

01 March 2018 | FY17 Results Update

## Muhibbah Engineering Berhad

*Poised For a Good Year Ahead*

**Maintain BUY**

**Maintain Target Price (TP): RM3.60**

### INVESTMENT HIGHLIGHTS


- **FY17 results met target**
- **Revenue narrowed but fundamentals are still intact**
- **Earnings estimates intact**
- **Nonetheless, we reiterate our recommendation to BUY with a TP of RM3.60 per share**

**FY17 results met expectation.** Muhibbah's FY17 earnings of RM131.6m (+25% YoY) met ours and consensus' expectation at 97.0% and 105.7% of full year estimates respectively. The results illustrated lower revenue of RM1.3bn for FY17 (-28%YoY) compared to RM1.9bn in FY16. The boost in profit was contributed by shares results of associates which shot-up from RM83.8m in FY16 to RM147.2 (+76.0%YoY).

**The revenue narrowed but fundamentals are still intact.** Muhibbah fundamentals such as its book value and debt levels are in good shape compared to its peers. (Figure 1). Muhibbah's core strength lies in its unique capabilities of marine engineering and industrial fabrication. Thus, compared to other peers in the KLCon Index. We reckon that Muhibbah can replenish their orderbook with projects in Qatar and domestically.

**Earnings estimates intact.** We maintain our earnings forecast for FYE18 and introduce FYE19 estimates our forecast premised on the quality orderbook of RM2.0bn, or approximately 48 months (3.41x construction revenue cover) backed by recurring cash flow for its concession asset in Cambodia. The airport concession through its partnership with Vinci has contributed 5-year average of 24.0% percent to its operating income.

**Dividend announced.** Based on the positive results, Muhibbah announced a 7-sen dividend which equals to 2.25% hence meeting our forecast for FY17

**Recommendation.** That said, we maintain our **BUY** recommendation with a TP of RM3.60 based on sum of parts valuation implying +13.8% upside. 

| RETURN STATS                 |               |
|------------------------------|---------------|
| Price (28 Feb 2018)          | RM3.10        |
| Target Price                 | RM3.60        |
| Expected Share Price Return  | +13.8%        |
| Expected Dividend Yield      | +2.2%         |
| <b>Expected Total Return</b> | <b>+15.0%</b> |

| STOCK INFO             |                     |
|------------------------|---------------------|
| KLCI                   | 1,856               |
| 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)     | 1489                |
| Price over NA          | 1.46                |
| 52-wk price Range      | RM2.46– RM3.36      |
| Beta (against KLCI)    | 1.04                |
| 3-mth Avg Daily Vol    | 1.18m               |
| 3-mth Avg Daily Value  | RM3.62m             |
| Major Shareholders (%) |                     |
| Mac Ngan Boon          | 15.3                |
| LTH                    | 8.2                 |
| CIMB Principal         | 5.52                |
| Fil Ltd                | 4.0                 |

## 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%    |              |                |
| <b>Total Sum-of-Parts (SOP)</b> |                  |              | <b>2.43</b>    |
| Net (debt) / cash               | As at June, 2017 | 549.5        | 1.17           |
| <b>SOP per share (RM)</b>       |                  |              | <b>3.60</b>    |
| <b>Discounted SOP (RM)</b>      |                  |              | <b>3.60</b>    |
| Enlarged no. of shares (mil)    |                  |              | 467.7          |

Source: MIDFR

## INVESTMENT STATISTICS

| FYE Dec                | FY13    | FY14    | FY15    | FY16    | FY17    | FY18F   | FY19F   |
|------------------------|---------|---------|---------|---------|---------|---------|---------|
| Revenue (RM'm)         | 1,936.4 | 1,733.6 | 1,707.5 | 1,918.7 | 1,388.2 | 2,580.0 | 1,780.0 |
| EBIT (RM'm)            | 104.9   | 110.9   | 178.8   | 87.6    | 81.5    | 230.0   | 89.0    |
| Pre-tax Profit (RM'm)  | 20.0    | 145.1   | 183.1   | 160.5   | 216.4   | 209.0   | 150.0   |
| PATAMI (RM'm)          | 86.4    | 81.4    | 107.7   | 105.5   | 131.6   | 136.6   | 100.0   |
| EPS (sen)              | 19.7    | 17.7    | 23.6    | 22.2    | 27.4    | 39.0    | 33.0    |
| EPS growth (%)         | >100    | -10.5   | 33.6    | -6.0    | 33.3    | 21.8    | 15.3    |
| PER(x)                 | 15.7    | 17.5    | 13.1    | 14.0    | 11.3    | 7.9     | 9.4     |
| Net Dividend (sen)     | 4.5     | 4.0     | 5.0     | 5.0     | 7.0     | 5.0     | 5.0     |
| Net Dividend Yield (%) | 2.0     | 2.1     | 2.2     | 2.0     | 2.3     | 2.2     | 2.2     |

Source: MIDFR

## DAILY PRICE CHART



Source: Bloomberg, MIDFR

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## FY17 RESULTS SUMMARY

| FYE Dec (RM'm)              | 4Q17         | 3Q17         | 4Q16         | YoY Chg     | QoQ Chg     | 12M17          | 12M16          | YoY Chg     |
|-----------------------------|--------------|--------------|--------------|-------------|-------------|----------------|----------------|-------------|
| <b>Revenue</b>              | <b>306.5</b> | <b>393.3</b> | <b>645.7</b> | <b>-22%</b> | <b>-53%</b> | <b>1,388.2</b> | <b>1,918.7</b> | <b>-28%</b> |
| Finance cost                | -2.2         | -8           | -12.8        | -73%        | -83%        | -12.3          | -33.8          | -64%        |
| <b>Operating profit</b>     | <b>2.3</b>   | <b>17.7</b>  | <b>27.9</b>  | <b>-87%</b> | <b>-92%</b> | <b>81.5</b>    | <b>87.6</b>    | <b>-7%</b>  |
| Share results of associates | 53.2         | 12.1         | 20.8         | 340%        | 156%        | 147.2          | 83.8           | 76%         |
| <b>Pre-tax profit</b>       | <b>50.3</b>  | <b>44.3</b>  | <b>48.7</b>  | <b>14%</b>  | <b>3%</b>   | <b>216.4</b>   | <b>171.4</b>   | <b>26%</b>  |
| Taxation                    | -3           | -5.2         | -0.1         | -42%        | 2900%       | -20.1          | -10.8          | 86%         |
| <b>PATAMI</b>               | <b>21.8</b>  | <b>20.1</b>  | <b>32.3</b>  | <b>8%</b>   | <b>-33%</b> | <b>131.6</b>   | <b>105.5</b>   | <b>25%</b>  |
| EPS (sen)                   | 7.6          | 4.7          | 6.7          | 62%         | 13%         | 27.4           | 22.2           | 23%         |
|                             | 4Q17         | 3Q17         | 4Q16         | +/- ppts    | +/- ppts    | 12M17          | 12M16          | +/- ppts    |
| Operating margin            | 0.8%         | 4.5%         | 4.3%         | -3.7        | -3.6        | 5.9%           | 4.6%           | 1.3         |
| Pre-tax margin              | 16.4%        | 11.3%        | 7.5%         | 5.1         | 8.9         | 15.6%          | 8.9%           | 6.7         |
| PATAMI margin               | 7.1%         | 5.1%         | 5.0%         | 2.0         | 2.1         | 9.5%           | 5.5%           | 4.0         |
| Effective tax rate          | 6.0%         | 11.7%        | 0.2%         | -5.8        | 5.8         | 9.3%           | 6.3%           | 3.0         |

Source: Bursa, MIDFR

## FIGURE 1: PEERS COMPARISON

|          | Mkt Cap | P/E  | P/B | ROIC LF | Net Debt LF   | Rev - 1 Yr Gr LF | Debt/Equi | WACC | OPM LF |
|----------|---------|------|-----|---------|---------------|------------------|-----------|------|--------|
| Muhibbah | 1474.6  | 11.6 | 1.4 | 3.2     | 330,988,992   | -3.3             | 66.7      | 8.1  | 7.7    |
| Kerjaya  | 1974.7  | 14.6 | 2.6 | 14.6    | (163,008,992) | 7.3              | 6.1       | 9.9  | 17.7   |
| IWCB     | 1129.1  | 37.6 | 1.2 | 8.0     | 186,224,992   | 1230.8           | 26.5      | 9.7  | 73.4   |
| Econpile | 1551.5  | 17.9 | 4.8 | 25.5    | (7,329,000)   | 9.7              | 12.9      | 12.3 | 17.5   |
| Pestech  | 1398.7  | 16.0 | 3.7 | 12.4    | 514,216,000   | 131.7            | 111.4     | 7.6  | 14.9   |

Source: Bloomberg, 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. |