

12 February 2014 | 4QFY13 Results Review

## Malaysia Marine & Heavy Engineering

*Tail-end projects weigh down earnings*

**Downgrade to SELL**  
(from NEUTRAL)

**Reduced Target Price (TP): RM2.66**  
(from RM3.36)

### INVESTMENT HIGHLIGHTS

- **Malaysia Marine & Heavy Engineering (MMHE) recorded 4Q13 normalised net profit (excluding deferred tax) of RM38.7m.**
- **Both topline and bottomline shrank, due to weaker margins and slower revenue recognition.**
- **We are downgrading MMHE to a SELL with a reduced target price of RM2.66**
- **We are recommending investors to shift focus to more diverse oil and gas service providers with stronger prospects.**

**Weak earnings.** Group revenue shrank -13.4%yoy to RM2.9b while net profit declined by -2.3%yoy to RM236.5m. Excluding deferred tax totaling RM51.9m for the year, normalised net profit would have been RM184.6m, below ours and consensus estimates by a variance of more than 10%. 2013 bottomline was also the lowest in over four years.

**Decreasing capacity utilisation at the offshore segment.** This segment's FY13 revenue of RM2.6b declined -12.8%yoy as there were fewer projects in hand with most nearing their tail-end, awaiting deliveries. In addition, the segment's operating profit also dropped a hefty -31.7%yoy, caused by higher project execution costs. After 2Q14, when most of the tail-end projects are delivered, MMHE's yard will be operating at a capacity of around 50%, with two major projects left; the TLP Malikai and SK316. Operating margins were also hit, declining -1.2pp to 4%.

**Low single digit offshore segment margin.** In 4Q13, the offshore operating margins was a mere 1.7%, a decline by more than -3pp from the previous quarter. Management guided that it has yet to recognize any profit from the TLP Malikai despite recording revenue of approx. RM300m in 2013 from the project. Project earnings are expected to be recognised earliest in 2Q14. In addition, earnings from the SK316 project will be recognised earliest in 3Q14. As such, we foresee rough quarters ahead arising from timing recognitions.


RETURN STATS	
Price (12 February 2014)	RM3.68
Target Price	RM2.66
Expected Share Price Return	-27.7%
Expected Dividend Yield	+2.7%
<b>Expected Total Return</b>	<b>-25.0%</b>

STOCK INFO	
KLCI	1,824.17
Bursa / Bloomberg	5186 / MMHE MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	1,600.0
Par Value (RM)	0.50
Market cap. (RM'm)	5,888
Price over NA	1.28x
52-wk price Range	RM3.17 – RM4.44
Beta (against KLCI)	1.02
3-mth Avg Daily Vol	1.60m
3-mth Avg Daily Value	RM6.08m
Major Shareholders (%)	
MISC Berhad	66.50
Technip S.A.	8.50
Lembaga Tabung Haji	6.12

**Less repair work for the Marine segment.** Revenue in FY13 from the marine conversion segment also declined - 22.9%yoy to RM372.8m. Subsequently, the segment's operating profit dropped -12.9%yoy to RM70.4m. One of the main reasons for the decline is lower project values associated with repair works, as opposed to conversion works. Despite that, segmental margin grew +2.2pp to 18.9%. Management guided that the fourth quarter is generally a low season with less repair works.

**Orderbook update.** The group's current orderbook is RM2.56b. The bulk of the backlogs are from the TLP Malikai, SK316, Keabangan and Tapis jobs. Its latest job win was in September 2013, the SK316 gas field from Petronas Carigali worth >RM1b (MMHE's 50% portion). Tenderbook is approx. RM4-5b, the majority consisting of international jobs.

**Impact on earnings.** We are revising our FY14 and FY15 earnings downwards by -20.5% and -25.2% respectively. We are assuming lower margins from the offshore segment given tight competition locally and globally. This is evident from the weakening offshore operating margin. In addition, we are negative on MMHE due to the tail-end nature of the orderbook and mid-to-back-end loaded earnings recognition of its major contracts. We were proven right when we indicated our reservations that MMHE's 2013 earnings will be able to match 2012's earnings.

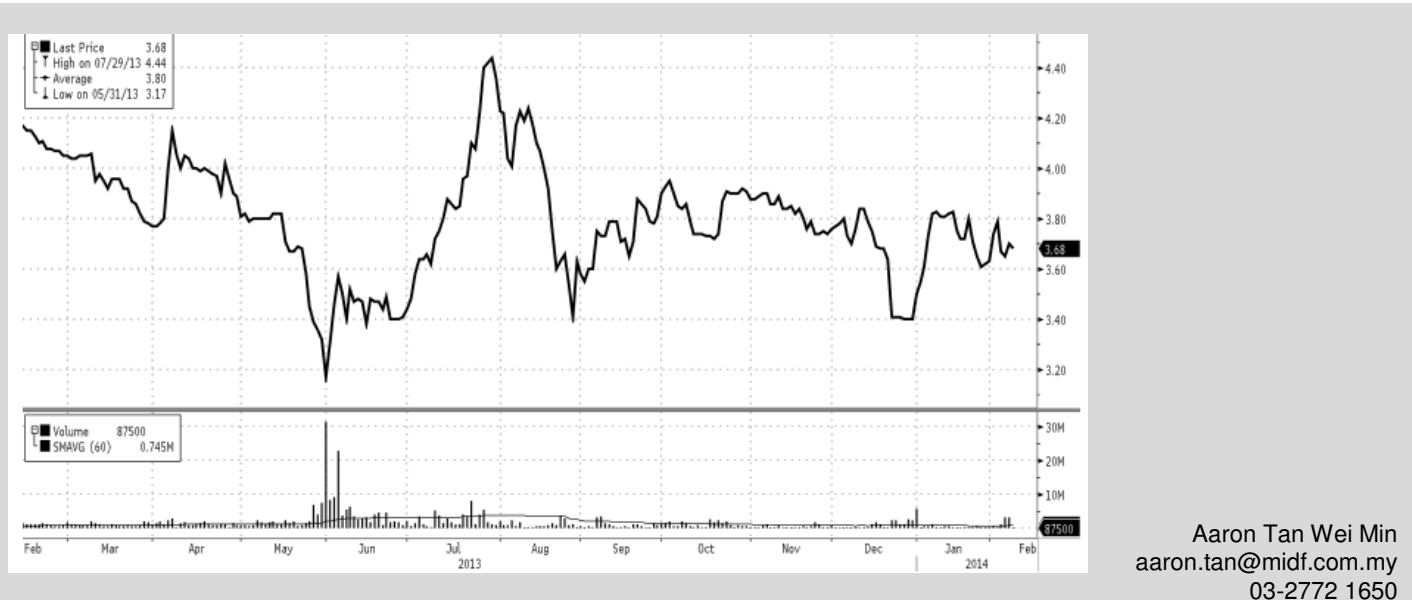
**Downgrade to SELL.** We are downgrading MMHE to **SELL** (Neutral previously) with a reduced TP of **RM2.66** from RM3.66 previously. This is based on FY14 target PER of 19x pegged to an FY14 EPS of 14sen. For the past six months, the stock price has been trading sideways, appreciating a marginal +3.7%, underperforming broader market FBMKLCI gain of +5.6%. 

## INVESTMENT STATISTICS

FYE Dec	FY11	FY12	FY13	FY14F	FY15F
Revenue (RM'm)	2,137.0	3,329.8	2,884.5	2,964.2	3,078.2
EBIT (RM'm)	204.1	242.8	196.3	274.1	296.6
Pretax Profit (RM'm)	250.8	217.7	197.6	274.1	296.6
Net Profit (RM'm)	205.9	242	236.5	224.8	243.2
EPS (sen)	12.9	15.1	14.8	14	15.2
EPS (%)	-54.4	17.5	-2	-5.1	8.2
PER (x)	28.6	24.4	24.9	26.2	24.2
Net Dividend (sen)	10	10	10	10	10
Net Dividend (%)	2.7	2.7	2.7	2.7	2.7

Source: MIDFR, Company

## DAILY PRICE CHART



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

## MMHE Holdings Berhad: 4QFY13 RESULTS SUMMARY

FYE Dec (RM m)	Quarterly Results			Cumulative			Comments
	4Q13	YoY (%)	QoQ (%)	2012	2013	YoY (%)	
Revenue	726.3	-15.3	61.5	3329.8	2884.5	-13.4	
Other op income	15.2	-64.9	-40.7	149.1	45.2	-69.7	
Operating Profit	47.0	-39.2	15.7	242.8	196.3	-19.2	
Associate	0.1	-100.4	-85.4	-25.1	1.3	-105.2	
Pre-tax profit	47.0	-21.8	14.4	217.7	197.6	-9.2	
Tax	55.1	34.4	-1336.0	25.5	39.6	55.3	Investment tax allowance
MI	0.1	-86.1	-48.2	1.2	0.7	-40.1	
PATAMI	102.1	1.7	180.3	242.0	236.5	-2.3	Tail-end projects
EPS (sen)	6.4	1.6	178.3	15.1	14.8	-2.0	
PAT margin (%)	14.1	2.3	8.0	7.3	8.2	0.9	
Tax rate (%)	-	-	-	-	-	-	
Segmental Revenue							
Offshore	665.5	-12.2	88.7	2981.3	2599.9	-12.8	
Marine repair & conversion	90.3	-9.0	-22.0	483.8	372.8	-22.9	Low value jobs
Segmental EBIT							
Offshore	11.6	-78.1	-44.2	153.7	104.9	-31.7	
Marine repair & conversion	19.8	-13.5	-11.0	80.8	70.4	-12.9	
EBIT Margin (%)							
Offshore	1.7	-5.2	-4.1	5.2	4.0	-1.1	
Marine repair & conversion	21.9	-1.1	2.7	16.7	18.9	2.2	

Source: MIDFR, Company

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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	<i>Negative</i> total return is expected, by -15% or more, 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.