Malaysia

May 30, 2024 - 5:10 PM

ADD *(no change)*

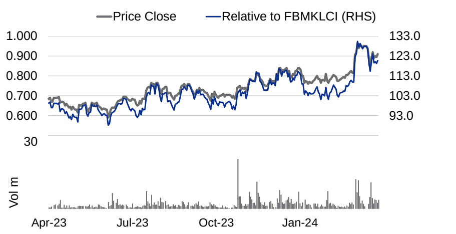
Consensus ratings*:	Buy 3	Hold 1	Sell 0

Current price:	RM0.99
Target price:	RM1.34
Previous target:	RM1.34
Up/downside:	35.3%
CGSI / Consensus:	9.2%
Reuters:	MUHI.KL
Bloomberg:	MUHI MK
Market cap:	US$153.3m
	RM721.2m
Average daily turnover:	US$0.50m
	RM2.35m
Current shares o/s	727.0m
Free float:	73.3%

Source: Bloomberg

Key financial forecasts

	Dec-24F	Dec-25F	Dec-26F
Net Profit (RMm)	51.15	65.12	66.61
Core EPS (RM)	0.070	0.090	0.092
Core EPS Growth		27.3%	2.3%
FD Core P/E (x)	14.07	11.05	10.80
Recurring ROE	3.89%	4.77%	4.75%
P/BV (x)	0.54	0.52	0.51
DPS (RM)	0.028	0.045	0.046
Dividend Yield	2.84%	4.52%	4.63%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7	29.4	61
Relative (%)	5.6	25.9	46.7

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

Analyst(s)

CHONG Tjen-San, CFA
T (60) 3 2635 9298
E tjen-san.chong@cgsi.com

Muhibbah Engineering

Phnom Penh showing signs of strength

- 1Q24 results met expectations, with associate profits from its Cambodia airport concession up 32% yoy despite the sale of Siem Reap in Oct 23.
- Favelle Favco is winning more crane jobs and beefing up recurring income.
- Reiterate Add with unchanged SOP-derived TP of RM1.34.

1Q24 results met expectations

- Muhibbah delivered a 1Q24 core net profit of RM5.9m (vs. RM0.5m in 1Q22) which was within expectations at 12%/11% of our/Bloomberg consensus's full-year net profits. We expect earnings momentum to pick up in the coming quarters as it progressively recognises its RM2bn orderbook (as at May 24).
- The key 1Q24 highlight was associate profit contribution of RM13.4m (+32% yoy) coming largely from its Cambodia airport concession. This is commendable as 1Q23 had included the Siem Reap airport concession that was surrendered back to the Cambodian government in Oct 23. Its 1Q24 passenger arrivals for the Phnom Penh airport concession (PP) and Silhanoukville airport rose 23% yoy to 1.2m, with China passengers making up 22% of the total in 1Q24 (vs. 15% in 1Q23).
- Its construction division posted an RM8.7m pretax profit in 1Q24 (vs. RM5m in 1Q23). Pretax profit for its crane business in 1Q24 rose 30% yoy to RM19m. Of its RM2bn orderbook, RM1.3bn is from construction and RM0.7bn from cranes. Favelle Favco (FF) announced contract wins of RM39m in May 24, which is a combination of tower and offshore cranes. In late-May 24, FF also announced it has entered into an agreement with an Australian developer to build two 14,000 sqm logistic warehouses on its 46,840 sqm land in Sydney, which should boost recurring income once completed in FY26F.

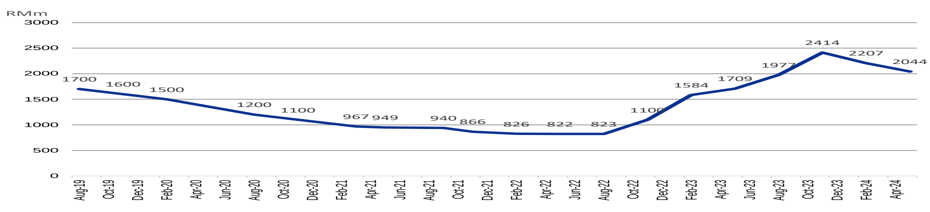
Light at the end of the tunnel for PP scenario?

- We had highlighted in our 2 May report (link) that its PP will likely see a favourable outcome, even though a new international airport for Phnom Penh, known as Techo International Airport, located in Kandal, is currently under construction and scheduled to start operations in 1H25F, according to Cambodia's State Secretariat of Civil Aviation (SSCA). We believe Techo International Airport will replace the current Phnom Penh International Airport that is operated by Muhibbah.
- Muhibbah said negotiations with the authorities are progressing well and it will likely receive compensation for the loss of its existing operations of PP (likely at BV) and be engaged to operate the new airport at Kandal. This is because the new airport is being built by a JV between SSCA and the Overseas Cambodia Investment Corporation (OCIC), both of whom do not have the expertise to run an airport. An article in the Khmer Times published in Mar 24 also stated that a favourable result for all parties is expected, based on the government's win-win policy, but details are sparse presently.

Reiterate Add and TP of RM1.34

- We like Muhibbah as a proxy for a recovery in tourist arrivals with its Cambodian airport concessions, while its marine expertise and Petronas fabrication licence should enable it to clinch more Petronas jobs, in our view. Key downside risks are patchy execution track record and higher raw material costs. Re-rating catalysts include better earnings delivery and stronger tourist arrivals in Cambodia.

Figure 1: Muhibbah's orderbook trend



SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 2: Sector Comparisons (Share price as at 30 May 24)

Company	Bloomberg Ticker	Rec.	Price (lcl curr)	TP (lcl curr)	Mkt Cap (US$ m)	P/E (x) CY24F	P/E (x) CY25F	2-year EPS CAGR	PEG (x)	P/BV (x) CY24F	P/BV (x) CY25F	Recurring ROE (%) CY24F	Recurring ROE (%) CY25F	Dividend Yield (%) CY24F	Dividend Yield (%) CY25F
Gamuda	GAM MK	Add	6.08	7.50	3,580	14.8	12.8	14.4%	1.0	1.37	1.27	9.7%	10.3%	2.0%	2.0%
IJM Corp Bhd	IJM MK	Add	2.54	3.16	1,893	17.7	15.5	10.7%	1.6	0.85	0.81	4.9%	5.3%	1.2%	1.2%
WCT Holdings	WCTHG MK	Add	0.55	0.68	164	15.4	11.0	na	na	0.21	0.20	1.4%	1.8%	0.0%	0.0%
Sunway Construction Group Bhd	SCGB MK	Add	3.20	3.91	877	21.6	16.1	29.0%	0.7	4.52	3.96	22.3%	26.2%	2.3%	3.1%
Muhibbah Engineering	MUHI MK	Add	0.99	1.34	153	14.1	11.1	na	na	0.54	0.52	4.0%	4.8%	2.8%	4.5%
HSS Engineers	HSS MK	Add	0.98	1.31	106	15.3	11.9	40.2%	0.4	1.89	1.70	12.5%	15.0%	2.1%	2.8%
YTL Corporation	YTL MK	Hold	3.84	3.88	8,977	20.5	19.1	20.4%	1.0	2.56	2.35	13.0%	12.8%	1.8%	1.8%
Malayan Cement Bhd	LMC MK	Add	5.20	6.80	1,462	15.5	14.5	24.3%	0.6	1.07	1.02	7.1%	7.2%	2.0%	2.3%
Econpile Holdings Bhd	ECON MK	Add	0.51	0.61	152	58.3	15.8	na	na	1.85	1.72	3.2%	11.3%	1.0%	2.5%
Construction sector						**21.5**	**14.2**	**21.3%**	**1.1**	**1.6**	**1.5**	**8.3%**	**10.0%**	**1.7%**	**2.3%**

SOURCES: CGSI RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

Figure 3: 1Q24 yoy and qoq comparisons

	1QFY24 RMm	1QFY23 RMm	% change	4QFY23 RMm	% change
Revenue	327.0	203.7	61%	477.3	-31%
Operating expense	(306.5)	(197.6)	55%	(492.7)	-38%
EBIT	20.5	6.1	236%	(15.4)	-233%
Interest income	2.0	1.1	73%	7.0	-71%
Finance cost	(5.0)	(4.6)	8%	(10.3)	-51%
Share of associate results	13.4	10.2	32%	27.3	-51%
Profit before taxation	30.9	12.8	142%	8.6	259%
Taxation	(7.3)	(4.3)	71%	(13.7)	-47%
Net income	23.6	8.5	178%	(5.1)	-565%
Minority interest	(9.4)	(6.5)	46%	(16.2)	-42%
Atributed to shareholders	14.2	2.0	594%	(21.3)	-167%
Exceptional items	8.3	1.6	423%	(66.1)	-113%
Core net profit	5.9	0.5	1182%	44.9	-87%
Quarterly segmentals					
Construction	8.7	4.5	92%	16.6	-48%
Cranes	19.0	14.6	30%	31.1	-39%
Concessions	12.0	9.2	30%	26.4	-55%
Eliminations	(8.8)	(15.6)	-44%	(65.5)	-87%
Profit before taxation	30.9	12.8	142%	8.6	259%

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(RMm)	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Net Revenues	**1,292.1**	**1,317.9**	**1,345.7**	**1,358.0**
Gross Profit	**23.3**	**224.0**	**262.4**	**271.6**
Operating EBITDA	**23.3**	**135.3**	**167.9**	**170.8**
Depreciation And Amortisation	(74.7)	(88.5)	(89.7)	(90.9)
Operating EBIT	**(51.3)**	**46.8**	**78.2**	**79.9**
Financial Income/(Expense)	(16.1)	(14.1)	(12.7)	(13.5)
Pretax Income/(Loss) from Assoc.	59.7	59.1	60.8	62.7
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	**(7.8)**	**91.8**	**126.4**	**129.0**
Exceptional Items	60.8	0.0	0.0	0.0
Pre-tax Profit	**53.0**	**91.8**	**126.4**	**129.0**
Taxation	(31.1)	(8.5)	(17.1)	(17.3)
Exceptional Income - post-tax				
Profit After Tax	**22.0**	**83.3**	**109.4**	**111.8**
Minority Interests	(43.8)	(32.1)	(44.2)	(45.2)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**(21.9)**	**51.1**	**65.1**	**66.6**
Recurring Net Profit	(47.0)	51.1	65.1	66.6
Fully Diluted Recurring Net Profit	**(47.0)**	**51.1**	**65.1**	**66.6**

Balance Sheet

(RMm)	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Cash And Equivalents	400	418	512	609
Total Debtors	672	722	737	744
Inventories	348	360	356	357
Total Other Current Assets	10	10	10	10
Total Current Assets	**1,430**	**1,510**	**1,616**	**1,721**
Fixed Assets	1,130	1,073	1,015	955
Total Investments	804	862	921	982
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	153	153	153	153
Total Non-current Assets	**2,087**	**2,087**	**2,088**	**2,090**
Short-term Debt	353	378	403	428
Current Portion of Long-Term Debt				
Total Creditors	746	719	712	714
Other Current Liabilities	339	339	339	339
Total Current Liabilities	**1,439**	**1,437**	**1,455**	**1,482**
Total Long-term Debt	104	104	104	104
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	168	168	168	168
Total Non-current Liabilities	**271**	**271**	**271**	**271**
Total Provisions	0	0	0	0
Total Liabilities	**1,710**	**1,708**	**1,726**	**1,753**
Shareholders' Equity	1,291	1,342	1,386	1,420
Minority Interests	516	548	592	637
Total Equity	**1,806**	**1,890**	**1,979**	**2,058**

Cash Flow

(RMm)	Dec-23A	Dec-24F	Dec-25F	Dec-26F
EBITDA	23.3	135.3	167.9	170.8
Cash Flow from Invt. & Assoc.	(59.7)	(59.1)	(60.8)	(62.7)
Change In Working Capital	176.3	(88.9)	(18.7)	(5.7)
(Incr)/Decr in Total Provisions	102.1	25.8	24.7	26.0
Other Non-Cash (Income)/Expense	93.0	33.2	36.1	36.7
Other Operating Cashflow	(54.8)	0.0	0.0	0.0
Net Interest (Paid)/Received	(16.1)	(14.1)	(12.7)	(13.5)
Tax Paid	(31.1)	(8.5)	(17.1)	(17.3)
Cashflow From Operations	**233.0**	**23.8**	**119.5**	**134.3**
Capex	(30.1)	(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	(21.4)	0.0	0.0	0.0
Cash Flow From Investing	**(51.5)**	**(30.0)**	**(30.0)**	**(30.0)**
Debt Raised/(repaid)	(32.4)	25.0	25.0	25.0
Proceeds From Issue Of Shares	0.3	0.0	0.0	0.0
Shares Repurchased				
Dividends Paid	(14.7)	0.0	(20.5)	(32.6)
Preferred Dividends				
Other Financing Cashflow	(33.5)	0.0	0.0	0.0
Cash Flow From Financing	**(80.3)**	**25.0**	**4.5**	**(7.6)**
Total Cash Generated	101.2	18.8	94.1	96.7
Free Cashflow To Equity	**149.1**	**18.8**	**114.5**	**129.3**
Free Cashflow To Firm	**209.0**	**19.6**	**114.3**	**130.3**

Key Ratios

	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue Growth	44.1%	2.0%	2.1%	0.9%
Operating EBITDA Growth	(80%)	480%	24%	2%
Operating EBITDA Margin	1.8%	10.3%	12.5%	12.6%
Net Cash Per Share (RM)	-0.08	-0.09	0.01	0.11
BVPS (RM)	1.78	1.85	1.91	1.95
Gross Interest Cover	-1.87	1.81	3.16	3.07
Effective Tax Rate	58.6%	9.3%	13.5%	13.4%
Net Dividend Payout Ratio	NA	40.0%	50.0%	50.0%
Accounts Receivables Days	199.0	193.6	197.9	199.1
Inventory Days	92.3	118.4	120.6	119.8
Accounts Payables Days	190.9	245.2	241.2	239.7
ROIC (%)	(3.84%)	3.81%	6.21%	6.55%
ROCE (%)	(1.79%)	2.53%	3.72%	3.64%
Return On Average Assets	(0.66%)	2.74%	3.34%	3.33%

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

Key Drivers

	Dec-23A	Dec-24F	Dec-25F	Dec-26F
New orders for construction	300.0	400.0	500.0	600.0
New orders for cranes	400.0	400.0	400.0	500.0

SOURCES: CGSI 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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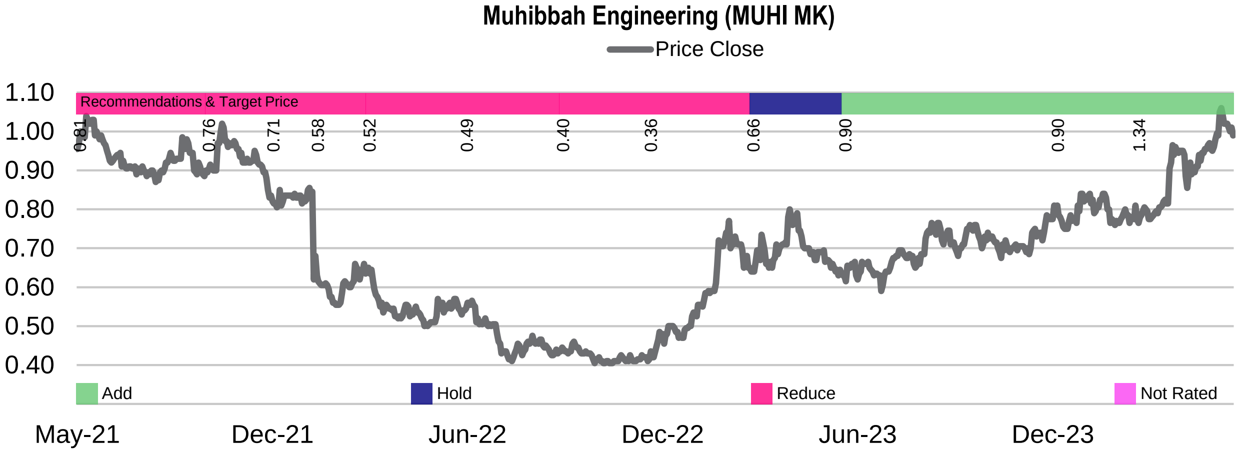
Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2024 634 companies under coverage for quarter ended on 31 March 2024		
	Rating Distribution (%)	Investment Banking clients (%)
Add	65.5%	1.3%
Hold	24.1%	0.2%
Reduce	10.4%	0.3%

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.