CIMB Securities

30 Aug 2024

Muhibbah Engineering

2Q boost from construction, Cambodian earnings

Buy

Price
RM0.81

Target Price
RM1.20

Muhibbah's 2Q24 core earnings surged 48% qoq on higher associate profits and a strong bounce in construction profits. Notably, its share of associate profits rose 63% yoy in 1H24 (2Q24: +20% qoq), thanks largely in part to another strong showing by 21%-owned Cambodia Airports. This was on the back of an 18% yoy increase in 1H24 Cambodian air traffic, as more Chinese travelers return to the Kingdom. Overall, the results were in line with our and consensus expectations. Maintain Buy.

Market Data

Bloomberg Code	MUHI MK
No. of shares (m)	728.5
Market cap (RMm)	586.4
52-week high/low (RM)	1.10 / 0.67
Avg daily turnover (RMm)	2.8
KLCI (pts)	1,609.5

Source: Bloomberg, CIMB Securities

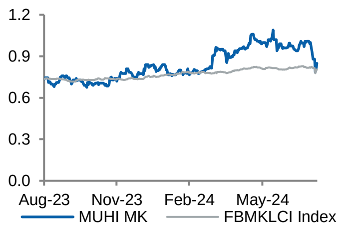
Major Shareholder (%)

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

Source: Bloomberg, CIMB Securities

Performance

	3M	6M	12M
Absolute (%)	(11.2)	12.3	20.0
Rel Market (%)	(11.6)	6.8	8.6



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)	(0.7)	2.5	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	11.6	8.5	7.3
Div yield (%)	0.0	0.0	1.9	2.8	3.7
ROE (%)	(1.5)	(0.6)	3.9	5.2	5.8
Net Gearing (%)	Net Cash	Net Cash	0.1	0.1	0.0
PBV(x)	0.5	0.5	0.4	0.4	0.4

Source: Company, CIMB Securities

2Q24 profit surge on Cambodia, stronger construction performance

Muhibbah's 2Q24 core earnings surged 48% qoq on higher associate profits and a strong bounce in construction profits. This brought 1H24 core profits to RM24m against core losses of RM8m a year earlier. 1H24 topline also grew 82% yoy in tandem with a higher number of projects on hand and increased site activities. As expected, no dividends were declared during the quarter under review. Overall, we deem its results to be in-line at 45% of our full-year estimates (consensus: 46%). The reason being that we expect a stronger earnings deliverance in 2H24 as contributions from Favelle Favco (RM1.89, NC) normalizes. For perspective, the latter's 2Q24 performance was hampered by additional cost incurred for a completed project.

1H24 Cambodian air traffic rises 18% yoy

Notably, Muhibbah's share of associate profits jumped 63% yoy in 1H24 (2Q24: +20%), thanks largely in part to another strong showing by 21%-owned Cambodia Airports. This was on the back of an 18% yoy increase in 1H24 Cambodian air traffic, as more Chinese travellers return to the Kingdom. Alongside higher passenger traffic, Cambodia Airports benefited from the full-year impact of a hike in airport-related fees, which is in excess of 20%. More importantly, Nikkei Asia reported on 18 Aug 2024 that Cambodia Airports (a 70:30 JV between France' Vinci, Muhibbah and local Cambodian businessmen) would operate the new Techo Takhmao International Airport that is set to replace the existing Phnom Penh Airport, when it is completed next year. This follows a Mou back in April 2024 that was signed between Cambodia Airports and the Cambodian government. At the moment, Cambodia Airports operates both the Phnom Penh as well as Sihanoukville airports.

RM3.3bn construction bid book

Muhibbah's active tenderbook stands at ~RM3.3bn currently, with a 68:32 split between local and foreign projects. The overseas bids mainly come from its waste heat recovery (WHR) business. This does not take into account another RM2bn worth of prospective bids, which includes some sizeable oil & gas projects. As of 27 Aug 2024, the group's outstanding orderbook was RM1.6bn. Of these, infrastructure works contributed RM958m with the balance RM665m coming from Favelle Favco (including RM155m from its Intelligent Automation arm).

Analyst

Mak Hoy Ken
03 21710509
hoyken.mak@cimb.com

Maintain Buy with unchanged TP of RM1.20

We maintain our Buy rating on Muhibbah at an unchanged SOTP-based TP of RM1.20. The stock is trading at undemanding FY25F/26F PE's of 8x/7x vs robust three-year EPS CAGR of 64%. Key upside risk stems from higher-than-expected infrastructure/crane orders and a breakthrough in negotiations to manage the new airport in Phnom Penh. On the contrary, a continued impasse over the future of Muhibbah's involvement in Cambodia's airport landscape would represent a key risk factor, in our view.

Exhibit 1: Financial results

YE 31 Dec (RM m)	1H23	1H24	% YoY	1Q24	2Q24	% QoQ
Turnover	**527.7**	**958.9**	***81.7***	**327.0**	**631.9**	***93.2***
Net operating cost/income	(522.7)	(918.8)		(308.5)	(610.4)	
EBIT	**5.0**	**40.1**	***n/m***	**18.6**	**21.6**	***16.2***
Interest income	2.7	7.5		2.0	5.5	
Interest cost	(17.6)	(11.6)		(7.8)	(3.8)	
Pre-associates/JV profit	(9.8)	36.0		12.8	23.2	
Associates/JVs	18.2	29.6		13.4	16.1	
Pre-exceptionals profit	8.3	65.6		26.2	39.4	
Exceptionals	14.8	12.9		4.7	8.2	
Pretax Profit	**23.1**	**78.5**	***239.3***	**30.9**	**47.5**	***53.7***
Taxation	(9.2)	(22.9)		(7.3)	(15.6)	
Minorities	(6.8)	(19.2)		(9.4)	(9.8)	
Net Profit	**7.2**	**36.4**	***n/m***	**14.2**	**22.2**	***56.5***
Core Net Profit	**(7.6)**	**23.5**	***n/m***	**9.5**	**14.0**	***48.5***
Core EPS (sen)	(1.0)	3.1		1.2	1.8	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	1.80	1.85		1.81	1.85	
EBIT margin (%)	0.9	4.2		5.7	3.4	
Pretax margin (%)	4.4	8.2		9.5	7.5	
Effective tax (%)	39.7	29.1		23.6	32.7	
Turnover						
Construction	212.9	517.8	*143.2*	130.1	387.7	*198.0*
Cranes	314.8	387.7	*23.1*	181.6	206.0	*13.5*
Marine ship repair & shipbuilding	0.0	53.5	*n/m*	15.3	38.2	*149.7*
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	**527.7**	**958.9**	***81.7***	**327.0**	**631.9**	***93.2***
Pre-tax profit						
Construction	3.5	48.8	*n/m*	8.7	40.1	*360.6*
Cranes	34.0	32.9	*(3.1)*	19.0	13.9	*(26.6)*
Marine ship repair & shipbuilding	(33.1)	(32.1)	*n/m*	(8.8)	(23.4)	*n/m*
Concessions	18.8	28.9	*54.1*	12.0	16.9	*40.6*
Manufacturing & trading	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Total	**23.1**	**78.5**	***239.3***	**30.9**	**47.5**	***53.7***
Pre-tax margin (%)						
Construction	1.6	9.4		6.7	10.3	
Cranes	10.8	8.5		10.4	6.8	
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	**4.4**	**8.2**		**9.5**	**7.5**	

Source: Company, CIMB Securities

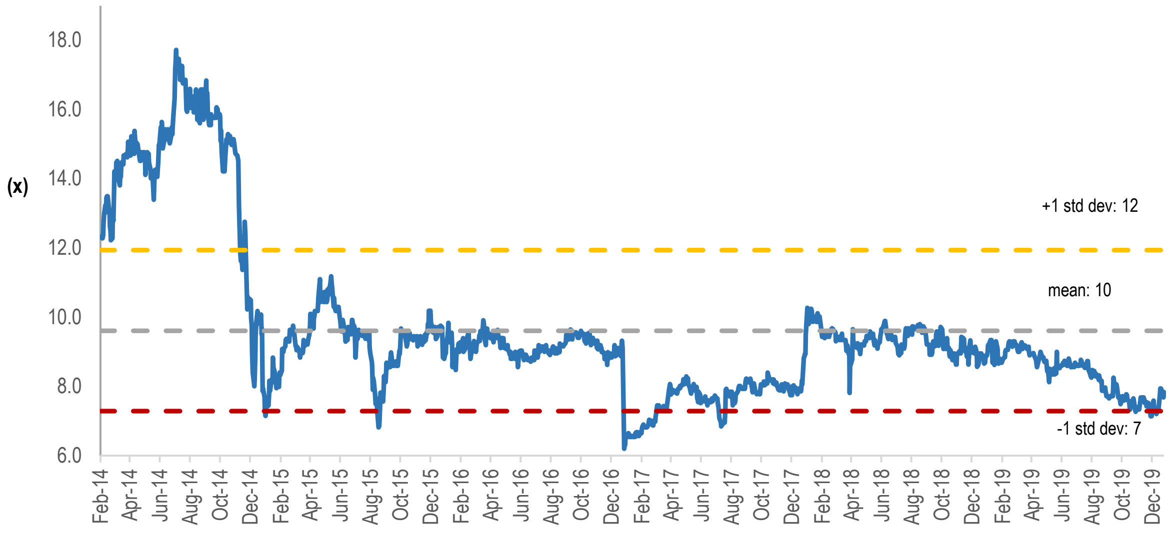
Exhibit 2: NAV calculation

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 29 Aug 2024	0.81				
Upside (%)	48.7				
FY25F yield (%)	1.9				
Total return (%)	**50.5**				
Discount to NAV (%)	**(49.6)**				
Implied Target PE (x)	**12.6**				

** includes bills payables*

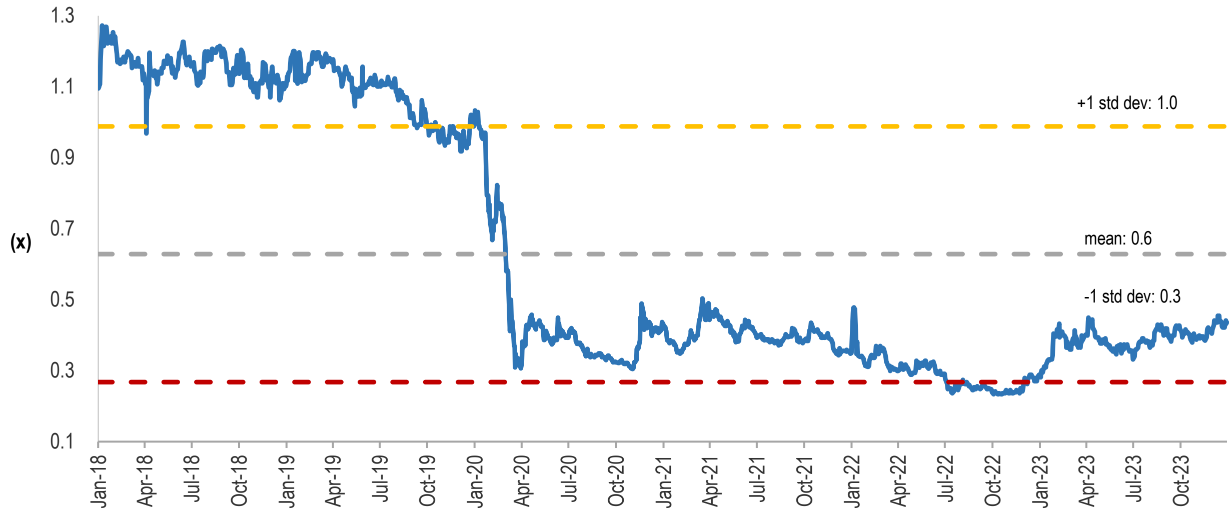
Source: Company, Bloomberg, CIMB Securities

Exhibit 3: Historical PE band



Source: Company, Bloomberg, CIMB Securities

Exhibit 4: Historical P/BV 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 (%)	0.0	0.0	0.0	0.0	0.0
EBITDA growth (%)	0.0	0.0	0.0	0.0	0.0
Pretax margins (%)	0.0	0.0	0.0	0.0	0.0
Net profit margins (%)	0.0	0.0	0.0	0.0	0.0
Interest cover (x)	0.0	0.0	0.0	0.0	0.0
Effective tax rate (%)	0.0	0.0	0.0	0.0	0.0
Net dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Debtors turnover (days)	0	0	0	0	0
Stock turnover (days)	0	0	0	0	0
Creditors turnover (days)	4	(1)	(7)	0	0

Source: Bloomberg, CIMB Securities

DISCLAIMER

The content of this report (including the views, opinions and recommendations expressed and the information contained in this report) has been prepared by and belongs to CIMB Securities Sdn Bhd (formerly known as KAF Equities Sdn Bhd) ("**CIMB Securities**").

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

By accepting this report, you represent and warrant that you are entitled to receive this report in accordance with the restrictions in this report and agree to be bound by the limitations in this report. Any failure to comply with these limitations may constitute a violation of law.

This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, in whole or in part, to any other person.

This report is general in nature and has been prepared for information purposes only. It is intended for distribution in Malaysia by CIMB Securities to the clients of CIMB Securities, CIMB Investment Bank Berhad and CIMB Bank Berhad generally and does not have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive this report.

The information, views, opinions or recommendations in this report are not and should not be construed or considered as an offer, or solicitation to buy or sell, or an invitation to subscribe for, the securities of the company(ies), related investments or other financial instruments or any derivative instrument, or any rights pertaining thereto.

You are advised to make your own independent evaluation of the information contained in this report, consider your own individual investment objectives, financial situation and particular needs and consult your own professional and financial advisers as to the legal, business, financial, tax and other aspects before participating in any transaction in respect of the securities of company(ies) covered in this report. The securities of the company(ies) may not be eligible for subscription or sale in all jurisdictions or to all categories of investors.

CIMB Securities may or may not issue regular reports on the subject matter of this report at any frequency and may cease to do so or change the periodicity of reports at any time. CIMB Securities has no obligation to update this report to include any material omission or in the event of a material change to the information contained in this report.

CIMB Securities does not accept any obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the contents of this report constitute all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and recommendations; and accordingly, CIMB Securities as well as its affiliates, related and associate corporations (and their respective directors, officers and/or employees) shall not be liable in any manner whatsoever for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any reliance thereon or usage of this report. In particular, CIMB Securities disclaims all responsibility and liability for the views, opinions and recommendations set out in this report.

Unless otherwise specified, this report is based upon sources or data which CIMB Securities considered to be reasonable, correct and reliable at the time of issue of this report. Such sources or data will, unless otherwise specified, for market data, be market data and prices available from the stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research.

Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of your investments may go down and you may lose some or all of your investments.

This report may contain information obtained from third party content providers. Reproduction and distribution of third party contents in any form is prohibited except with the prior written consent of the related third party content provider.

Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such contents. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their contents.

CIMB Securities as well as its affiliates, related and associate corporations (and their respective directors, officers and/or employees) may own or have positions in securities of the company(ies) covered in this report or any securities related to it and may from time to time add to or dispose of, or may be materially interested in, any such securities.

Further, CIMB Securities as well as its affiliates, related and associate corporations do and seek to do business with the company(ies) covered in this report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them to or buy them from customers (for its own account or the account of its customers) and may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) as well as solicit investment, advisory or other services from any company(ies) mentioned in this report.

CIMB Securities as well as its affiliates, related and associate corporations may enter into an agreement with the company(ies) covered in this report relating to the production of research reports. CIMB Securities may disclose the contents of this report to the company(ies) covered by it and may have amended the contents of this report following such disclosure.

The analyst(s) responsible for the production of this report certifies that the views, opinions and recommendations expressed herein accurately and exclusively reflect his/her personal views, opinions and recommendations about any and all of the company(ies) or securities analysed in this report and were prepared independently and autonomously.

In reviewing this research report, you should be aware that any or all of the foregoing, among other things, may give rise to actual or potential conflicts of interest. Subject to the duties of confidentiality, additional information may be available, on request, at our sole discretion.

RATING GUIDE

Stock Rating	Definition
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: *the percentage difference between the target price and the current price; and* *the forward net dividend yields of the stock. Stock price targets have an investment horizon of twelve (12) months.*
Sector Rating	**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.

DISCLOSURE OF CONFLICTS OF INTEREST

Disclosure by CIMB Securities

CIMB Securities hereby declares that:

(a) CIMB Securities, CIMB Investment Bank Berhad and/or CIMB Bank Berhad has/have proprietary positions in the following securities of the company(ies) mentioned in this report:
Nil

(b) CIMB Securities (only in respect of its Equities Research Department) received material benefit in relation to the production of this report for the following companies mentioned in this report:
Nil

Disclosure by Analyst(s)

The analyst(s) who prepared this report declares that:

(a) He/she received material benefit in relation to the production of this report for the following companies mentioned in this report:
Nil

(b) He/she has/have an interest in the securities in the following company(ies) recommended in this report:
Nil

(c) He/she serves as a director or board member of the following company(ies) mentioned in this report:
Nil

Information barriers and other arrangements may be established, where necessary, to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/her coverage of company(ies) in the performance of his/her duties or the correlation between his/her views, opinions or recommendations and the performance of the securities of the company(ies) and may also participate in the solicitation of the businesses.

This report is distributed in Malaysia by CIMB Securities solely for the benefit of and for the exclusive use of the clients of CIMB Securities, CIMB Investment Bank Berhad and CIMB Bank Berhad. Recipients of this report are to contact CIMB Securities at Level 14, Chulan Tower, No. 3, Jalan Conlay, 50450 Kuala Lumpur in respect of any matters arising from or in connection with this report. CIMB Securities has no obligation to update, revise or reaffirm its opinion or the information in this research report after the date of this report.

This report is not directed to or intended for distribution or publication outside of Malaysia. If you are outside Malaysia, you should have