

26 October 2018 | 3QFY18 Results Review

## Malaysia Marine & Heavy Engineering

*Operations to remain challenging*

### INVESTMENT HIGHLIGHTS

- **Malaysia Marine & Heavy Engineering's (MMHE) 3QFY18 results registered net loss of –RM22.9m**
- **Revenue declined –1.0%yoy on lower project recognition**
- **Both Heavy Engineering and Marine segments suffered operating losses**
- **Maintain NEUTRAL with revised TP of RM0.64 per share**

**Operating losses from additional cost provisions.** MMHE suffered its third consecutive net loss of –RM22.9m in 3QFY18 due to higher cost provisions for ongoing projects. 9MFY18 revenue was lower by -1.0%yoy premised on fewer ongoing projects in hand. In addition, revenue was also affected by deferments of dry docking activities from vessel owners.

**Heavy Engineering.** Segment revenue was higher by +51.6%yoy at RM178.1m as higher revenue was recognised from ongoing projects in hand. The Bokor Phase-3 redevelopment CPP is still in its infancy at about 25.1% completion. Despite the higher revenue, the segment recorded operating losses of -RM4.1m due to additional cost provisions made during the quarter.

**Marine.** Segment revenue also increased by +14.0%yoy due to higher revenue from conversion works as well as; dry docking activities during the quarter. However, the segment recorded an operating loss of -RM16.0m due to additional costs incurred on conversion works with revenue recognition pending verification and approval. This is further exacerbated by compressed margins for dry docking activities during the quarter.

**Moving forward.** FY18 and going into FY19 will continue to be a challenging period for MMHE, especially for the Heavy Engineering segment. This is despite crude oil prices hovering at the USD70-80pb level. 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 only underwent the first steel cut in 3QFY18 – the large portion of works will happen only in FY19. However, its Marine segment could potentially benefit from increased in marine repair activities in the coming year due to the impending compliance to the International Maritime Organisation (IMO) fuel sulphur cap ruling by January 2020.

**Maintain NEUTRAL**

**Revised Target Price (TP): RM0.64**  
(previously RM0.73)

RETURN STATS	
Price (25 October 2018)	RM0.60
Target Price	RM0.64
Expected Share Price Return	+6.7%
Expected Dividend Yield	+1.7%
<b>Expected Total Return</b>	<b>+8.4%</b>

STOCK INFO	
KLCI	1,686.59
Bursa / Bloomberg	5186 / MMHE MK
Board / Sector	Main/ Industrial
Syariah Compliant	Yes
Issued shares (mil)	1,600.0
Market cap. (RM'm)	960.0
Price over NA	0.39x
52-wk price Range	RM0.60 – RM0.98
Beta (against KLCI)	1.44
3-mth Avg Daily Vol	0.78m
3-mth Avg Daily Value	RM0.53m
Major Shareholders (%)	
MISC Bhd	66.50
Technip S.A.	8.50
Lembaga Tabung Haji	6.10

**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; (v) expected marine repair and conversation works and; (vi) compressed margins for its dry docking activities, we are reducing our FY18 and FY19 earnings estimates to -RM23.3m and RM60.1m respectively.

**Orderbook update.** The company's current orderbook as of September 2018 stands at RM932m (from RM1.14b previously in June 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 RM6.0b.

**Maintain NEUTRAL.** We are maintaining our **NEUTRAL** stance on MMHE with a revised target price of **RM0.64** per share. Our TP is premised on PER19 of 17x pegged to EPS19 of 3.76sen. 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.

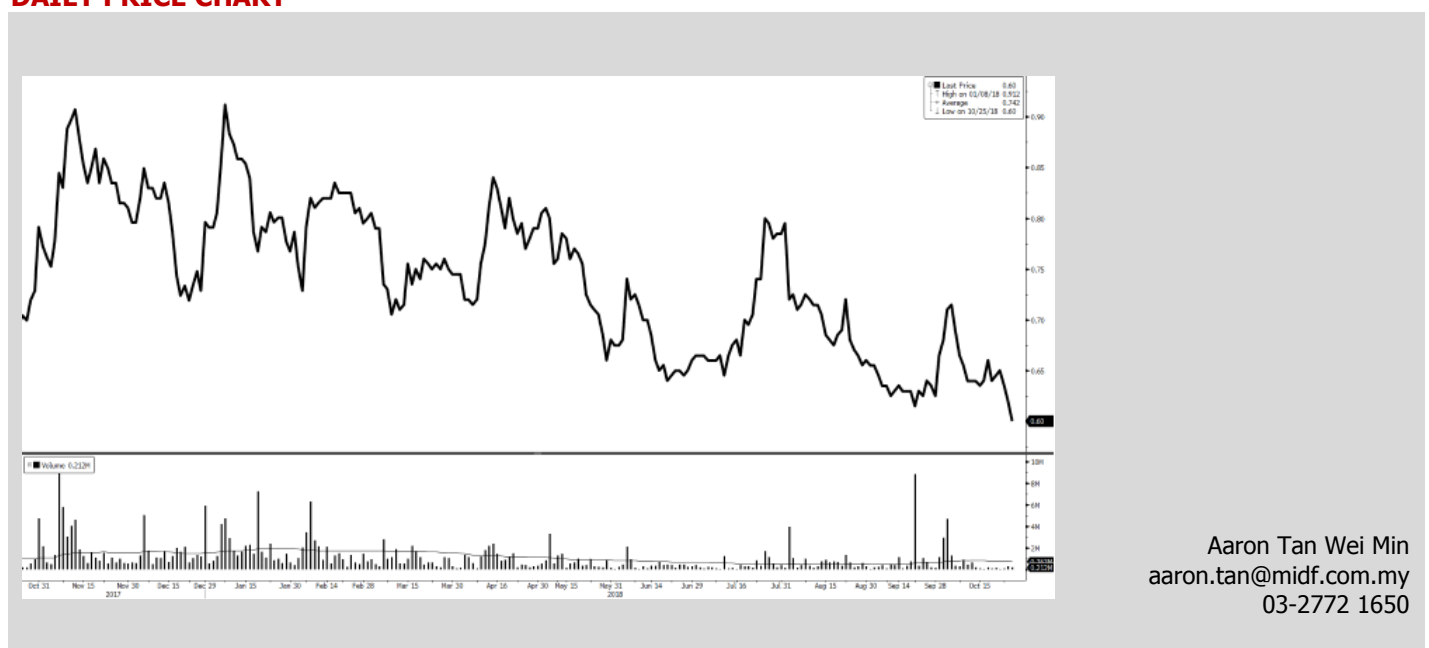


## INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	2,459.0	1,191.3	956.4	847.7	1,237.6
EBIT (RM'm)	123.7	13.1	14.3	-21.2	66.8
Pretax Profit (RM'm)	22.5	-135.0	32.4	-21.2	66.8
Net Profit (RM'm)	43.9	-134.3	34.2	-23.3	60.1
EPS (sen)	2.7	-8.4	2.1	-1.5	3.76
EPS (%)	-66.7%	-411.1%	-125.0%	-169.4%	-362.3%
PER (x)	22.2	na	28.6	-41.1	15.7
Net Dividend (sen)	0.00	0.00	3.00	1.00	1.00
Net Dividend (%)	0.0%	0.0%	5.0%	1.7%	1.7%

Source: MIDFR

## DAILY PRICE CHART



Aaron Tan Wei Min  
aaron.tan@midf.com.my  
03-2772 1650

Source: MIDFR, Company

## 2QFY18 RESULTS SUMMARY

FYE Dec (RM m)	Quarterly Results			Cumulative			Comments
	3Q18	YoY (%)	QoQ (%)	9MFY17	9MFY18	YoY (%)	
Revenue	289.8	34.6	29.9	708.5	701.1	-1.0	
Other op income	1.1	-128.6	-96.3	-0.5	32.8	-6882.4	
Operating Profit	-22.7	-233.1	-54.0	-8.8	-97.0	1000.3	
Provision for impairment	0.0	nm	nm	0.0	0.0	nm	
Associate	0.0	-99.8	-99.2	-6.0	-0.8	-87.2	
Pre-tax profit	-22.7	-244.0	-54.3	-15.3	-97.8	540.1	
Tax	-0.1	-126.2	7.6	0.6	-0.5	nm	
MI	-0.1	-29.6	-59.1	-0.8	-0.9	7.0	
PATAMI	-22.7	-238.4	-54.1	-13.9	-97.5	601.2	
EPS (sen)	-1.4	-240.0	-54.8	-0.9	-6.1	577.8	
PAT margin (%)	-7.8	-202.9	-64.7	-2.0	-13.9	-	
Tax rate (%)	0.5	-81.8	135.2	-3.8	0.5	-	
Segmental Revenue							
Offshore	178.4	51.6	29.5	429.0	427.4	-0.4	Higher revenue yoy due to higher recognition of revenue from ongoing projects
Marine repair & conversion	111.4	14.0	30.6	279.4	273.7	-2.0	Higher revenue yoy from higher revenue from conversion works and dry docking activities during the quarter.
Segmental EBIT							
Offshore	-4.1	127.3	-82.8	-48.3	-40.6	-15.9	
Marine repair & conversion	-16.0	-194.2	-37.5	40.7	-48.8	-219.8	
EBIT Margin (%)							
Offshore	-2.3	-	-	-11.2	-9.5	1.7	
Marine repair & conversion	-14.3	-19.6	-25.7	14.6	-17.8	-32.4	

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.