CIMB Securities

Equity | Malaysia | Construction

3 Mar 2025

Muhibbah Engineering

Tailwinds from oil and gas, Middle Eastern crane demand

Buy

Price
RM0.67

Target Price
RM1.10 (from RM1.20)

Market Data

Bloomberg Code	MUHI MK
No. of shares (m)	730.7
Market cap (RMm)	452.1
52-week high/low (RM)	1.10 / 0.60
Avg daily turnover (RMm)	0.9
KLCI (pts)	1,584.3

Source: Bloomberg, CIMB Securities

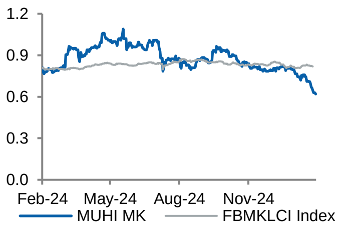
Major Shareholder (%)

Mac family & associates	(29.0%)
Free Float	71.0

Source: Bloomberg, CIMB Securities

Performance

	3M	6M	12M
Absolute (%)	(27.1)	(28.3)	(20.5)
Rel Market (%)	(27.1)	(26.0)	(20.5)



Source: Bloomberg, CIMB Securities

Although Muhibbah's FY24 results surpassed expectations (4Q24 core profits: +54% QoQ to RM28m), we cut our core FY25F profit projection for the group by 6% YoY (FY26F: -9%), as order book levels have fallen by half YoY to RM1.1bn in Feb 2025, with no major contract wins to offset the decline. Yet, backed by a combined tender book of RM4.4bn (construction + cranes), we project Muhibbah's core FY26F profits to rebound to RM76m against RM67m in FY25F, rising further to RM85m in FY27F. Our optimism stems from higher job replenishment forecasts of RM500m–1bn for FY25–27F (FY24: nil), as major oil and gas prospects become more visible alongside potential gains from robust Middle Eastern crane demand. Forward valuations are undemanding with FY26F–27F P/Es of only 6–7x and attractive dividend yields of 3.4–5.2%. Maintain Buy with a lower SOTP-based TP of RM1.10 (from RM1.20).

Financial highlights

FYE Dec	2023	2024	2025F	2026F	2027F
Revenue (RMm)	1,255.2	1,944.1	1,384.4	1,534.9	1,850.5
Core net profit (RMm)	17.0	69.5	67.0	75.7	84.9
Core EPS (Sen)	2.3	9.1	8.7	9.9	11.1
EPS growth (%)	nm	nm	(3.6)	13.1	12.1
DPS (Sen)	0.0	3.0	2.3	3.0	3.5
Core PE (x)	nm	nm	7.7	6.8	6.1
Div yield (%)	0.0	4.5	3.4	4.5	5.2
ROE (%)	(0.6)	5.5	4.9	5.3	5.7
Net Gearing (%)	Net Cash	Net Cash	0.0	0.1	0.1
PBV(x)	0.4	0.4	0.4	0.3	0.3

Source: Company, CIMB Securities

FY24 results: Above expectations

Muhibbah's FY24 results surpassed expectations, with 4Q24 core profits surging 54% QoQ to RM28m, driven by stronger performances across all main operating units. Bolstered by 21%-owned Cambodia Airports, Muhibbah's associate profits almost doubled YoY to reach RM119m (4Q24: +82% QoQ to RM57m). As a result, 4Q24 core pre-tax margins jumped 6.8 percentage points QoQ to 13.7%. Boosted by a 11-fold YoY jump in dividends received from associates to RM77m, Muhibbah's net debt position (including bills payable) improved significantly to RM249m in FY24 (FY23: RM405m), while net interest cost fell 15% YoY to RM23m. Reinforcing the group's strong FY24 performance, Muhibbah declared a final DPS of 3 sen (payout ratio: 30%), double our DPS forecast of 1.5 sen. This represents Muhibbah's first dividend payment in five years, and implies an attractive yield of 4.5%. Based on a dividend payout ratio of 24–30%, we project FY25–27F dividend yields to be 3.4–5.2%.

Rebuilding order book growth

In the absence of any major wins in FY24, Muhibbah's outstanding order book (construction and cranes) has dropped by half to RM1.1bn as of 20 Feb 2025, vs. RM2.2bn a year ago. It also recently lost a major oil and gas bid. Despite this, Muhibbah's infrastructure tender book of RM2.2bn (foreign-to-local mix: 58:42), which also comprises marine infrastructure work, lays a solid foundation for the group to rebuild order book growth. While oil and gas–related projects only account for 5% of its active bids, we expect a breakthrough in the Petronas-Petroleum Sarawak impasse to spur new hydrocarbon construction mandates for Muhibbah, a leading Petronas-licensed offshore fabricator, in the coming months. While *Upstream Online* indicated in Feb 2025 that the final investment decision for the giant Lang Lebah gas field may be postponed at least until 2026, Muhibbah is weighing up five other prospective bids involving fabrication and other specialised work within the oil and gas field. Likewise, Muhibbah's 64%-owned Favelle Favco (RM1.71, Non Rated) is tendering for RM2.2bn worth of jobs and is eyeing massive crane supply opportunities under NEOM, Saudi Arabia's futuristic city project. Construction work on two key components of NEOM — the Trojena Ski

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Village (venue for the 2029 Asian Winter Games) and Mukaab (touted as the world's largest building) — are well underway, creating huge, multi-year requirements for tower cranes. As a strong pipeline of large-scale infrastructure will be implemented in phases under the Saudi Vision 2030 programme, Research and Markets projects the Saudi Arabian crane market to expand to US$1.7bn by 2029, up from US$1bn in 2023. In Malaysia, a gradual step-up in rail infrastructure spending — starting with the Penang LRT and LRT 3 Phase 2 — bodes well for Muhibbah, a market leader in noise barriers.

Cambodia Airports continues positive trajectory

Buoyed by a rebound in Cambodia's leisure industry, Cambodia Airports' air traffic surged 20% YoY to reach 4.8m passengers (4Q24: +22 YoY to 1.3m passengers), albeit still 37% YoY lower than the pre–COVID-19 pandemic level of 7.7m passengers in 2019. This was driven by a 55% YoY jump in the number of Chinese arrivals to Cambodia (848,952 visitors) in 2024, making them the third-largest group by nationality. For 2025, *Khmer Times* reported Cambodia's state secretariat of civil aviation as saying that Cambodia's airport traffic is projected to rise 25% YoY to reach 7m passengers (inclusive of Siem Reap airport; for which Cambodia Airports ceased as its operator in Oct 2023) vs. our 5.5m projections for the two airports under Cambodia Airports' control (Phnom Penh and Sihanoukville). Similarly, we expect Muhibbah to benefit from a favourable resolution to Cambodia Airports' existing Phnom Penh airport concession, which may include compensation and new operating rights at the Techo International Airport in Kandal province (Phase 1 set to commence operations in Jul 2025).

Something brewing in Kuantan?

After a lull, Muhibbah's Kuantan Maritime Hub (KMB) finally broke ground in Aug 2024. The RM2.1bn project has been earmarked for shipbuilding and maintenance activities, a specialised construction centre for the oil and gas industry, a maritime industry centre, and mixed-use property development. The centralised hub will be developed on a 500-acre waterfront parcel adjacent to Kuantan Port and is well-positioned to capitalise on increased demand for marine-based services, when the East Coast Rail Line commences operations on 1 Jan 2027. Based on a conservative market value of RM3 per square foot, we value KMB at RM65m, or 4.6% of its SOTP value.

Maintain Buy

We cut our core FY25F profit estimate by 6% YoY (FY26F: -9%), as the group's Feb 2025 order book levels have declined by half YoY to RM1.1bn without winning any major contracts. Yet, backed by a combined tender book of RM4.4bn (construction + cranes), we project Muhibbah's core FY26F profits to rebound to RM76m against RM67m in FY25F, rising further to RM85m in FY27F. Our optimism stems from higher job replenishment forecasts of RM500m–1bn for FY25–27F (FY24: nil), as major oil and gas prospects become more visible alongside potential gains from robust Middle Eastern crane demand. Trading at FY26–27F P/Es of only 6–7x and attractive dividend yields of 3.4–5.2%, Muhibbah is the cheapest stock within our construction universe. Maintain Buy with a lower target price (TP) of RM1.10 (from RM1.20), pegged to an unchanged 40% discount vs. its SOTP value.

Exhibit 1: Financial results

YE 31 Dec (RM m)	FY23	FY24	% YoY	3Q24	4Q24	% QoQ
Turnover	**1,292.1**	**1,944.1**	***50.5***	**423.4**	**561.8**	***32.7***
Net operating cost/income	(1,243.8)	(1,886.0)		(425.0)	(542.1)	
EBIT	**48.3**	**58.2**	***nm***	**(1.6)**	**19.7**	***nm***
Interest income	11.4	18.1		4.1	6.5	
Interest cost	(27.5)	(23.3)		(4.9)	(6.7)	
Pre-associates/JV profit	32.2	53.0		(2.5)	19.5	
Associates/JVs	59.7	118.6	***98.9***	31.6	57.5	***82.1***
Pre-exceptionals profit	91.9	171.6		29.1	77.0	
Exceptionals	(25.0)	3.5		(22.6)	13.1	
Pretax Profit	**66.9**	**175.1**	***161.7***	**6.5**	**90.1**	***1,285.9***
Taxation	(31.1)	(38.8)		0.5	(16.4)	
Minorities	(43.8)	(63.4)		(11.4)	(32.8)	
Net Profit	**(8.0)**	**73.0**	***nm***	**(4.4)**	**41.0**	***nm***
Core Net Profit	**17.0**	**69.5**	***308.4***	**18.1**	**27.8**	***53.6***
Core EPS (sen)	2.2	9.2		2.4	3.7	
Gross DPS (sen)	0.0	3.0		0.0	3.0	
BV/share (RM)	1.78	1.85		1.78	1.85	
EBIT margin (%)	3.7	3.0		(0.4)	3.5	
Pretax margin (%)	5.2	9.0		1.5	16.0	
Effective tax (%)	46.4	22.1		(7.3)	18.2	
Breakdown (RM m)						
Turnover						
Construction	468.4	1,023.7	*118.6*	280.4	225.6	*(19.6)*
Cranes	777.5	920.4	*18.4*	196.5	336.3	*71.2*
Marine ship repair & shipbuilding	46.2	0.0	*nm*	(53.5)	0.0	*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	**1,292.1**	**1,944.1**	***50.5***	**423.4**	**561.8**	***32.7***
Pre-tax profit						
Construction	28.4	96.9	*240.9*	(33.3)	81.4	*nm*
Cranes	85.0	87.8	*3.4*	2.7	52.3	*1,854.9*
Marine ship repair & shipbuilding	(106.1)	(125.2)	*n/m*	4.2	(97.2)	*n/m*
Concessions	59.7	115.6	*93.7*	33.0	53.7	*62.7*
Manufacturing & trading	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Total	**66.9**	**175.1**	***161.7***	**6.5**	**90.1**	***1,285.9***
Pre-tax margin (%)						
Construction	6.1	9.5		(11.9)	36.1	
Cranes	10.9	9.5		1.4	15.5	
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	**5.2**	**9.0**		**1.5**	**16.0**	

Source: Company, CIMB Securities

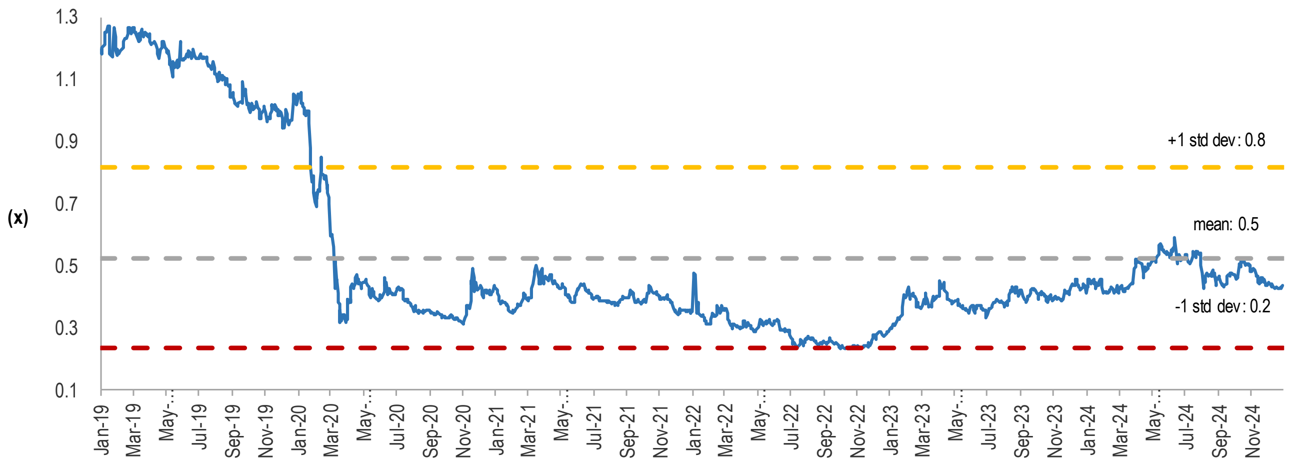
Exhibit 2: SOTP valuation

Division	Value (RM) mn	per share	Stake (%)	(% of NAV)	Method
Construction	601.0	0.78	various	42.7	13x FY26F construction profits
Marine shipbuilding & repair	241.6	0.32	100.0	17.1	FY23 net book value
Cranes (Favelle Favco)	261.2	0.34	64.5	18.5	Market Value
Concessions: SCA	788.6	1.03	21.0	56.0	DCF @ 7%
Roadcare	23.9	0.03	21.0	1.7	DCF @ 6.5%
Kuantan Marine Hub	65.3	0.09	100.0	4.6	Market value @ RM3psf
Gross NAV	**1,981.6**				
Net cash/(debt)*	(572.7)	(0.75)		(40.6)	Company level as at 31 Dec 2023
Total NAV	**1,408.9**	**1.84**		**100.0**	
No of shares (m)	766.6				
NAV/share	**1.84**				
TP (less 40% discount)	**1.10**				
Share price as of 28 Feb 2025	0.67				
Upside (%)	64.6				
FY26F yield (%)	3.4				
Total return (%)	**67.9**				
Discount to NAV (%)	**(63.5)**				
Implied Target PE (x)	**11.2**				

** includes bills payables*

Source: Company, Bloomberg, CIMB Securities

Exhibit 3: Historical P/BV band



Source: Company, Bloomberg, CIMB Securities

Income Statement

FYE Dec (RMm)	2023	2024	2025F	2026F	2027F
Revenue	**1,255.2**	**1,944.1**	**1,384.4**	**1,534.9**	**1,850.5**
EBITDA	**112.0**	**91.1**	**95.8**	**106.7**	**122.9**
Depreciation/Amortisation	(67.1)	(32.9)	(43.7)	(45.5)	(47.4)
Operating income (EBIT)	44.9	58.2	52.0	61.2	75.5
Other income & associates	62.9	118.6	126.9	137.0	146.4
Net interest	(16.2)	(5.2)	(15.0)	(17.8)	(19.2)
Exceptional items	(25.0)	3.5	0.0	0.0	0.0
Pretax profit	**66.6**	**175.1**	**164.0**	**180.4**	**202.8**
Taxation	(30.2)	(38.8)	(25.5)	(27.8)	(33.0)
Minorities/pref dividends	(44.4)	(63.4)	(71.5)	(76.9)	(84.9)
Net profit	**(8.0)**	**73.0**	**67.0**	**75.7**	**84.9**
Core net profit	**17.0**	**69.5**	**67.0**	**75.7**	**84.9**

Balance Sheet

FYE Dec (RMm)	2023	2024	2025F	2026F	2027F
Fixed assets	1,113.3	1,075.3	1,129.6	1,182.3	1,233.5
Intangible assets	117.1	122.6	118.8	115.6	112.0
Other long-term assets	847.1	867.0	993.9	1,130.9	1,277.3
Total non-current assets	**2,077.5**	**2,065.0**	**2,242.3**	**2,428.8**	**2,622.8**
Cash & equivalent	394.2	570.4	388.6	273.3	187.2
Stock	333.5	254.0	403.9	430.4	520.7
Trade debtors	649.0	708.9	796.5	925.2	1,115.4
Other current assets	10.4	9.2	9.2	9.2	9.2
Total current assets	**1,387.1**	**1,542.6**	**1,598.2**	**1,638.2**	**1,832.5**
Trade creditors	1,012.9	1,054.3	1,211.7	1,342.9	1,624.4
Short-term borrowings	360.3	260.8	269.7	245.7	221.7
Other current liabilities	12.6	22.9	22.9	22.9	22.9
Total current liabilities	**1,385.8**	**1,338.0**	**1,504.3**	**1,611.5**	**1,869.0**
Long-term borrowings	120.8	188.5	138.6	121.6	104.6
Other long-term liabilities	151.0	168.1	168.1	168.1	168.1
Total long-term liabilities	**271.8**	**356.5**	**306.6**	**289.6**	**272.6**
Shareholders’ funds	**1,290.5**	**1,348.8**	**1,393.9**	**1,453.2**	**1,516.2**
Minority interests	516.4	564.2	635.7	712.5	797.4

Cash flow Statement

FYE Dec (RMm)	2023	2024	2025F	2026F	2027F
Pretax profit	66.6	175.1	164.0	180.4	202.8
Depreciation/Amortisation	67.1	32.9	43.7	45.5	47.4
Net change in working capital	38.2	79.2	(80.1)	(24.0)	1.1
Others	(80.4)	(155.1)	(129.5)	(139.0)	(152.3)
Cash flow from operations	**91.4**	**132.1**	**(1.9)**	**62.9**	**98.9**
Capital expenditure	(65.0)	(84.4)	(105.0)	(105.0)	(105.0)
Net investments & sale of fixed assets	11.3	45.3	0.0	0.0	0.0
Others	19.0	94.1	12.4	7.9	4.9
Cash flow from investing	**(34.7)**	**54.9**	**(92.6)**	**(97.1)**	**(100.1)**
Debt raised/(repaid)	87.2	(31.9)	(41.0)	(41.0)	(41.0)
Equity raised/(repaid)	0.0	1.5	0.0	0.0	0.0
Dividends paid	0.0	0.0	(21.9)	(16.4)	(21.9)
Others	(159.2)	3.2	(25.4)	(23.7)	(22.1)
Cash flow from financing	**(71.9)**	**(27.2)**	**(88.2)**	**(81.1)**	**(84.9)**
Net cash flow	**(15.2)**	**159.8**	**(182.7)**	**(115.2)**	**(86.1)**
Net cash/(debt) b/f	**284.7**	**394.2**	**565.3**	**383.5**	**268.2**
Net cash/(debt) c/f	**274.2**	**544.5**	**383.5**	**268.2**	**182.1**

Key Ratios

FYE Dec	2023	2024	2025F	2026F	2027F
Revenue growth (%)	40.0	54.9	(28.8)	10.9	20.6
EBITDA growth (%)	1.2	(18.7)	5.1	11.4	15.1
Pretax margins (%)	5.3	9.0	11.8	11.8	11.0
Net profit margins (%)	(0.6)	3.8	4.8	4.9	4.6
Interest cover (x)	4.1	33.7	11.0	10.1	10.6
Effective tax rate (%)	45.3	22.1	15.6	15.4	16.3
Net dividend payout (%)	0.0	30.0	24.5	28.9	30.1
Debtors turnover (days)	189	133	210	220	220
Stock turnover (days)	131	57	130	125	125
Creditors turnover (days)	398	236	390	390	390

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: *(a) the percentage difference between the target price and the current price; and* *(b) the forward net dividend yields of the stock. Stock price targets have an investment horizon of twelve (12) months.*
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Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
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