

31 May 2018 | 3MFY18 Results Review

Muhibbah Engineering Berhad

Inspid Results Dragged by Forex Translation

Maintain BUY

Unchanged Target Price (TP): RM3.60


INVESTMENT HIGHLIGHTS

- **Inspid 3MFY18 results**
- **Forex Translation Losses Temporary**
- **Earnings estimates intact**
- **Nonetheless, we reiterate our recommendation to BUY with a TP of RM3.60 per share**

Inspid 3MFY18 results. Muhibbah's 3MFY18 earnings of RM12.5m (-47% YoY) fell below ours and consensus' expectation at 9.15% and 9.0% of full year estimates respectively. The results illustrated reversal in foreign currency translation for foreign operations of RM34.5m.

Forex Translation Losses Temporary. Muhibbah's lower earnings is impacted through the losses of foreign translation which may persist due to USD/MYR's downtrend. We surmise that it might be related to its current undertaking in Qatar to complete its project with MANATEQ, Qatar. This would mean higher progress billing in the upcoming quarters.

Earnings estimates intact. We maintain our earnings forecast for FYE18 and FYE19. Our forecast premised on the quality orderbook of RM1.9bn, or approximately 48 months orderbook cover backed by recurring cash flow for its concession asset in Cambodia. Its airport concession through partnership with Vinci has contributed 5-year average of 24.0% percent to its operating income.

Recommendation. That said, we downgrade our recommendation to NEUTRAL an adjusted TP of RM3.60 based on sum of parts valuation. Our TP implies a +21.0% upside and earnings yield of 12.6% implying 8.62% spread over 5-y Malaysian Government Securities yield. 

RETURN STATS	
Price (30 May 2018)	RM2.92
Target Price	RM3.60
Expected Share Price Return	+18.8%
Expected Dividend Yield	+2.2%
Expected Total Return	+21.0%

STOCK INFO	
KLCI	1,719.28
Bursa / Bloomberg	5703/ MUHI MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	480.3
Par Value (RM)	1.00
Market cap. (RM'm)	1402.57
Price over NA	1.33
52-wk price Range	RM2.46– RM3.36
Beta (against KLCI)	1.09
3-mth Avg Daily Vol	1.14m
3-mth Avg Daily Value	RM3.42m
Major Shareholders (%)	
Mac Ngan Boon	15.3
LTH	7.5
CIMB Principal	5.7
Universal Capital RE	5.5

SOP VALUATION

Segments	Basis	Value (RM'm)	Per Share (RM)
Favelle Favco	DCF Valuation*	261.1	0.56
Infrastructure construction	DCF Valuation	349.8	0.75
Ship building & repair	DCF Valuation	67.2	0.14
Cambodia airports	DCF Valuation	446.1	0.95
Road Maintenance	DCF Valuation	11.5	0.02
	*WACC at 7.8%		
Total Sum-of-Parts (SOP)			2.43
Net (debt) / cash		549.5	1.17
SOP per share (RM)			3.60
Discounted SOP (RM)			3.60
Enlarged no. of shares (mil)			467.7

Source: MIDFR

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	1,707.5	1,918.7	1,388.2	2,580.0	1,780.0
EBIT (RM'm)	178.8	87.6	81.5	230.0	89.0
Pre-tax Profit (RM'm)	183.1	160.5	216.4	209.0	150.0
PATAMI (RM'm)	107.7	105.5	131.6	136.6	100.0
EPS (sen)	23.6	22.2	27.4	39.0	33.0
EPS growth (%)	33.6	-6.0	33.3	21.8	15.3
PER(x)	13.1	14.0	11.3	7.9	9.4
Net Dividend (sen)	5.0	5.0	7.0	5.0	5.0
Net Dividend Yield (%)	2.2	2.0	2.3	2.2	2.2

Source: MIDFR

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

3MFY18 RESULTS SUMMARY

FYE Dec (RM'm)	1Q18	4Q17	1Q17	YoY Chg	QoQ Chg	3M18	3M17	YoY Chg
Revenue	249.0	306.5	241.4	-19%	3%	249.0	241.4	3%
Interest income	1.70	-	1.7	-	0%	1.70	1.7	0%
Finance cost	-5.4	-2.2	-8.7	145%	-38%	-5.4	-8.7	-38%
Operating profit	17.5	2.3	15.5	661%	13%	17.5	15.5	13%
Share results of associates	45.9	53.2	33.3	-14%	38%	45.9	33.3	38%
Pre-tax profit	63.4	53.3	48.8	19%	30%	63.4	48.8	30%
Taxation	-4.1	-3.0	-4.5	37%	-9%	-4.1	-4.5	-9%
PATAMI	12.5	21.8	23.7	-43%	-47%	12.5	23.7	-47%
EPS (sen) FD	7.4	7.5	7.6	-1%	-3%	7.4	7.6	-3%
	2Q17	4Q17	1Q17	+/- ppts	+/- ppts	3M18	3M17	+/- ppts
Operating margin	7.0%	0.8%	6.4%	6.3	0.6	7.0%	6.4%	0.6
Pre-tax margin	25.5%	17.4%	20.2%	8.1	5.2	25.5%	20.2%	5.2
PATAMI margin	5.0%	7.1%	9.8%	-2.1	-4.8	5.0%	9.8%	-4.8
Effective tax rate	6.5%	5.6%	9.2%	0.8	-2.8	6.5%	9.2%	-2.8

Source: MIDFR

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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.