

18 April 2017 | Corporate update

## Malaysia Marine & Heavy Engineering

*Big win but earnings contribution only by FY18*

### INVESTMENT HIGHLIGHTS

- **Malaysia Marine and Heavy Engineering (MMHE) announced EPCIC contract win for Bokor Phase 3**
- **Total contract value is approximately RM1b**
- **First steel cut expected to commence in 3QFY18 and project to be completed by 2QFY20**
- **Orderbook boosted to RM2b**
- **Maintain SELL with revised TP of RM0.70 per share**

**Details of contract.** MMHE has won the award of contract for the Engineering, Procurement, Construction, Installation and Commissioning (EPCIC) of Central Processing Platform (CPP) for the Bokor Phase 3 Re-Development Project by PETRONAS Carigali Sdn. Bhd. The total contract value is approximately RM1b.

**Duration of contract.** The contract is for a duration of approximately two years with the first steel cut only slated to commence by 3QFY18 and completion by 2QFY20. As such, the significant portion of the earnings from the project is likely to accrue in FY19.

**Impact on earnings.** As the contract is only expected to start by 2QFY18, we are increasing our earnings estimates for FY18 by +20.8% to RM79.6m.

**Significant boost to orderbook.** With the new contract win, MMHE's current heavy engineering orderbook stands at approximately RM2b from RM1b previously. From the current job profile and work orders, approximately RM300-500m of the order backlog will be recognised in FY17. We further estimate that an additional RM400-500m worth of marine works will be undertaken in FY17 – the company's current dock capacity.


**Reiterate SELL.** With the new project win, we are comforted by the fact that MMHE is still able to secure significantly large engineering contracts in such operating climate. In addition, we commend the company's effort in trying to diversify its income stream, without straying too far from its core competencies. However, from a stock trading standpoint, we do not foresee any significant near-term re-rating catalyst which would cap stock price appreciation in the immediate term, even from this new win which will only start contributing in the latter part of FY18 and only more significantly in FY19.

**Reiterate SELL**

**Revised Target Price (TP): RM0.70**  
(previously RM0.56)

RETURN STATS	
Price (17 April 2017)	RM0.99
Target Price	RM0.70
Expected Share Price Return	-29.3%
Expected Dividend Yield	-
<b>Expected Total Return</b>	<b>-29.3%</b>

STOCK INFO	
KLCI	1,733.93
Bursa / Bloomberg	5186 / MMHE MK
Board / Sector	Main/ Industrial
Syariah Compliant	Yes
Issued shares (mil)	1,600.0
Par Value (RM)	0.50
Market cap. (RM'm)	1,584.0
Price over NA	0.61x
52-wk price Range	RM0.84 – RM1.34
Beta (against KLCI)	1.79
3-mth Avg Daily Vol	0.44m
3-mth Avg Daily Value	RM0.43m
Major Shareholders (%)	
MISC Bhd	66.50
Technip S.A.	8.50
Lembaga Tabung Haji	6.50

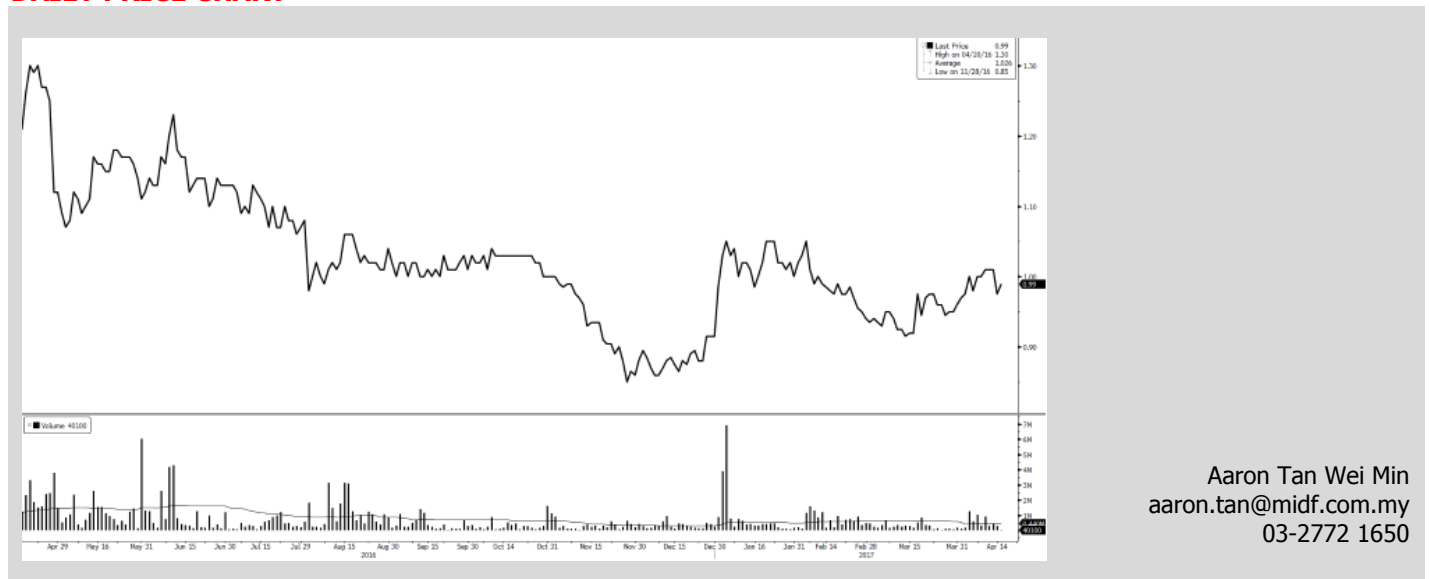
As such, we are reiterating our **SELL** recommendation with a revised target price of **RM0.70** per share. Our target price is based on our house mid-cap oil and gas service provider target PER of 14x pegged to EPS18 of 5sen. The focus for the company moving forward now is on the expansion of the Marine segment and also jobs from within RAPID. 

## INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16	FY17F	FY18F
Revenue (RM'm)	2,700.5	2,459.0	1,191.3	1,097.0	1,446.0
EBIT (RM'm)	122.6	123.7	13.1	71.3	72.3
Pretax Profit (RM'm)	119.1	22.5	-135	71.3	72.3
Net Profit (RM'm)	129.9	43.9	-134.3	64.1	79.6
EPS (sen)	8.1	2.7	-8.4	4.0	5.0
EPS (%)	-45.3	-66.7	-411.1	-147.7	24.2
PER (x)	12.2	36.7	na	24.7	19.9

Source: MIDFR

## DAILY PRICE CHART



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Source: MIDFR, Company

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.