Muhibbah Engineering

Strong earnings delivery in 2Q24

- 2Q24 results within expectations; strong construction and concession profits
- Orderbook remains strong but we see some urgency to replenish new wins
- Reiterate Add and SOP-derived TP of RM1.34

Malaysia
August 29, 2024 - 5:16 PM

ADD *(no change)*

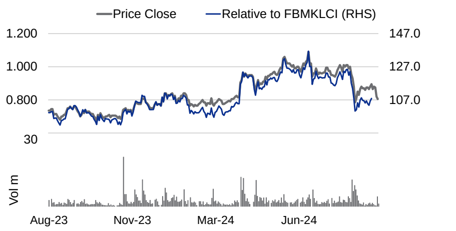
Consensus ratings*:	Buy 3	Hold 0	Sell 0

Current price:	RM0.805
Target price:	RM1.34
Previous target:	RM1.34
Up/downside:	66.4%
CGSI / Consensus:	5.5%
Reuters:	MUHI.KL
Bloomberg:	MUHI MK
Market cap:	US$135.0m
	RM586.5m
Average daily turnover:	US$0.52m
	RM2.39m
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)	11.44	8.99	8.79
Recurring ROE	3.89%	4.77%	4.75%
P/BV (x)	0.44	0.42	0.41
DPS (RM)	0.028	0.045	0.046
Dividend Yield	3.50%	5.56%	5.69%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-18.7	-18.7	13.4
Relative (%)	-19.8	-21	0.5

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

Analyst(s)

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2Q24 results met expectations

- Muhibbah delivered 2Q24 core net profit of RM20m, bringing 2H24 core net profit to RM26m. This was within expectations at 50% of our and Bloomberg consensus full-year forecasts. 1H24 revenue increased 82% to RM956m, driven by higher revenue from its construction and crane segments.
- The key 2Q24 highlight was the doubling of associate profit yoy to RM16m, coming largely from its Cambodia airport concession business. This is commendable as 2Q23 had included the Siem Reap airport concession, which was surrendered back to the Cambodian government in Oct 2023. Cambodia Airports, in which Muhibbah has a 21% effective stake, still manages two operating airports, located in Phnom Penh and Silhanoukville.
- 1H24 passenger arrivals to the Phnom Penh airport (PP) and Silhanoukville airport rose 18% yoy to 2.3m. For 2Q24, China passengers made up 23% of the two airports' total passenger arrivals (vs. 17% in 2Q23 and 61% in FY19).
- Muhibbah's construction division posted strong numbers in 2Q24, with RM40m pretax profit vs. pretax loss of RM1m in 2Q23. However, pretax profit for its crane business fell 28% yoy in 2Q24 to RM14m. Of its RM1.6bn orderbook as at Aug 2024, RM958m is from its construction segment and RM665m from its crane segment.

Orderbook remains solid but some urgency to replenish new wins

- We believe Muhibbah needs to strengthen its construction orderbook which has been depleting over the past few quarters and currently stands at RM958m. In our view, its value proposition is not in the government infrastructure or data centre space but more in marine-based construction and offshore platform projects for Petronas leveraging on its Petronas fabrication license.
- We had highlighted in our 2 May 2024 report (link) that its PP concession will likely see a favourable resolution, 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.
- Our recent checks with Muhibbah revealed that negotiations with the Cambodian authorities are still ongoing. In an ideal scenario, it will receive compensation for the loss of its existing operations of PP (likely at book value) 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), and both do not have the expertise to run an airport. Nonetheless, details are sparse presently.

Reiterate Add and SOP-derived 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: Sector comparison (share prices as at 29 Aug 2024)

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	7.38	9.50	4,737	17.9	15.5	14.3%	1.3	1.69	1.58	9.8%	10.5%	2.2%	2.2%
IJM Corp Bhd	IJM MK	Add	2.86	4.40	2,308	17.8	15.2	25.3%	0.7	0.95	0.90	5.3%	6.0%	1.0%	1.0%
WCT Holdings	WCTHG MK	Add	1.01	1.52	329	28.2	20.0	na	na	0.38	0.37	1.4%	1.9%	0.0%	0.0%
Sunway Construction Group Bhd	SCGB MK	Add	3.76	5.46	1,116	23.9	15.5	42.4%	0.6	5.27	4.51	23.6%	31.4%	2.1%	3.2%
Muhibbah Engineering	MUHI MK	Add	0.81	1.34	135	11.4	9.0	na	na	0.44	0.42	4.0%	4.8%	3.5%	5.6%
HSS Engineers	HSS MK	Add	1.10	1.48	129	17.0	11.2	53.4%	0.3	2.12	1.87	12.6%	17.7%	1.9%	2.9%
YTL Corporation	YTL MK	Add	2.75	3.55	6,970	15.0	14.6	15.6%	1.0	1.78	1.63	12.2%	11.4%	1.7%	1.8%
Malayan Cement Bhd	LMC MK	Add	5.22	6.90	1,605	15.4	14.4	28.1%	0.5	1.07	1.02	7.0%	7.1%	2.0%	2.3%
Sunway Bhd	SWB MK	Add	3.99	4.65	5,196	24.2	22.6	24.4%	1.0	1.59	1.65	6.5%	7.5%	2.2%	2.6%
Econpile Holdings Bhd	ECON MK	Add	0.37	0.61	121	42.7	11.6	na	na	1.35	1.26	3.2%	11.3%	1.4%	3.4%
Construction sector						**21.4**	**15.0**	**29.1%**	**0.8**	**1.7**	**1.5**	**8.6%**	**11.0%**	**1.8%**	**2.5%**

SOURCES: CGSI RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

Figure 2: Muhibbah's 2Q24 results comparison yoy and qoq

	2QFY24 RMm	2QFY23 RMm	% change	1QFY24 RMm	% change
Revenue	631.9	324.0	95%	327.0	93%
Operating expense	(599.4)	(317.8)	89%	(306.5)	96%
EBIT	32.5	6.2	425%	20.5	59%
Interest income	5.5	1.6	243%	2.0	175%
Finance cost	(6.6)	(5.5)	21%	(5.0)	32%
Share of associate results	16.1	8.0	101%	13.4	20%
Profit before taxation	47.5	10.4	359%	30.9	54%
Taxation	(15.6)	(4.9)	217%	(7.3)	113%
Net income	32.0	5.4	487%	23.6	35%
Minority interest	(9.8)	(0.3)	3027%	(9.4)	3%
Atributed to shareholders	22.2	5.1	333%	14.2	57%
Exceptional items	2.7	5.4	-51%	8.3	-68%
Core net profit	19.5	(0.2)	-7950%	5.9	231%

SOURCES: CGSI RESEARCH, 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**

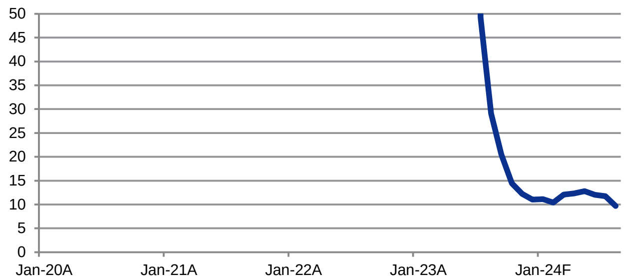
Cash Flow

(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 ESTIMATES, 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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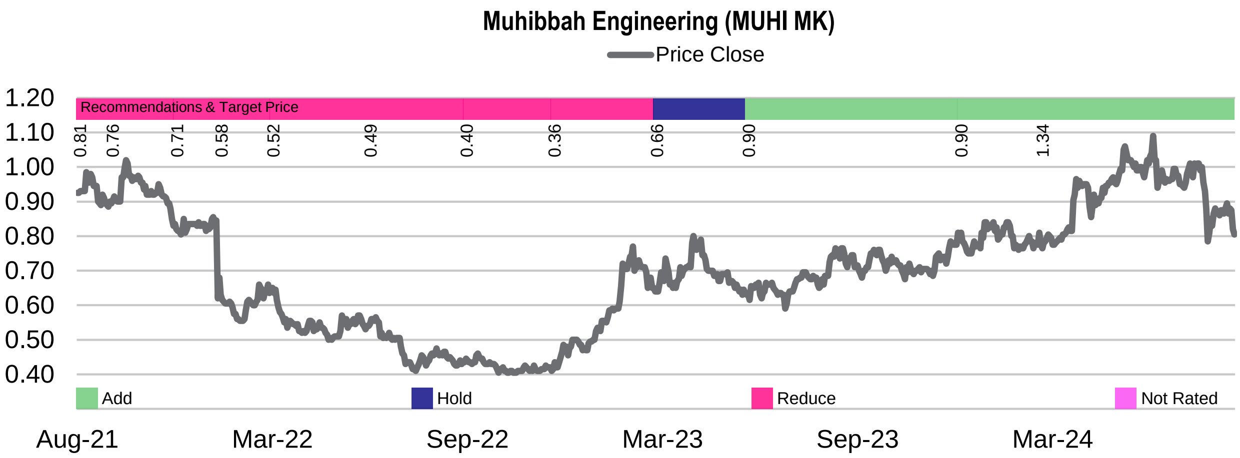
Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2024 588 companies under coverage for quarter ended on 30 June 2024		
	Rating Distribution (%)	Investment Banking clients (%)
Add	65.0%	0.5%
Hold	25.3%	0.5%
Reduce	9.7%	0.3%

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.

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