

29 September 2015 | Corporate Update

Muhibbah Engineering Berhad

PIPC visit

Maintain BUY
Unchanged (TP): RM2.95

INVESTMENT HIGHLIGHTS

- **Petronas and Johor Petroleum Development Corporation graciously hosted our recent visit to the Pengerang Integrated Petroleum Complex (PIPC) in Pengerang, Johor**
- **Petronas is developing the Refinery and Petrochemical Integrated Development (RAPID) complex within PIPC which forms the larger integrated petroleum complex**
- **Strong construction demand for downstream oil and gas infrastructure and facilities**
- **Muhibbah is seen as a major beneficiary from among the construction companies under our coverage**

The key takeaways from the visit are as follows:


Muhibbah may continue to clinch more RAPID related awards.

We reckon that Muhibbah will continue to clinch more awards in the upcoming quarters for fabrication, installation and commissioning of steel and mechanical works in RAPID. This is due to the rising demand for steel and mechanical related works in relation to infrastructure and refinery facilities at RAPID which are to be fully commissioned in 2019.

High tender-book success rate, healthy financial position and unique technical capabilities. With the wealth of experiences in previous RAPID jobs, Muhibbah will continue to raise its possibility of success in clinching more oil and gas infrastructure work packages due to its track record and technical joint-ventures. Furthermore, its healthy balance sheet enables it to undertake large infrastructure jobs and be selective on projects with the best risk-to-reward ratio.

Overseas experience heightened its profile. Its overseas ventures in Middle East paid off well in terms of credibility building. It arguably resulted in the repeat sub-contract awards from international players in the RAPID project, such as Technicas Reunidas and Toyo Petroleum.

Orderbook. Moving ahead into FYE16, Muhibbah is expected to continue to replenish its orderbook on the back of >RM1bn of total ongoing jobs.

Recommendation. We maintain **BUY** with an unchanged **TP of RM2.95** based on FYE16F sum-of-parts valuation (SOP). The implied multiple of 12.3x is based on EPS16 which equates to the lower end of our midcap construction range of 12-14x. 

RETURN STATS	
Price (28 Sept 2015)	RM2.03
Target Price	RM2.95
Expected Share Price Return	+45.2%
Expected Dividend Yield	+2.5%
Expected Total Return	+47.7%

STOCK INFO	
KLCI	1,608.43
Bursa / Bloomberg	5703/MUHI MK
Board / Sector	Main/Construction
Syariah Compliant	No
Issued shares (mil)	468.5
Par Value (RM)	1.00
Market cap. (RM'm)	951.1
Price over NA	1.29x
52-wk price Range	RM1.51 – RM3.15
Beta (against KLCI)	1.52x
3-mth Avg Daily Vol	0.79m
3-mth Avg Daily Value	RM1.61m
Major Shareholders (%)	
NGAN BOON MAC	20
LTH	9.7
CIMB Principal	4.9

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RAPID overview. With the price tag of RM63bn, Petronas's objectives in developing RAPID are to (i) supply 300,000 barrels of products per day, (ii) producing European standard fuels and gasoline, and (iii) providing feedstock to the petrochemical complex with the larger PIPC complex. We remain sanguine on the prospects of Muhibbah for its participation in the RAPID project as it is a key project under the National Key Results Area (NKRA) to further transform Malaysia into an oil and gas hub. The project aspires to emulate the success of (i) regional oil and gas hubs in Yeosu and Ulsan, Korea, and (ii) to enable clustering as in Rotterdam and Antwerp, Netherlands respectively.

Still more room to grow in RAPID. Correctly, the refineries in Yeosu and Ulsan in Korea are the best commercial models to compare with combined capabilities of producing more than 1.4 million barrels of oil per day. This is because Antwerp and Rotterdam have onshore pipeline transporting the refined oil and other specialty chemicals to various locations within Europe. They have practically formed a cluster instead of a hub justifiably. Meanwhile in RAPID, many of the work packages are currently at the civil engineering phase. Hence, we opine that the core phase of RAPID project has yet to begin. This includes the construction of infrastructures for sour water recovery, desulphurization, hydrotreaters, hydrocrackers, coking and extractions plants. Consequently, the demand for steel fabrication, erection, installation and mechanical works will accordingly rise in due course. We opine that Muhibbah will be among the lead beneficiary for the growing demand due to its technical expertise.

Downside risk... However we can't downplay the prevailing risk factors that will affect the RAPID project, such as (i) volatility in crude oil prices that will shy away potential investors, (ii) domestic political stability in executing the plans for and policies related to PIPC, (iii) outflow of funds from emerging economies, and (iv) land cost of RM60 per sq. ft. which has risen aggressively since the project inception. These risks will influence the rate of progress to develop RAPID within its commissioning deadline of 2019.

...and additional catalysts. Despite the risks, we reckon that Muhibbah remains in a sweet spot due to (i) clear earnings' visibility from construction segment which contributes +23.4% of PBT, (ii) favourable USD/MYR rate from its Cambodia airport operation, (iii) Favelle Favco global market share of cranes, (iv) +20%, 5-year CAGR of its PATAMI, and (v) +27%, 5-year CAGR of its EPS that justifies a serious consideration on its intrinsic potential.

INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15F	FY16F
Revenue (RM'm)	1,936.4	1,692.8	2,085.1	2,062.5
EBIT (RM'm)	104.9	110.9	178.8	178.1
Pre-tax Profit (RM'm)	132.6	145.1	182.9	185.6
PATAMI (RM'm)	86.4	81.4	107.5	109.4
EPS (sen)	19.7	17.7	23.6	24.0
EPS growth (%)	>100	-10.5	33.4	1.8
PER(x)	10.9	10.6	8.6	8.5
Net Dividend (sen)	4.5	4.0	5.0	5.0
Net Dividend Yield (%)	2.0	2.1	2.5	2.5

Source: MIDFR

SOP VALUATION

Segments	Basis	Value (RM'm)	Per Share (RM)
Favelle Favco	MIDFR TP: RM3.20	419.9	0.90
Infrastructure construction	DCF Valuation	321.7	0.69
Ship building & repair	DCF Valuation	100.8	0.22
Cambodia airports	DCF Valuation	399.9	0.86
Road Maintenance	DCF Valuation	11.5	0.02
Total Sum-of-Parts (SOP)			2.68
Net (debt) / cash	As at 2QFY15	125.0	0.27
SOP per share (RM)			2.95
Discounted SOP (RM)			2.95
Enlarged no. of shares (mil)			467.7

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

FIGURE 1: Pengerang Site



FIGURE 2: Petronas Lookout Point



FIGURE 3: JPDC Briefing



FIGURE 4: JPDC Q&A



FIGURE 5: PIPC Layout



FIGURE 6: Dialog's Terminal Briefing



FINANCIAL SUMMARY

Income Statement	FY13	FY14	FY15F	FY16F
Revenue	1,936.4	1,692.8	2,085.1	2,062.5
Cost of sales	-1,723.1	-1,582.9	-1,754.2	-1,730.5
Operating expenses	-111.3	0.0	-152.3	-153.9
Other income	3.0	1.2	0.0	0.0
EBIT	104.9	110.9	178.8	178.1
Net interest expense	-18.9	-13.7	-44.4	-42.4
PBT	132.6	145.1	182.9	185.6
Taxation	-16.4	-33.7	-40.3	-40.9
PATAMI	86.4	81.4	107.5	109.4
Balance Sheet	FY13	FY14	FY15F	FY16F
Non-current assets	930.6	991.8	1003.4	1013.6
PPE	710.7	724.9	726.8	727.1
Investments in associate	219.9	266.9	276.6	286.6
Current assets	1,719.6	2,173.3	2,166.3	2,250.9
Inventories	206.6	226.0	243.2	264.4
Receivables	664.2	756.5	787.5	817.6
Amount due from customer	412.3	577.4	515.1	488.0
Others	10.1	12.5	12.5	12.5
Cash & equivalent	426.3	600.9	607.9	668.4
TOTAL ASSETS	2,650.2	3,165.1	3,169.7	3,264.5
Share capital	211.2	215.7	215.7	215.7
Minority Interest	194.5	216.9	242.7	268.6
Reserves	351.4	428.4	513.1	599.7
TOTAL EQUITY	757.1	861.1	971.6	1,084.1
Non-current liabilities	199.0	131.1	131.1	131.1
Long-term borrowings	137.3	69.3	69.3	69.3
Payables	61.7	61.9	61.9	61.9
Current liabilities	1,694.0	2,172.8	2,067.0	2,049.3
Short-term borrowings	737.5	1167.6	968.6	957.6
Payables	539.7	625.7	604.8	626.5
Amount due to customer	408.2	340.7	454.8	426.5
Others	8.7	38.8	38.8	38.8
TOTAL LIABILITIES	1,893.1	2,304.0	2,198.1	2,180.4

Source: MIDFR

Cash Flow Statement	FY13	FY14	FY15F	FY16F
Operating activities				
PBT	132.6	145.1	182.9	185.6
Depreciation & Amortization	52.6	60.3	57.0	58.7
Chgs in working capital	205.8	-256.1	107.2	-30.8
Non-cash adjustment	8.3	16.5	3.2	0.4
Interest expense	-39.5	-24.5	-51.7	-50.3
Tax paid	-31.3	-38.7	-40.3	-40.9
CF from Operations	328.3	-97.5	258.3	122.7
Investing activities				
Capex	-38.1	-56.6	-70.0	-70.0
Other income received	42.7	21.0	49.8	51.0
CF from Investments	4.6	-35.6	-20.2	-19.0
Financing activities				
Dividends paid to owners	-7.8	-19.1	-22.8	-22.8
Dividends paid to MI	7.7	-2.9	-9.3	-9.4
Net proceeds in borrowings	-227.0	327.6	-199.0	-11.0
CF from Financing	-227.1	305.6	-231.1	-43.2
Net changes in cash	101.4	168.3	7.0	60.5
Beginning cash	320.3	426.3	600.9	607.9
Overdrafts & Deposits	4.7	6.2	0.0	0.0
Ending cash	426.3	600.9	607.9	668.4
Ratios	FY13	FY14	FY15F	FY16F
Revenue growth	-26.2%	-12.6%	23.2%	-1.1%
PBT growth	>100%	9.4%	26.1%	1.5%
PATAMI growth	>100%	-5.7%	32.0%	1.8%
PBT margin	6.8%	8.6%	8.8%	9.0%
PATAMI margin	4.5%	4.8%	5.2%	5.3%
ROE	15.4%	12.6%	14.8%	13.4%
ROA	3.2%	2.6%	3.4%	3.4%
Net gearing (x)	Ncash	Ncash	Ncash	Ncash
Book value/share (RM)	1.34	1.40	1.60	1.79
PBV (x)	1.7	1.3	1.3	1.1
EV/share (RM)	3.36	3.31	3.54	3.68

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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.