

03 September 2018 | 6MFY18 Results Update

## Muhibbah Engineering Berhad

*Saved by Concession Asset Contribution*

### INVESTMENT HIGHLIGHTS

- **6MFY18 earnings came in mixed**
- **Concession asset contribution supported bottom-line**
- **Earnings forecast trimmed for FYE18/FYE19**
- **Altogether, we downgrade our recommendation to Neutral with a revised TP of RM3.15 per share**

**6MFY18 results came in mixed.** Muhibbah's 6MFY18 earnings of RM69.1m (+3.0% YoY) met ours and but slightly missed consensus' expectations at 50% and 46% of full year estimates respectively.

#### **Concession asset contribution supported the bottom-line.**

Muhibbah's stagnant earnings are due to decreased in revenue from: (i) infrastructure construction which decreased from RM586.1m in 6MFY17 to RM561.3m in 6MFY18 (-8% YoY) and (ii) cranes - decreased from RM37.8m in 6MFY17 to RM19.1m in 6MFY18 (-47.0% YoY). Furthermore, pre-tax profit increased slightly from 6MFY17's RM112.4m to RM113.4m in 6MFY18 (+0.01%YoY). But, contribution from concession assets of RM81.4m (+38.0%YoY) supported its bottom line

**Earnings estimates tweaked.** We tweak our forecasts reflected by changes in; (i) revenue; from RM2.58bn to RM1.58bn (-38.7%) and (ii) earnings; from RM136.3m to RM108.4m (-20.4%). The changes are motivated by our defensive stance on the sombre outlook of the construction sector.

**Recommendation.** We downgrade our recommendation to **NEUTRAL** with an adjusted TP of **RM3.15** which is based by rolling over our FYE19 EPS to 15x PE multiple to reflect the changes on our earnings assumption.



***Downgrade to NEUTRAL  
(from BUY)***

***Revised Target Price (TP): RM3.15  
(From RM3.60)***

RETURN STATS	
Price (30 August 2018)	RM3.13
Target Price	RM3.15
Expected Share Price Return	+0.1%
Expected Dividend Yield	+1.6%
<b>Expected Total Return</b>	<b>+1.7%</b>

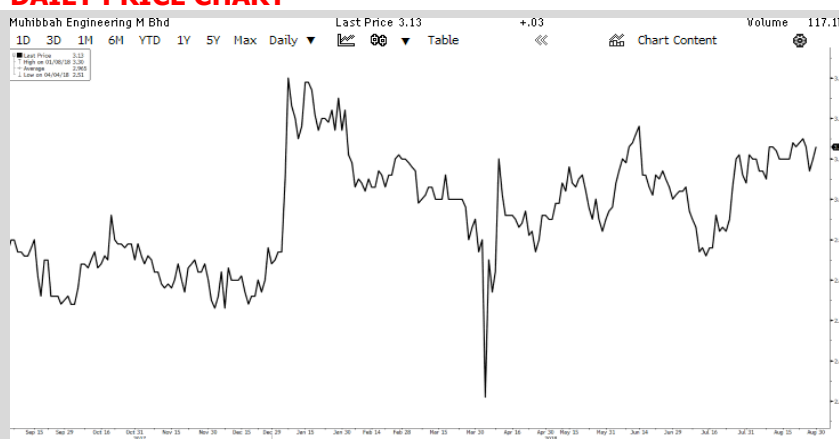
STOCK INFO	
KLCI	1,819.66
Bursa / Bloomberg	5703/ MUHI MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	480.3
Par Value (RM)	1.00
Market cap. (RM'm)	1200.8
Price over NA	1.36
52-wk price Range	RM2.09– RM2.56
Beta (against KLCI)	1.24
3-mth Avg Daily Vol	0.78m
3-mth Avg Daily Value	RM1.87m
Major Shareholders (%)	
Mac Ngan Boon	19
LTH	10
CIMB Principal	4.79
Universal Capital RE	3.75

## INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	1,733.60	1,707.50	1,918.70	1,388.20	1,548.00	1,452.05
EBIT (RM'm)	110.9	178.8	87.6	81.5	92.8	70.27
Pre-tax Profit (RM'm)	145.1	183.1	160.5	216.4	108.4	150.67
PATAMI (RM'm)	81.4	107.7	105.5	131.6	108.36	101.73
EPS (sen)	17.7	23.6	22.2	27.4	39	21
EPS growth (%)	-10.5	33.6	-6	23.5	21.8	-46
PER(x)	17.7	13.3	14.1	11.4	8.0	14.9
Net Dividend (sen)	4	5	5	7	5	6.4
Net Dividend Yield (%)	2.1	2.2	2	2.2	1.6	2.04

Source: MIDFR

## DAILY PRICE CHART



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Source: Bloomberg, MIDF

## 6MFY18 RESULTS SUMMARY

FYE Dec (RM'm)	2Q18	1Q18	2Q17	YoY Chg	QoQ Chg	6M18	6M17	YoY Chg
<b>Revenue</b>	<b>311.6</b>	<b>249</b>	<b>467.8</b>	<b>-19%</b>	<b>3%</b>	<b>560.7</b>	<b>709.3</b>	<b>-21%</b>
Interest income	1.5	1.70	1.1	36.36%	0%	3.2	2.9	0%
Finance cost	-6.2	-5.4	-5.3	145%	-38%	-11.6	-14	-38%
<b>Operating profit</b>	<b>14.4</b>	<b>17.7</b>	<b>21.2</b>	<b>661%</b>	<b>13%</b>	<b>31.9</b>	<b>36.8</b>	<b>-13%</b>
Share results of associates	35.5	45.9	42.3	-14%	38%	81.4	75.6	38%
<b>Pre-tax profit</b>	<b>49.9</b>	<b>63.4</b>	<b>63.5</b>	<b>19%</b>	<b>30%</b>	<b>113.4</b>	<b>112.4</b>	<b>0.01%</b>
Taxation	-5.4	-4.1	-9.2	37%	-9%	-9.6	-14.3	-9%
<b>PATAMI</b>	<b>32.9</b>	<b>12.5</b>	<b>37.8</b>	<b>-43%</b>	<b>-47%</b>	<b>69.1</b>	<b>67.1</b>	<b>3%</b>
EPS (sen) FD	6.87	7.4	7.88	-1%	-3%	14.4	14.0	-3%
	<b>2Q18</b>	<b>1Q18</b>	<b>2Q17</b>	<b>+/- ppts</b>	<b>+/- ppts</b>	<b>6M18</b>	<b>6M17</b>	<b>+/- ppts</b>
Operating margin	4.62%	7.11%	4.53%	6.3	0.6	5.69%	5.19%	0.6
Pre-tax margin	16.01%	25.46%	13.57%	8.1	5.2	20.22%	15.85%	5.2
PATAMI margin	10.56%	5.02%	8.08%	-2.1	-4.8	12.32%	9.46%	-4.8
Effective tax rate	-1.73%	-1.65%	-1.97%	0.8	-2.8	-1.71%	-2.02%	-2.8

**Segmental Breakdown**

<b>Revenue</b>	<b>6MFY18</b>	<b>6MFY17</b>	<b>YoY Chg</b>
Infrastructure Construction	561.3	586.1	-8%
Cranes	199.2	265.9	-11%
Group Elimination	-124.8	-142.8	-168%
<b>TOTAL</b>	<b>807.5</b>	<b>709.3</b>	<b>57%</b>
<b>PBT</b>	<b>6MFY18</b>	<b>6MFY17</b>	<b>YoY Chg</b>
Infrastructure construction	31.9	39.4	-6%
Cranes	19.1	37.8	-47%
Concession	77.4	61.4	35%
Group Elimination	-15.0	-26.3	-55%
<b>TOTAL</b>	<b>113.4</b>	<b>112.4</b>	<b>30%</b>
<b>PBT margin</b>	<b>6MFY18</b>	<b>6MFY17</b>	<b>+/- pts</b>
Infrastructure construction	5.7%	6.72%	-1.24
Cranes	9.6%	14.22%	-5.9

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.