

08 February 2018 | 4QFY17 Results Review

Malaysia Marine & Heavy Engineering

Improvement in segmental performance

INVESTMENT HIGHLIGHTS

- **Malaysia Marine & Heavy Engineering's (MMHE) 4QFY17 earnings maintained profitability**
- **Highest quarterly profit since FY13**
- **Both Heavy Engineering and Marine segment profitable**
- **Declared 3sen dividend – first distribution since FY13**
- **Revert back to NEUTRAL with revised TP of RM0.87**

Strong financial performance. MMHE's 4QFY17 posted its best results since FY13 with earnings of RM48.1m, triple the earnings recorded in 3QFY17. Cumulative normalised FY17 earnings of RM40.8m (excluding impairment losses on receivables) more than doubled our expectations. Consensus however, was expecting the company to still experience losses in FY17.

Heavy Engineering. Although the Heavy Engineering segment recorded a -6.1% decline in revenue for 4QFY17, the segment turned profitable at RM11.6m. This positive result is largely due to significant change orders received for its ongoing projects. For FY17, the amount of change orders received totalled approximately RM100m. FY17 recorded the sail-away of a few notable projects such as the F12 Kumang wellhead platform topside and jacket, Besar-A topside, Baronia central processing platform jacket, bridge and piles, PETRONAS PFLNG2 turret, completion of the 'Facilities Improvement Project' and FSO Benchamas 2 external turret.

Marine. Despite recording lower revenue and operating profit year-over-year, the Marine segment is still very profitable completing repair and maintenance works for 75 vessels in FY17 while securing works for 74 vessels.

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) planned yard activities; (ii) progress of current works at hand; (iii) estimated plant utilisation rates and; (iv) expected marine repair and conversation works, we are adjusting our FY18 earnings forecasts downwards by – 24.1%.

Revert to NEUTRAL
(Previously Trading Sell)
Revised Target Price (TP): RM0.87
(previously RM0.70)

RETURN STATS	
Price (07 February 2018)	RM0.82
Target Price	RM0.87
Expected Share Price Return	+6.1%
Expected Dividend Yield	+3.7%
Expected Total Return	+9.8%

STOCK INFO	
KLCI	1,836.68
Bursa / Bloomberg	5186 / MMHE MK
Board / Sector	Main/ Industrial
Syariah Compliant	Yes
Issued shares (mil)	1,600.0
Market cap. (RM'm)	1,312.0
Price over NA	0.45x
52-wk price Range	RM0.63 – RM1.04
Beta (against KLCI)	1.78
3-mth Avg Daily Vol	1.82m
3-mth Avg Daily Value	RM1.52m
Major Shareholders (%)	
MISC Bhd	66.50
Technip S.A.	8.50
Lembaga Tabung Haji	6.69

We are expecting 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 December 2017 stands at RM1.27b (from RM1.4b previously). 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 RM4b, of which 80% consisting local bids and 20% international bids.

Revert to NEUTRAL. Back in November 2017, we downgraded MMHE to '*Trading Sell*' recommending investors to profit take on volatile stock price movements. Since the recommendation, MMHE's stock price fluctuated by –26.8% from its high to its low within three months. With the company's business fundamentals improving, we now revert the stock back to **NEUTRAL**. In addition, we are revising our forward PER19 valuation multiple to 17x representing a one-standard deviation discount to MMHE's five year historical average (14x previously for PER18) to account for stronger industry sentiment premised on stronger global crude oil prices. Hence, we derive a revised target price of **RM0.87** by pegging PER19 to EPS19 of 5.1sen per share. 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.

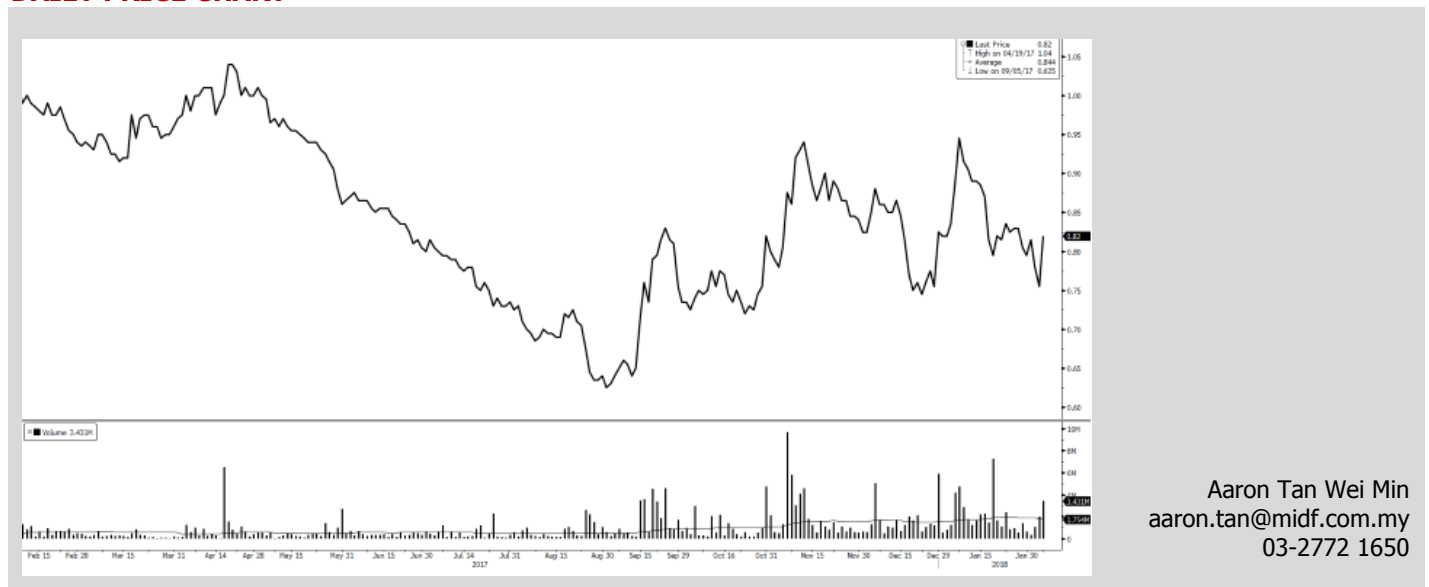


INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17F	FY18F	FY19F
Revenue (RM'm)	2,459.0	1,191.3	956.4	1,097.0	1,461.0
EBIT (RM'm)	123.7	13.1	14.3	54.8	90.6
Pretax Profit (RM'm)	22.5	-135.0	32.4	54.8	90.6
Net Profit (RM'm)	43.9	-134.3	34.2	60.4	81.4
EPS (sen)	2.7	-8.4	2.1	3.8	5.1
EPS (%)	-0.7	nm	nm	79.7	34.8
PER (x)	30.4	na	39.0	21.7	16.1
Net Dividend (sen)	0.0	0.0	3.0	3.0	3.0
Net Dividend (%)	0.0	0.0	3.7	3.7	3.7

Source: MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

4QFY17 RESULTS SUMMARY

FYE Dec (RM m)	Quarterly Results			Cumulative			Comments
	4Q17	YoY (%)	QoQ (%)	FY16	FY17	YoY (%)	
Revenue	248.0	-18.3	15.1	1191.3	956.4	-19.7	
Other op income	3.7	58.7	-197.1	8.7	3.2	-63.5	
Operating Profit	23.5	25.9	37.8	13.1	14.3	9.2	
Provision for impairment				-140.5		nm	No impairment on assets recorded in Fy17
Associate	2.8	-157.6	-314.0	-7.6	-3.2	-57.1	
Pre-tax profit	26.3	-120.8	66.6	-135.0	11.0	-108.2	
Tax	20.9	214.3	4738.5	0.5	21.4	nm	
MI	-1.0	197.6	419.6	-0.3	-1.8	584.7	
PATAMI	48.1	140.2	193.3	-134.3	34.2	-125.5	
EPS (sen)	3.0	-140.0	200.0	-8.4	2.1	-125.0	
PAT margin (%)	19.4	nm	11.8	nm	3.6	-	
Tax rate (%)	nm	nm	nm	nm	nm	-	
Segmental Revenue							
Offshore	162.3	-6.1	38.0	746.7	591.3	-20.8	Contribution from change orders
Marine repair & conversion	85.7	-34.5	-12.3	444.6	365.1	-17.9	
Segmental EBIT							
Offshore	11.6	nm	nm	-107.7	-36.7	nm	
Marine repair & conversion	12.1	-75.6	-29.0	88.5	52.8	-40.4	
EBIT Margin (%)							
Offshore	7.1	-	-	nm	nm	nm	
Marine repair & conversion	14.1	8.8	2.7	19.9	14.5	-5.5	

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.