

07 May 2018 | 1QFY18 Results Review

## Malaysia Marine & Heavy Engineering

*Irregular project completions hamper revenue*

### INVESTMENT HIGHLIGHTS

- **Malaysia Marine & Heavy Engineering's (MMHE) 1QFY18 registered net loss of -RM25.3m**
- **Revenue declined -20.2%yoy on lower project recognition**
- **Both Heavy Engineering and Marine segments suffered operating losses**
- **Maintain NEUTRAL with revised TP of RM0.87 per share**

**Operating losses from irregular project recognition.** MMHE suffered 1QFY18 net loss of -RM25.2m due to lower revenue recognition in the quarter. 3MFY18 revenue slumped by -20.2%yoy premised on lower recognition from tail-end projects and commencement of new projects. In addition, revenue was also affected by deferments of dry docking activities from vessel owners.

**Heavy Engineering.** Segment revenue declined by -27.5%yoy to RM111.3m as lower revenue recognition was recorded from tail-end projects and commencement of new projects. In 1QFY18, five units of the Dongote CALM buoy was sailed away while centralised piping fabrication for RAPID Package 5 was completed. The Bokor Phase-3 redevelopment CPP is still in its infancy while the Sepat –A WHP is halfway completed.

**Marine.** Segment revenue also declined by -6.5%yoy as vessel owners have deferred their dry-docking to a later period in light of changes in local shipping regulations.

**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 maintaining our FY18 and FY19 earnings forecasts. 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.

**Maintain NEUTRAL**  
**Maintain Target Price (TP): RM0.87**

RETURN STATS	
Price (04 May 2018)	RM0.80
Target Price	RM0.87
Expected Share Price Return	+8.8%
Expected Dividend Yield	+1.1%
<b>Expected Total Return</b>	<b>+9.9%</b>

STOCK INFO	
KLCI	1,841.83
Bursa / Bloomberg	5186 / MMHE MK
Board / Sector	Main/ Industrial
Syariah Compliant	Yes
Issued shares (mil)	1,600.0
Market cap. (RM'm)	1,280.0
Price over NA	0.45x
52-wk price Range	RM0.60 – RM0.94
Beta (against KLCI)	1.48
3-mth Avg Daily Vol	1.35m
3-mth Avg Daily Value	RM1.06m
Major Shareholders (%)	
MISC Bhd	66.50
Technip S.A.	8.50
Lembaga Tabung Haji	6.69

**Orderbook update.** The company's current orderbook as of March 2018 stood at RM1.22b (from RM1.27b 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 and prospective works are currently at around RM5.6b, of which 80% consisting local bids and 20% international bids.

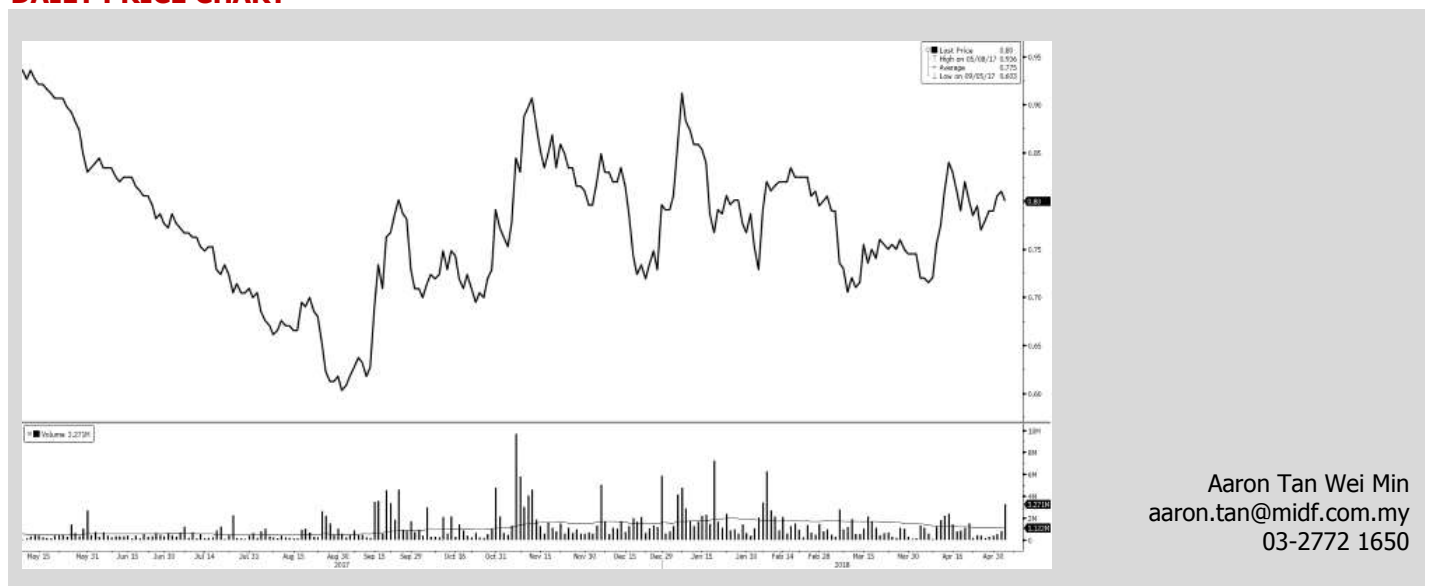
**Maintain NEUTRAL.** We maintain our **NEUTRAL** stance on MMHE with an unchanged target price of **RM0.87** per share. Our TP is premised on PER19 of 17x pegged to EPS19 of 5.1sen . The focus for the company moving forward now is on the expansion of the Marine segment with Dry Dock 3 and also jobs 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	21.2	15.7
Net Dividend (sen)	0.0	0.0	3.0	1.0	1.0
Net Dividend (%)	0.0	0.0	3.7	1.1	1.1

Source: MIDFR

## DAILY PRICE CHART



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Source: MIDFR, Company

## 1QFY18 RESULTS SUMMARY

FYE Dec (RM m)	1Q17	4Q17	1Q18	YoY (%)	QoQ (%)
Revenue	235.8	248.0	188.3	-20.2	-24.1
Other op income	-7.5	3.7	2.6	-134.5	-29.2
Operating Profit	-15.6	23.5	-24.8	59.3	-205.6
Associate	-1.8	2.8	-0.5	-70.8	-119.0
Pre-tax profit	-17.6	26.3	-25.4	44.0	-196.5
Tax	1.0	20.9	-0.3	-131.8	-101.5
MI	0.0	-1.0	-0.4	989.2	-59.0
PATAMI	-16.6	48.1	-25.3	52.2	-152.5
EPS (sen)	-1.0	3.0	-1.6	60.0	-153.3
PAT margin (%)	nm	19.4	nm	nm	-21.0
Tax rate (%)	nm	nm	nm	nm	nm
Segmental Revenue					
Offshore	153.5	162.3	111.3	-27.5	-31.4
Marine repair & conversion	82.4	85.7	77.0	-6.5	-10.1
Segmental EBIT					
Offshore	-24.1	11.6	-12.8	-46.9	-210.5
Marine repair & conversion	9.4	12.1	-7.2	-176.9	-159.7
EBIT Margin (%)					
Offshore	nm	7.1	nm	-	-
Marine repair & conversion	11.4	14.1	nm	-14.6	-20.7

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.