Equity | Malaysia | Construction

CIMB Securities

29 Nov 2024

Muhibbah Engineering

Larger bids coming through

Buy

Price
RM0.82

Target Price
RM1.20

Market Data

Bloomberg Code	MUHI MK
No. of shares (m)	730.7
Market cap (RMm)	599.2
52-week high/low (RM)	1.10 / 0.67
Avg daily turnover (RMm)	2.8
KLCI (pts)	1,597.5

Source: Bloomberg, CIMB Securities

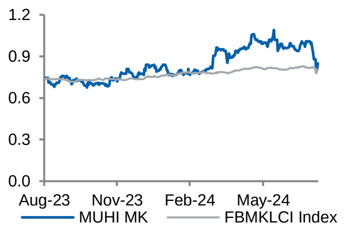
Major Shareholder (%)

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

Excluding a negative forex impact of RM30m, Muhibbah's core 3Q24 profit climbed 29% qoq, spurred by stronger associate earnings and a small tax credit of RM0.5m that was recorded during the quarter (2Q24: tax expense of RM16m). The group is seeing an increase in tender flows of late, with oil and gas projects making up more than 60% of its RM6bn tender book. Maintain Buy with an unchanged SOTP-based TP of RM1.20.

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	11.9	8.6	7.4
Div yield (%)	0.0	0.0	1.8	2.7	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

3Q24 core profit surged 29% qoq

Excluding a negative forex impact of RM30m, Muhibbah's core 3Q24 profit climbed 29% qoq, spurred by stronger associate earnings and a small tax credit of RM0.5m that was recorded during the quarter (2Q24: tax expense of RM16m). Construction revenue fell by a sharp 28% qoq, after being dragged down by slower progress billings for its ongoing projects. While its 9M24 core earnings accounted for 81% of our full-year forecast (79% of consensus full-year forecast), we deem it to be in line with expectations as 4Q24 construction progress could be hampered by (i) the rainy spell and (ii) a lower construction order book of RM758m as of 27 Nov 2024 (-21% versus RM958m as of 27 Aug 2024).

RM6bn infrastructure tender book

As of 27 Nov 2024, Muhibbah's total outstanding order book stands at RM1.4bn; construction bids amounted to RM758m or 55% of the total, and the remaining RM623m is from its cranes segment (inclusive of RM129m in work orders in the Intelligent Automation division). More than 60% of the group's RM6bn construction tender book comes from oil and gas jobs (the outcome of two relatively sizeable bids could be known by early FY25F). By itself, Muhibbah's 64%-owned subsidiary Favelle Favco (RM1.73, Not Covered) is bidding for another RM2bn worth of orders.

Airport concession earnings continue to climb

The jump in 9M24 associate profits (+96% yoy) was mainly attributed to its 21%-owned airport concession, Cambodia Airports (or SCA), which welcomed 3.5m passengers (+19% yoy). The strong momentum appears to have continued in Oct 2024; *Khmer Times* reported that Jan–Oct 2024 Cambodian passenger traffic surged 21% to 4.7m passengers, although this included passenger traffic at Siem Reap Airport, which ceased to be under SCA's concession rights from Oct 2023.

Building up logistics rental income

In late-May 2024, Favelle Favco announced that it will partner with Dexus Property Services and Dexus Funds Management to redevelop half of the freehold land that it owns in New South Wales (Australia) into two single-storey logistics warehouses at a total development cost of AUD40m (about RM124m). The two warehouses will have a combined gross floor area of 14,000 sq m, and a projected yield of AUD4–5m p.a. Besides monetising the hidden value of its existing landbank, the strategic move forms part of Favelle Favco's longer-term plan to build up its recurring income base, which includes its crane rental business.

Analyst

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Maintain Buy

We reiterate our Buy call on Muhibbah with an unchanged TP of RM1.20, pegging the stock at a 25% discount to its SOTP. Key catalysts: more infrastructure and crane orders. Key risk factor: prolonged uncertainties surrounding its existing Phnom Penh Airport concession.

Exhibit 1: Financial results

YE 31 Dec (RM m)	9M23	9M24	% YoY	2Q24	3Q24	% QoQ
Turnover	**814.8**	**1,382.3**	***69.7***	**631.9**	**423.4**	***(33.0)***
Net operating cost/income	(783.2)	(1343.8)		(610.4)	(425.0)	
EBIT	31.5	**38.5**	***22.0***	21.6	(1.6)	***nm***
Interest income	4.4	11.5		5.5	4.1	
Interest cost	(24.2)	(16.6)		(3.8)	(4.9)	
Pre-associates/JV profit	11.8	33.5		23.2	(2.5)	
Associates/JVs	32.4	61.2	***88.8***	16.1	31.6	***95.7***
Pre-exceptionals profit	44.1	94.6		39.4	29.1	
Exceptionals	14.1	(9.7)		8.2	(22.6)	
Pretax Profit	**58.3**	**85.0**	***45.7***	**47.5**	**6.5**	***(86.3)***
Taxation	(17.4)	(22.4)		(15.6)	0.5	
Minorities	(27.6)	(30.6)		(9.8)	(11.4)	
Net Profit	**13.3**	**32.0**	***140.6***	**22.2**	**(4.4)**	***nm***
Core Net Profit	**(0.9)**	**41.6**	***nm***	**14.0**	**18.1**	***29.0***
Core EPS (sen)	(0.1)	5.5		1.8	2.4	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	1.82	1.78		1.85	1.78	
EBIT margin (%)	3.9	2.8		3.4	(0.4)	
Pretax margin (%)	7.2	6.1		7.5	1.5	
Effective tax (%)	29.8	26.4		32.7	(7.3)	
Breakdown (RM m)						
Turnover						
Construction	344.7	798.2	*131.5*	387.7	280.4	*(27.7)*
Cranes	470.0	584.1	*24.3*	206.0	196.5	*(4.6)*
Marine ship repair & shipbuilding	0.0	0.0	*n/m*	38.2	(53.5)	*nm*
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	**814.8**	**1,382.3**	***69.7***	**631.9**	**423.4**	***(33.0)***
Pre-tax profit						
Construction	11.8	15.4	*31.1*	40.1	(33.3)	*nm*
Cranes	53.9	35.6	*(34.0)*	13.9	2.7	*(80.8)*
Marine ship repair & shipbuilding	(40.6)	(28.0)	*n/m*	(23.4)	4.2	*n/m*
Concessions	33.2	61.9	*86.3*	16.9	33.0	*95.2*
Manufacturing & trading	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Total	**58.3**	**85.0**	***45.7***	**47.5**	**6.5**	***(86.3)***
Pre-tax margin (%)						
Construction	3.4	1.9		10.3	(11.9)	
Cranes	11.5	6.1		6.8	1.4	
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	**7.2**	**6.1**		**7.5**	**1.5**	

Source: Company, CIMB Securities

Exhibit 2: NAV calculation

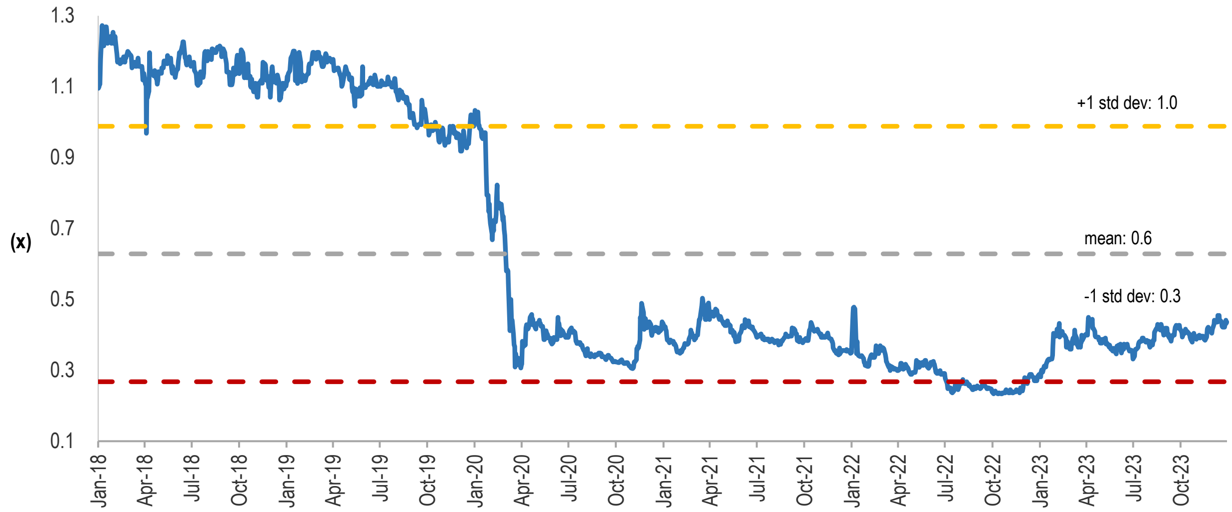
Division	Value (RM) mn	per share	Stake (%)	(% of NAV)	Method
Construction	379.5	0.50	various	31.1	13x FY25F construction profits
Marine shipbuilding & repair	255.8	0.34	100.0	21.0	FY22 net book value
Cranes (Favelle Favco)	307.6	0.40	64.5	25.2	Market Value
Concessions: SCA	580.5	0.76	21.0	47.6	DCF @ 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 28 Nov 2024	0.82				
Upside (%)	46.0				
FY25F yield (%)	1.8				
Total return (%)	**47.8**				
Discount to NAV (%)	**(48.6)**				
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

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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: *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.*
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