 10% over the next twelve (12) months. |
| Reduce | The stock's total return is expected to fall below 0% or more over the next twelve (12) months. |
| | *Note: The total expected return of a stock is defined as the sum of:*<br>*the percentage difference between the target price and the current price; and*<br>*the forward net dividend yields of the stock. Stock price targets have an investment horizon of twelve (12) months.* |
| | |
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| 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. |

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