Muhibbah Engineering

Strong 4Q but needs more sizeable wins

- 4Q24 results beat expectations; the key highlight was its Cambodia airport concessions with quarterly profit exceeding pre-pandemic levels.
- Depleting orderbook is a risk; it needs more sizeable contract wins in FY25F.
- Reiterate Add with a lower SOP-derived TP to RM1.10 as we adjust earnings.

Malaysia

ADD *(no change)*

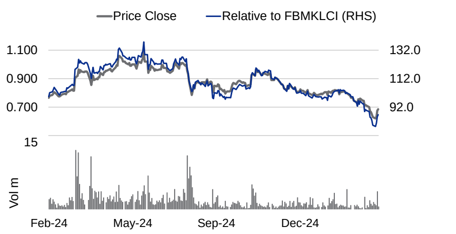
Consensus ratings*:	Buy 3	Hold 0	Sell 0

Current price:	RM0.685
Target price:	RM1.10
Previous target:	RM1.34
Up/downside:	60.7%
CGSI / Consensus:	-7.9%
Reuters:	MUHI.KL
Bloomberg:	MUHI MK
Market cap:	US$112.4m
	RM499.5m
Average daily turnover:	US$0.18m
	RM0.80m
Current shares o/s:	727.0m
Free float:	73.3%

*Source: Bloomberg

Key changes in this note

- Adjusting FY25F/FY26F EPS by -1%/+1% to factor in lower construction and crane new wins of RM790m/RM940m (vs RM900m/RM1.1bn) but compensated by stronger concession earnings.
- Lowering TP to RM1.10 assuming lower sustainable orderbook of RM1.5bn (vs. RM2.5bn previously).



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-12.2	-18.5	-15.4
Relative (%)	-14.0	-17.4	-17.2

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

4Q24 beat; Cambodia airport profits above pre-Covid-19 levels

Muhibbah delivered a 4Q24 core net profit of RM47m (+4% yoy), bringing its 12M24 core net profit to RM78m (+86%). This was above expectations, at 147%/149% of our/Bloomberg consensus' full-year net profit forecasts. There was strength across all divisions but the key positive in 4Q24 was strong associate profit of RM58m (+111% yoy and 82% qoq), largely from its Cambodia airport concessions (Phnom Penh and Silhanoukville). This was above pre-Covid-19 levels (before 4Q19) and driven by increases in passenger service charge of 20% and higher passenger arrivals. 12M24 passenger arrivals for the Phnom Penh airport and Silhanoukville airport concessions rose 20% yoy to 4.8m. For FY24, China passengers made up 24% of total passenger arrivals (vs. 18% in FY23 and 61% in FY19). 4Q24 pretax profit for its crane business rose 68% to RM52m driven by its RM528m orderbook as at Feb 25. Its construction division posted a 4Q24 profit before tax of RM81m (vs. RM17m in 4Q24) due to sales of vessels, write backs and final certification of orders.

Depleting orderbook; needs to clinch more sizeable wins

Muhibbah's orderbook (construction and cranes) has been dwindling and was RM1.1bn as at Feb 25, vs. RM1.4bn in Nov 24 and a Nov 23 peak of RM2.4bn. It has not won any material contracts this year, or in FY24, while the Engineering, Procurement, Construction and Commissioning (EPCC) award for the Lang Lebah gas field which it was expecting this year has been deferred. Nonetheless, we understand from the company that there will be fresh tenders from Petronas by 1H25F. Given its prior experience with similar projects in Gansar, Bekok and Bindu in Terengganu, we think Muhibbah is in a good position to clinch such projects. Muhibbah's value proposition is not in government infrastructure or the data centre space, but in marine-based construction and offshore platforms, leveraging on its Petronas fabrication licence, in our view. Its crane business is awaiting the result of some tenders for the supply of tower cranes for the world's biggest construction project known as Neom in Saudi Arabia.

Reiterate Add with a lower TP of RM1.10

Our lower TP of RM1.10 (SOP) assumes lower sustainable orderbook and values construction at 14x FY25 P/E and cranes at 12x FY25 P/E. Its share price has fallen 19% over the last three months amid concerns over its dwindling orderbook and lack of clarity on the continuity of its Phnom Penh airport concession. Still at FY25F P/E of 7x (vs. sector's 15x), Muhibbah is an attractive proxy for the recovery in tourist arrivals via its Cambodian airports and more Petronas job flows, in our view. Key downside risks are non-continuity in earnings delivery and higher raw material costs. Re-rating catalysts include better earnings delivery and stronger tourist arrivals in Cambodia.

Financial Summary	Dec-23A	Dec-24A	Dec-25F	Dec-26F	Dec-27F
Revenue (RMm)	1,255	1,944	1,307	1,320	1,405
Operating EBITDA (RMm)	145.6	67.1	106.6	109.6	129.2
Net Profit (RMm)	(7.98)	72.96	66.55	68.64	74.10
Core EPS (RM)	0.03	0.11	0.09	0.09	0.10
Core EPS Growth		297%	(14%)	3%	8%
FD Core P/E (x)	25.60	6.45	7.48	7.25	6.72
DPS (RM)	-	0.030	0.046	0.047	0.051
Dividend Yield	0.00%	4.42%	6.68%	6.89%	7.44%
EV/EBITDA (x)	1.85	1.32	0.71	(0.02)	(0.49)
P/FCFE (x)	3.45	2.19	49.93	5.91	6.64
Net Gearing	3.49%	(7.64%)	(5.40%)	(6.38%)	(6.76%)
P/BV (x)	0.39	0.37	0.36	0.35	0.34
ROE	1.50%	5.85%	4.85%	4.86%	5.11%
% Change In Core EPS Estimates			(1.39%)	0.83%	
EPS/Consensus EPS (x)			0.98	0.94	(0.00)

SOURCES: CGSI RESEARCH, COMPANY REPORTS

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Decent 4Q but needs more sizeable wins

Figure 1: Change in FY25-26F forecasts

	Previous FY25F	Previous FY26F	Revised FY25F	Revised FY26F	Change % FY25F	Change % FY26F
Revenue (RMm)	1358.3	1,380.0	1,307.1	1,320.5	-3.8%	-4.3%
Pretax profit (RM	132.4	132.6	135.5	140.0	2.4%	5.6%
Net profit (RMm)	67.5	68.1	66.6	68.6	-1.4%	0.8%

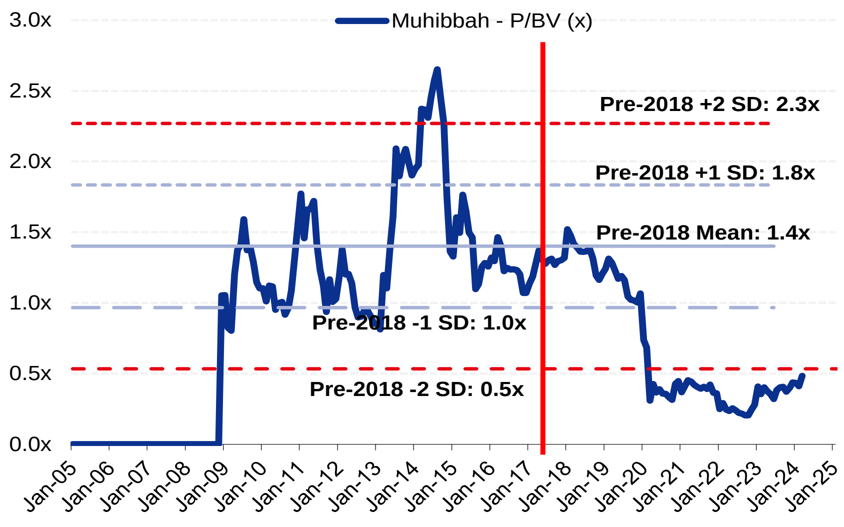
SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Figure 2: SOP valuation for Muhibbah

SOP Method	Earnings / NPV/ MV (RMm)	PE FY25F / WACC (2025-40,%)	Stake	Atributed Value (RMm)	Per Share (RM)
Construction	10	14	100%	136	0.19
Cranes (Favelle Favco)	34	12	61%	248	0.34
Cambodia airports	1,930	12%	21%	405	0.56
Road maintenance	50.9	8%	21%	11	0.01
SOP Value				800.3	1.10
Implied CY25F P/E (x)					12.0
Implied CY25F P/BV (x)					0.6

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Figure 3: 1-year forward P/BV levels tracking multi-year lows



SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 4: Peer comparison (share price as at 27 Feb 2025)

Company	Bloomberg Ticker	Rec.	Price (lcl curr)	TP (lcl curr)	Mkt Cap (US$ m)	P/E (x) CY24F	CY25F	2-year EPS CAGR	PEG (x)	P/BV (x) CY24F	CY25F	Recurring ROE (%) CY24F	CY25F	Dividend Yield (%) CY24F	CY25F
Gamuda	GAM MK	Add	4.46	6.45	5,745	23.9	18.3	24.3%	1.0	2.15	1.97	9.0%	11.2%	2.0%	2.3%
IJM Corp Bhd	IJM MK	Add	2.11	3.80	1,671	14.8	12.4	18.6%	0.8	0.71	0.68	4.8%	5.6%	1.3%	1.3%
Sunway Construction Group Bhd	SCGB MK	Add	4.34	5.70	1,264	30.9	18.3	44.8%	0.7	6.41	5.46	21.0%	32.1%	1.9%	2.7%
Muhibbah Engineering	MUHI MK	Add	0.68	1.10	111	6.4	7.4	87.1%	0.1	0.37	0.35	5.7%	4.8%	4.4%	6.7%
HSS Engineers	HSS MK	Add	0.99	1.50	113	20.8	9.9	59.4%	0.3	1.85	1.63	8.8%	17.4%	1.3%	3.3%
YTL Corporation	YTL MK	Add	1.89	3.00	4,716	10.0	10.0	14.8%	0.7	1.21	1.11	12.5%	11.3%	2.4%	2.6%
Malayan Cement Bhd	LMC MK	Add	5.02	7.00	1,522	13.5	12.2	33.4%	0.4	1.03	0.97	7.8%	8.1%	2.1%	2.4%
Sunway Bhd	SWB MK	Add	4.63	5.80	6,459	25.1	24.8	26.7%	0.9	1.77	1.83	7.2%	7.5%	1.6%	1.8%
Econpile Holdings Bhd	ECON MK	Add	0.28	0.46	88	na	31.8	na	na	1.10	1.12	-2.7%	3.4%	1.5%	3.7%
Kumpulan Kitacon Bhd	KITACON MK	Add	0.74	1.28	84	8.4	7.4	16.9%	0.5	1.12	1.03	14.1%	14.6%	3.1%	3.5%
Construction sector						**17.1**	**15.2**	**36.2%**	**0.6**	**1.8**	**1.6**	**8.8%**	**11.6%**	**2.2%**	**3.0%**

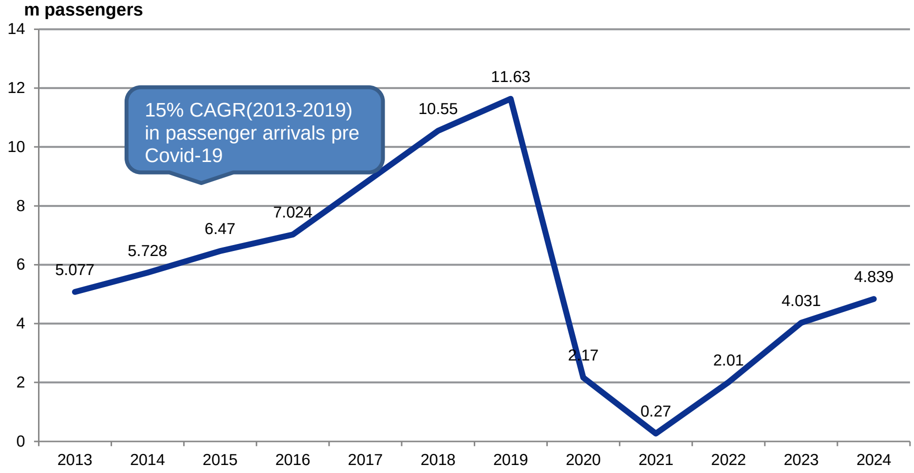
SOURCES: CGSI RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

Figure 5: Muhibbah's 4Q24 results comparisons yoy and qoq

	4QFY24 RMm	4QFY23 RMm	% change	3QFY24 RMm	% change
Revenue	561.8	477.3	18%	423.4	33%
Operating expense	-529.0	-492.7	7%	-447.6	18%
EBIT	32.8	-15.4	-314%	-24.2	-236%
Interest income	6.5	7.0	-6%	4.1	60%
Finance cost	-6.7	-10.3	-35%	-4.9	36%
Share of associate results	57.5	27.3	111%	31.6	82%
Profit before taxation	90.1	8.6	947%	6.5	1286%
Taxation	-16.4	-13.7	20%	0.5	-3556%
Net income	73.8	-5.1	-1553%	7.0	957%
Minority interest	-32.8	-16.2	103%	-11.4	187%
Atributed to shareholders	41.0	-21.3	-293%	-4.4	-1026%
Exceptional items	-5.9	-66.1	-91%	-15.8	-63%
Core net profit	46.9	44.9	4%	11.4	311%
Quarterly segmentals					
Construction	81.4	16.6	390%	-33.3	-344%
Cranes	52.3	31.1	68%	2.7	1855%
Concessions	53.7	26.4	103%	33.0	63%
Eliminations	-97.2	-65.5	48%	4.2	-2429%
Profit before taxation	90.1	8.6	947%	6.5	-1404%

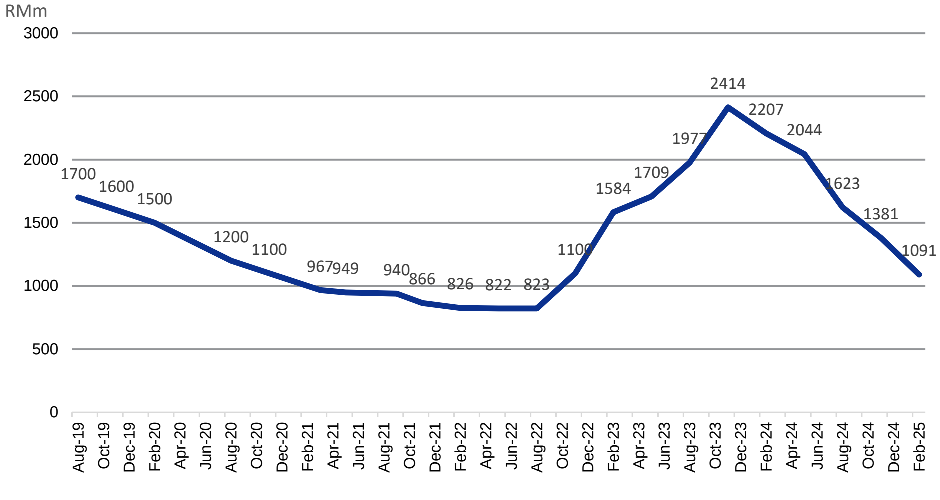
SOURCES: CGSI RESEARCH, COMPANY REPORTS, STATE SECRETARIAT OF CIVIL AVIATION

Figure 6: Cambodia's passenger arrivals at its international airports in 2024 was just 41% of the peak in 2019



SOURCES: CGSI RESEARCH, COMPANY REPORTS, STATE SECRETARIAT OF CIVIL AVIATION

Figure 7: Muhibbah's construction and cranes orderbook decline from the recent peak implies some urgency to replenish orderbook



SOURCES: CGSI RESEARCH, COMPANY REPORTS

ESG in a nutshell

LSEG ESG Scores

C	A+	C	C+	D+	B
ESG Grade	ESG Controversies Grade	ESG Combined Grade	ESG Environment Pillar Grade	ESG Social Pillar Grade	ESG Governance Pillar Grade

Muhibbah Engineering started incorporating sustainability and ESG in its annual reporting in 2020. Its latest LSEG ESG Score as at 31 Dec 2023 was C. As far as governance of overall ESG (sustainability) is concerned, it is led by the group's sustainability steering committee (SSC) and sustainable working committee (SWC) and overseen by its deputy chief executive officer (DCEO).

Keep your eye on

Potentially more sustainability initiatives relating to its four key divisions. The group's business portfolio comprises: 1) infrastructure construction, 2) concessions, 3) cranes, and 4) shipyard.

Its infrastructure and construction division is primarily engaged in infrastructure, civil and structural engineering, marine, oil and gas, shipbuilding and contract works. Its concessions division consists of privatised Cambodia Airports and road maintenance for the federal government of Malaysia.

In FY23, the group's sustainability reporting mainly covered its operations in Malaysia.

Implications

In our view, one way the group could improve its ESG profile is to participate in future domestic rail urban projects (electrified), which are part of the overall 12th Malaysia Plan (12MP) green infrastructure plans.

Its airport concession is also looking at obtaining Level 3+ (Neutrality) accreditation from Airport Carbon Accreditation to compensate for its remaining carbon emissions that cannot be reduced by other means. The company said it may look to support green energy projects and purchase or invest in carbon credits.

ESG highlights

In terms of its LSEG ESG scores in 2023, Muhibbah showed a deterioration in the ESG Social Pillar to D+ vs. C- in 2022. The rest of the ESG pillars were largely unchanged. Major ESG materiality areas are employee well-being, contribution to society, energy and water consumption, air emissions, biodiversity, and labour practices.

According to the company, its environmental policy statement is driven by the setting up of Specific, Measurable, Achievable, Realistic and Time (SMART) bound objectives, targets and an Environment Management Programme (EMP).

Muhibbah's sustainability vision is developed on a strategy that focuses on four main pillars encompassing the Marketplace, Workplace, Environment and Community.

At various project sites, it practises operational control plans on waste management in accordance with the Environmental Quality (Scheduled Waste) Regulations (2005).

Implications

Over time, we expect the group to improve its sustainable reporting. In its FY23 annual report, disclosures from all of its divisions about ESG plans improved compared to previous years. As at 2023, 69% of its workforce was male, reflecting the nature of its business operations. However, it is committed to ensuring equal opportunities for all and will continue to work towards diversifying its workforce.

Its subsidiary CiTech is a well-recognised leading supplier of waste heat recovery units (WHRUs) and home of the first and original patented compact cylindrical CiBAS (concentric, integral, by-pass and silencer) WHRU.

As at FY23, it had successfully recovered more than 5.3tr megawatts (MW) thermal energy from its installed CiBAS units globally. Based on the average conversion rate for Europe of 0.296, this is equivalent to a reduction of 1.6 billion kilotonnes of CO_2.

Trends

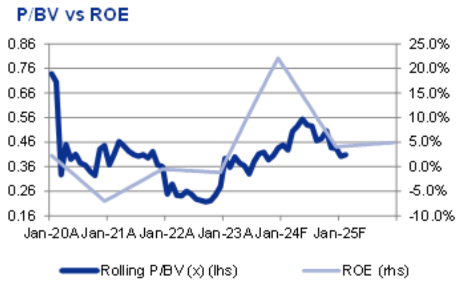
The group is not a constituent of Bursa Malaysia's FTSE4Good index (FTSE4G). It received a 1-star rating from FTSE Russell for Dec 2022, which was maintained at the same level for Dec 2023.

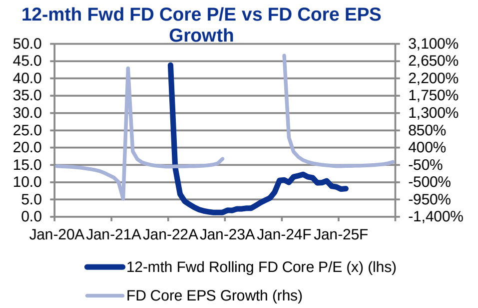
Implications

While Muhibbah Engineering's ESG disclosures have improved over the years compared with other diversified contractors under our coverage, its disclosures still lag behind its larger capitalisation counterparts.

SOURCES: CGSI RESEARCH, LSEG, COMPANY REPORTS

BY THE NUMBERS





Profit & Loss

(RMm)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Net Revenues	**896.8**	**1,255.2**	**1,353.4**	**1,358.3**	**1,380.0**
Gross Profit	**184.2**	**259.0**	**230.1**	**268.9**	**276.0**
Operating EBITDA	**116.4**	**394.4**	**140.3**	**173.0**	**173.4**
Depreciation And Amortisation	(73.0)	(75.6)	(87.6)	(88.8)	(90.0)
Operating EBIT	**43.4**	**318.9**	**52.7**	**84.2**	**83.4**
Financial Income/(Expense)	(0.3)	(16.2)	(14.2)	(12.8)	(13.7)
Pretax Income/(Loss) from Assoc.	(1.2)	62.9	59.1	61.0	62.9
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	**41.8**	**365.5**	**97.6**	**132.4**	**132.6**
Exceptional Items	(17.5)	(50.2)	0.0	0.0	0.0
Pre-tax Profit	**24.3**	**315.3**	**97.6**	**132.4**	**132.6**
Taxation	(18.6)	(30.2)	(10.0)	(18.6)	(18.1)
Exceptional Income - post-tax					
Profit After Tax	**5.7**	**285.2**	**87.6**	**113.8**	**114.5**
Minority Interests	(23.6)	(44.4)	(34.2)	(46.3)	(46.4)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	**(17.9)**	**240.8**	**53.4**	**67.5**	**68.1**
Recurring Net Profit	(13.8)	286.2	53.4	67.5	68.1
Fully Diluted Recurring Net Profit	**(13.8)**	**286.2**	**53.4**	**67.5**	**68.1**
Normalised Net Profit	23.2	335.4	87.6	113.8	114.5
Fully Diluted Normalised Profit	**(0.4)**	**291.0**	**53.4**	**67.5**	**68.1**

Cash Flow

(RMm)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
EBITDA	116.4	394.4	140.3	173.0	173.4
Cash Flow from Invt. & Assoc.	1.2	(62.9)	(59.1)	(61.0)	(62.9)
Change In Working Capital	13.0	159.5	(81.9)	(13.8)	(7.1)
(Incr)/Decr in Total Provisions	2.3	(33.3)	25.8	24.7	26.0
Other Non-Cash (Income)/Expense	(38.5)	(14.8)	33.3	36.2	36.9
Other Operating Cashflow	71.6	52.9	0.0	0.0	0.0
Net Interest (Paid)/Received	(0.3)	(16.2)	(14.2)	(12.8)	(13.7)
Tax Paid	(18.6)	(30.2)	(10.0)	(18.6)	(18.1)
Cashflow From Operations	**147.0**	**449.5**	**34.1**	**127.8**	**134.5**
Capex	(219.5)	(14.4)	(30.0)	(30.0)	(30.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	132.2	(20.3)	0.0	0.0	0.0
Cash Flow From Investing	**(87.3)**	**(34.7)**	**(30.0)**	**(30.0)**	**(30.0)**
Debt Raised/(repaid)	(204.8)	(32.4)	25.0	25.0	25.0
Proceeds From Issue Of Shares	119.9	0.3	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(141.2)	(14.7)	0.0	(21.4)	(33.7)
Preferred Dividends					
Other Financing Cashflow	14.4	(34.0)	0.0	0.0	0.0
Cash Flow From Financing	**(211.8)**	**(80.8)**	**25.0**	**3.6**	**(8.7)**
Total Cash Generated	(152.1)	334.0	29.1	101.4	95.8
Free Cashflow To Equity	**(145.1)**	**382.4**	**29.1**	**122.8**	**129.5**
Free Cashflow To Firm	**79.5**	**442.3**	**30.0**	**122.5**	**130.5**

SOURCES: CGSI RESEARCH, COMPANY REPORTS

BY THE NUMBERS… cont'd

Balance Sheet

(RMm)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Cash And Equivalents	298	394	423	525	620
Total Debtors	737	649	742	744	756
Inventories	294	333	369	358	363
Total Other Current Assets	22	10	10	10	10
Total Current Assets	**1,351**	**1,387**	**1,545**	**1,638**	**1,750**
Fixed Assets	1,174	1,113	1,057	999	941
Total Investments	722	807	865	925	987
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	138	157	157	157	157
Total Non-current Assets	**2,034**	**2,077**	**2,079**	**2,081**	**2,084**
Short-term Debt	280	353	378	403	428
Current Portion of Long-Term Debt					
Total Creditors	581	692	739	716	726
Other Current Liabilities	446	340	340	340	340
Total Current Liabilities	**1,306**	**1,386**	**1,457**	**1,460**	**1,495**
Total Long-term Debt	110	104	104	104	104
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	169	168	168	168	168
Total Non-current Liabilities	**279**	**272**	**272**	**272**	**272**
Total Provisions	0	0	0	0	0
Total Liabilities	**1,585**	**1,658**	**1,729**	**1,732**	**1,766**
Shareholders' Equity	1,302	1,291	1,344	1,390	1,424
Minority Interests	498	516	551	597	643
Total Equity	**1,800**	**1,807**	**1,894**	**1,987**	**2,068**

Key Ratios

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue Growth	(10.6%)	40.0%	7.8%	0.4%	1.6%
Operating EBITDA Growth	(3%)	239%	(64%)	23%	0%
Operating EBITDA Margin	13.0%	31.4%	10.4%	12.7%	12.6%
Net Cash Per Share (RM)	(0.12)	(0.09)	(0.08)	0.02	0.12
BVPS (RM)	1.79	1.78	1.85	1.91	1.96
Gross Interest Cover	2.19	11.61	2.04	3.40	3.21
Effective Tax Rate	76.5%	9.6%	10.3%	14.0%	13.7%
Net Dividend Payout Ratio	NA	NA	40.0%	50.0%	50.0%
Accounts Receivables Days	305.7	201.5	188.0	199.6	198.4
Inventory Days	154.3	114.9	114.5	121.9	119.2
Accounts Payables Days	305.2	233.2	233.1	243.7	238.4
ROIC (%)	3.7%	23.8%	4.3%	6.7%	6.9%
ROCE (%)	2.8%	14.8%	2.8%	3.9%	3.8%
Return On Average Assets	0.7%	10.3%	2.9%	3.4%	3.4%

Key Drivers

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
New orders for construction	N/A	-	150.0	500.0	600.0
New orders for cranes	N/A	400.0	400.0	400.0	500.0

SOURCES: CGSI RESEARCH, COMPANY REPORTS

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Description:	Excellent	Very Good	Good	N/A	N/A

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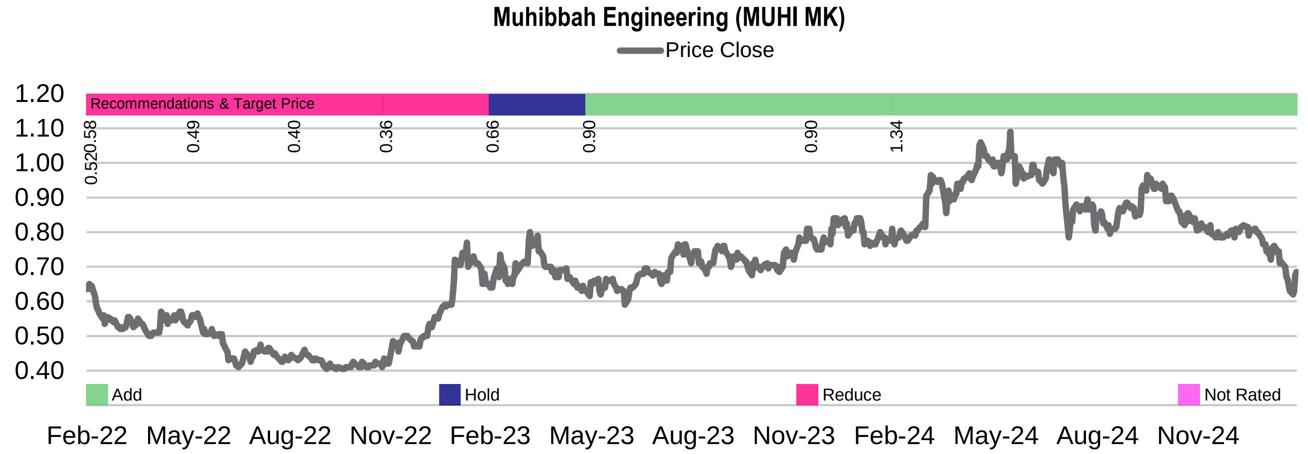
	Rating Distribution (%)	Investment Banking clients (%)
Add	67.4%	0.8%
Hold	22.2%	0.8%
Reduce	10.4%	0.3%

Spitzer Chart for stock being researched (2 year data)



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