

29 November 2018 | 9MFY18 Results Update

Muhibbah Engineering Berhad

Improvement in concession, a welcomed sight

Maintain BUY

Unchanged Target Price (TP): RM3.15


INVESTMENT HIGHLIGHTS

- **Headline earnings met consensus estimates, but ahead of ours on the back of stronger PBT margin**
- **Muhibbah posted +53.3%yoy growth of quarterly PBT, attributable to higher contribution from concession and associates**
- **Earnings estimates adjusted to reflect on the deviation recognized**
- **We reiterate our BUY call on the stock with unchanged TP of RM3.15**

Results met consensus estimates. Muhibbah's 9MFY18 earnings of RM106.9m (+12.4%yoy) met consensus' expectation at 72.1%, but ahead of our full year estimates at 98.7% respectively. The deviation from our forecast was due to better than expected margin conversion, against the group's revenue which grew marginally by 3.4%yoy in 9MFY18. We understand from management that the improvement in earnings was primarily due to better contribution from concession division. Notably, the division recorded +3.6% higher revenue, while fetching 45.3% (+12.0pptsyoy) margin at PBT level in 9MFY18.

PBT seen soaring. Muhibbah recorded PBT of RM77.6m in 3QFY18, posting a significant +53.3%yoy increase from the same period last year. Accordingly, the cumulative sum in 9MFY18 arrived at RM191.1m which grew +17.2%yoy respectively. We noted that the growth in PBT was partly due to improved share results of associates at RM116.0m (+23.4%yoy).

Earnings estimates adjusted. We are prompted to adjust our earnings forecast to reflect the deviation aforementioned. Our forecast was premised on the quality order book of RM1.8bn, 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. Consequent to the revision, we arrived at earnings estimates of RM123.84m, for FY18 while maintaining our FY19's. Our new estimate was realized after making allowance for the adjustment to bottom-line margins in FY18.

Recommendation. Given the latest change in estimates, we maintain our BUY recommendation on the stock with an unchanged TP of **RM3.15**. We ascribe PE multiples of 15x to FY19EPS, which reflects the conservative current sector wide valuation on construction stocks. Our TP implies a +15.6% upside and earnings yield of 6.6%. 

RETURN STATS	
Price (28 Nov 2018)	RM2.78
Target Price	RM3.15
Expected Share Price Return	+13.3%
Expected Dividend Yield	+2.3%
Expected Total Return	+15.6%

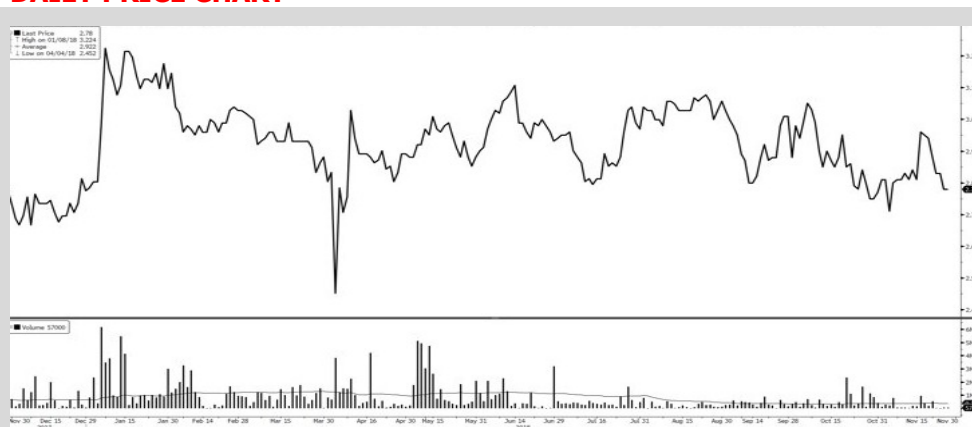
STOCK INFO	
KLCI	1,686.6
Bursa / Bloomberg	5703/ MUHI MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	481.6
Par Value (RM)	1.00
Market cap. (RM'm)	1,338.8
Price over NA	1.3
52-wk price Range	RM2.51– RM3.36
Beta (against KLCI)	0.99
3-mth Avg Daily Vol	0.38m
3-mth Avg Daily Value	RM1.1m
Major Shareholders (%)	
Mac Ngan Boon	15.3
FIL Limited	8.2
LTH	6.9
CIMB Group Holdings	6.1

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	1,452.1
EBIT (RM'm)	110.9	178.8	87.6	81.5	108.36	116.2
Pre-tax Profit (RM'm)	145.1	183.1	160.5	216.4	185.76	150.7
PATAMI (RM'm)	81.4	107.7	105.5	131.6	123.84	101.7
EPS (sen)	16.9	22.4	21.9	27.3	25.7	21.1
EPS growth (%)	-10.5	32.3	-2.0	24.7	-5.9	-17.9
PER(x)	16.4	12.4	12.7	10.2	10.8	13.2
Net Dividend (sen)	4.0	5.0	5.0	7.0	5.0	6.4
Net Dividend Yield (%)	1.4	1.8	1.8	2.5	1.8	2.3

Source: MIDFR

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

9MFY18 RESULTS SUMMARY

FYE Dec (RM'm)	3Q18	3Q17	2Q18	YoY Chg	QoQ Chg	9M18	9M17	YoY Chg
Revenue	557.3	372.4	311.6	49.6%	78.9%	1118.0	1081.8	3.4%
Interest income	2.8	2.8	1.5	-1.0%	84.8%	6.0	5.8	4.5%
Finance cost	-6.5	-1.9	-6.2	237.7%	4.5%	-18.1	-15.9	13.8%
Operating profit	43.1	32.2	14.4	33.7%	199.1%	75.1	69.0	8.7%
Share results of associates	34.6	18.4	35.5	87.5%	-2.6%	116.0	94.1	23.4%
Pre-tax profit	77.6	50.7	49.9	53.3%	55.6%	191.1	163.1	17.2%
Taxation	-13.3	-2.8	-5.4	374.5%	145.9%	-22.9	-17.1	33.6%
PATAMI	37.7	28.0	32.9	35.0%	14.7%	106.9	95.1	12.4%
EPS (sen) FD	7.8	5.8	6.87	34.7%	14.1%	22.3	19.8	12.4%
	3Q18	3Q17	2Q18	+/- ppts	+/- ppts	9M18	9M17	+/- ppts
Operating margin	7.7%	8.6%	4.6%	-0.9	3.1	6.7%	6.4%	33.3%
Pre-tax margin	13.9%	13.6%	16.0%	0.3	-2.1	17.1%	15.1%	201.6%
PATAMI margin	6.8%	7.5%	10.6%	-0.7	-3.8	9.6%	8.8%	77.2%
Effective tax rate	-2.4%	-0.8%	-1.7%	-1.6	-0.6	-2.0%	-1.6%	-46.4%

Source: MIDFR

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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.