

02 August 2018 | 2QFY18 Results Review

Malaysia Marine & Heavy Engineering

Tough operating environment to persist in FY18

INVESTMENT HIGHLIGHTS

- **Malaysia Marine & Heavy Engineering's (MMHE) 2QFY18 results registered net loss of –RM49.8m**
- **Revenue declined –16.6%yoy on lower project recognition**
- **Both Heavy Engineering and Marine segments suffered operating losses**
- **Maintain NEUTRAL with revised TP of RM0.73 per share**

Operating losses from lower project recognition. MMHE suffered 2QFY18 net loss of –RM49.8m due to lower revenue recognition in the quarter. 6MFY18 revenue slumped by -16.6%yoy premised on lower recognition from tail-end projects and commencement of new projects. In addition, revenue was also affected by deferrals of dry docking activities from vessel owners.

Heavy Engineering. Segment revenue declined by -12.8%yoy to RM137.8m as lower revenue recognition was recorded from tail-end projects and commencement of new projects. 2QFY18 saw the completion of FSO Bechamas 2 external turret and Sepat –A WHP. The Bokor Phase-3 redevelopment CPP is still in its infancy at about 16% completion. The operating losses were exacerbated by additional cost provisions made.

Marine. Segment revenue also declined by -14.1%yoy as vessel owners have deferred their dry-docking to a later period in light of changes in local shipping regulations and the sailaway of two FSOs. In addition, additional costs were also incurred on conversion with revenue recognition pending verification and approval.

Moving forward. Despite crude oil prices and the overall operating climate improving, FY18 will continue to be a challenging year for MMHE, especially for the Heavy Engineering segment. This is predominantly due to the timing differences in revenue and profit recognition between tail-end projects and new projects. The large portion of its orderbook consist of the RM1b Bokor CPP job which will only undergo the first steel cut in 3QFY18 – the large portion of works will happen only in FY19. In addition, its Marine segment is already operating at its ideal capacity.

Impact on earnings. Taking into consideration: (i) The unplanned cost escalation due to variation orders; (ii) Planned yard activities; (iii) Progress of current works at hand; (iv) estimated plant utilisation rates and; (v) expected marine repair and conversation works, we are reducing our FY18 and FY19 earnings estimates to RM9.3m and RM69m respectively.

Maintain NEUTRAL

Revised Target Price (TP): RM0.73
(previously RM0.87)

RETURN STATS	
Price (01 August 2018)	RM0.795
Target Price	RM0.730
Expected Share Price Return	-8.2%
Expected Dividend Yield	+1.3%
Expected Total Return	-6.9%

STOCK INFO	
KLCI	1,788.31
Bursa / Bloomberg	5186 / MMHE MK
Board / Sector	Main/ Industrial
Syariah Compliant	Yes
Issued shares (mil)	1,600.0
Market cap. (RM'm)	1,272.0
Price over NA	0.51x
52-wk price Range	RM0.62 – RM0.98
Beta (against KLCI)	1.48
3-mth Avg Daily Vol	0.52m
3-mth Avg Daily Value	RM0.38m
Major Shareholders (%)	
MISC Bhd	66.50
Technip S.A.	8.50
Lembaga Tabung Haji	6.10

We are expecting 2HFY18 to perform better than that of 1HFY18 as the bulk of the revenue and earnings to be backend-loaded in FY18 and into FY19.

Orderbook update. The company's current orderbook as of June 2018 stands at RM1.14b (from RM1.22b previously in May 2018). As for the Marine segment, an estimated RM350-400m worth of works are expected to be executed in FY18 – comparable to RM365m worth of marine works executed in FY17. The company's tenderbook is currently at around RM4.3b, of which 67% consists of international bids and 33% local bids. In addition, about 20% of the tenderbook have passed the technical clarification stage. Meanwhile, its prospective works now amounts to RM2.7b which consists of almost 100% from international bid.

Maintain NEUTRAL. We are maintaining our **NEUTRAL** stance on MMHE with a revised target price of **RM0.73** per share. Our TP is premised on PER19 of 17x pegged to EPS19 of 4.3sen . The focus for the company moving forward now is on the expansion of the Marine segment with Dry Dock 3 and also jobs from within RAPID.

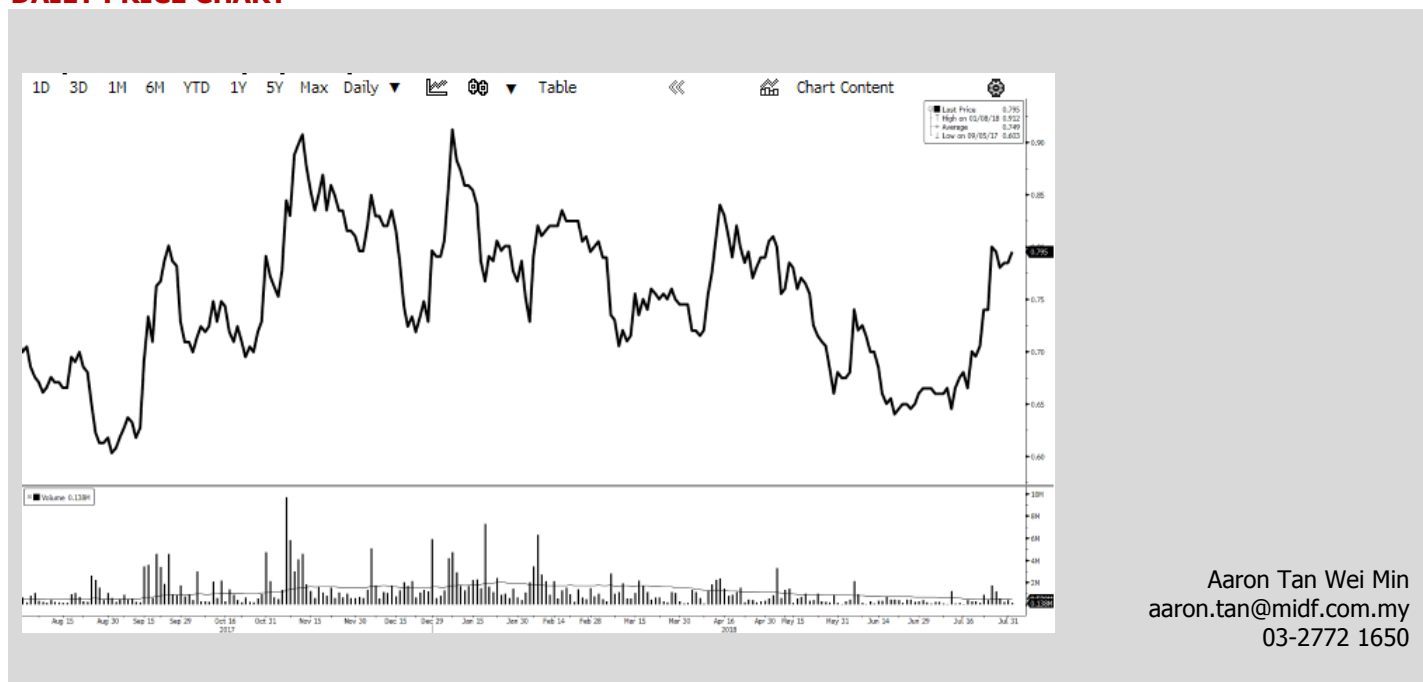


INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17F	FY18F	FY19F
Revenue (RM'm)	2,459.00	1,191.30	956.4	847.7	1,237.60
EBIT (RM'm)	123.7	13.1	14.3	8.5	76.7
Pretax Profit (RM'm)	22.5	-135	32.4	8.5	76.7
Net Profit (RM'm)	43.9	-134.3	34.2	9.3	69.0
EPS (sen)	2.7	-8.4	2.1	0.6	4.3
EPS (%)	-66.7	-411.1	-125	-72.2	639.1
PER (x)	29.4	na	37.9	136.3	18.4
Net Dividend (sen)	0	0	3	1	1
Net Dividend (%)	0	0	3.8	1.3	1.3

Source: MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

2QFY18 RESULTS SUMMARY

FYE Dec (RM m)	Quarterly Results			Cumulative			Comments
	2Q18	YoY (%)	QoQ (%)	6MFY17	6MFY18	YoY (%)	
Revenue	223.0	-13.3	18.5	493.1	411.1	-16.6	
Other op income	29.2	170.0	1025.4	3.3	31.8	866.5	
Operating Profit	-49.5	380.0	99.1	-25.9	-74.3	186.9	
Associate	-0.2	-91.8	-54.4	-4.7	0.8	-116.3	
Pre-tax profit	-49.7	269.6	95.9	-31.1	-75.1	141.6	
Tax	-0.1	-87.4	-66.1	0.1	-0.4	nm	
MI	-0.3	-43.9	-19.4	-0.6	-0.7	18.2	
PATAMI	-49.5	261.1	95.8	-30.3	-74.8	146.6	
EPS (sen)	-3.1	244.4	93.8	-1.9	-4.7	147.4	
PAT margin (%)	-22.2	nm	-29.8	-6.1	-18.2	-	
Tax rate (%)	0.2	nm	nm	-0.5	0.6	-	
Segmental Revenue							
Offshore	137.8	-12.8	23.8	311.4	249.0	-20.0	
Marine repair & conversion	85.3	-14.1	10.7	181.7	162.3	-10.7	
Segmental EBIT							
Offshore	-23.7	5.9	85.7	-46.5	-36.5	nm	
Marine repair & conversion	-25.6	-277.9	255.3	23.7	-32.8	-238.1	
EBIT Margin (%)							
Offshore	-17.2	-	-	-14.9	-14.7	nm	
Marine repair & conversion	-30.0	-35.3	-41.3	13.1	-20.2	-33.2	

Source: MIDFR, Company

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.