

23 February 2018 | Corporate Update

Muhibbah Engineering Berhad

New MANATEQ Job Starts

Maintain BUY

Maintain Target Price (TP): RM3.60

INVESTMENT HIGHLIGHTS

- **Clinched RM149.0m contract from Qatar government**
- **Award within our job replenishment assumption**
- **Reaffirm our earnings estimates**
- **We maintain our BUY recommendation with an unchanged TP of RM3.60**

RM149.0m job in Qatar's SEZ clinched. Muhibbah has accepted the award of design and construction of syncrolift and travel lift from the Special Economic Zones Company of Qatar for a sum of RM149.0m. The project is located Um Alhoul Special Economic Zone, Qatar which is managed by MANATEQ. The contract is formalised through its 49.0% subsidiary; Muhibbah Engineering Middle East LLC.

Award within our job replenishment assumption. The award was within our job replenishment assumptions of RM600m with our current estimate of unbilled orderbook of RM1.8bn. Notably; the project is within the marine cluster of QEZ3 which falls under Muhibbah's expertise core expertise for example the syncrolift is a system for raising vessels out of the water for maintenance work or repair. The vessel is piloted over an underwater cradle, which is then elevated by a set of synchronized hoists or winches. (Figure 1)

Impact on earnings. Nonetheless, we make no changes to our FYE18/FYE19 earnings forecasts. As stated in above, the award is within our job replenishment target of RM600m and factored in the marginal assumptions of 9.5% on the back of 49.0% shareholdings in the JV company. The project is expected to contribute to RM14.2m to the bottom line which constitute +10.4% of its PATAMI.

Recommendation. We maintain our **BUY** recommendation with a TP of RM3.60 per share based on sum-of-parts valuation (SOP) Muhibbah remains as one of our top pick for small-cap construction companies. Its shares are trading at an undemanding PER of 11.5x below the KLCI average of 16.9x by 5.4ppts and its peers in KL Construction Index of 22.5x by 11.0ppts.



| | |
|------------------------------|---------------|
| Price (23 Feb 2018) | RM3.06 |
| Target Price | RM3.60 |
| Expected Share Price Return | +15.0% |
| Expected Dividend Yield | +2.0% |
| Expected Total Return | +17.0% |

STOCK INFO

| | |
|------------------------|---------------------|
| KLCI | 1,855.07 |
| Bursa / Bloomberg | 5703/ MUHI MK |
| Board / Sector | Main / Construction |
| Syariah Compliant | Yes |
| Issued shares (mil) | 480.33 |
| Par Value (RM) | 1.00 |
| Market cap. (RM'm) | 1469.8 |
| Price over NA | 1.44 |
| 52-wk price Range | RM2.46 – RM3.36 |
| Beta (against KLCI) | 1.10 |
| 3-mth Avg Daily Vol | 1.14m |
| 3-mth Avg Daily Value | RM3.48m |
| Major Shareholders (%) | |
| Mac Ngan Boon | 15.03 |
| LTH | 8.22 |
| CIMB Group Holdings | 5.52 |
| Fil Limited | 4.02 |

INVESTMENT STATISTICS

| FYE Dec | FY13 | FY14 | FY15 | FY16 | FY17F | FY18F |
|------------------------|---------|---------|---------|---------|---------|---------|
| Revenue (RM'm) | 1,936.4 | 1,733.6 | 1,707.5 | 1,918.7 | 2,217.0 | 2,580.0 |
| EBIT (RM'm) | 104.9 | 110.9 | 178.8 | 87.6 | 191.3 | 230.0 |
| Pre-tax Profit (RM'm) | 20.0 | 145.1 | 183.1 | 160.5 | 174.9 | 209.0 |
| PATAMI (RM'm) | 86.4 | 81.4 | 107.7 | 105.5 | 136.3 | 136.6 |
| EPS (sen) | 19.7 | 17.7 | 23.6 | 22.2 | 32.0 | 39.0 |
| EPS growth (%) | >100 | -10.5 | 33.6 | -6.0 | 33.3 | 21.8 |
| PER(x) | 15.5 | 17.3 | 13.0 | 13.8 | 9.6 | 7.8 |
| Net Dividend (sen) | 4.5 | 4.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Net Dividend Yield (%) | 2.0 | 2.1 | 2.2 | 2.0 | 2.2 | 2.2 |

Source: MIDFR

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 | As at June, 2017 | 549.5 | 1.17 |
| | | | |
| SOP per share (RM) | | | 3.60 |
| | | | |
| | | | |
| Discounted SOP (RM) | | | 3.60 |
| Enlarged no. of shares (mil) | | | 467.7 |

Source: MIDFR

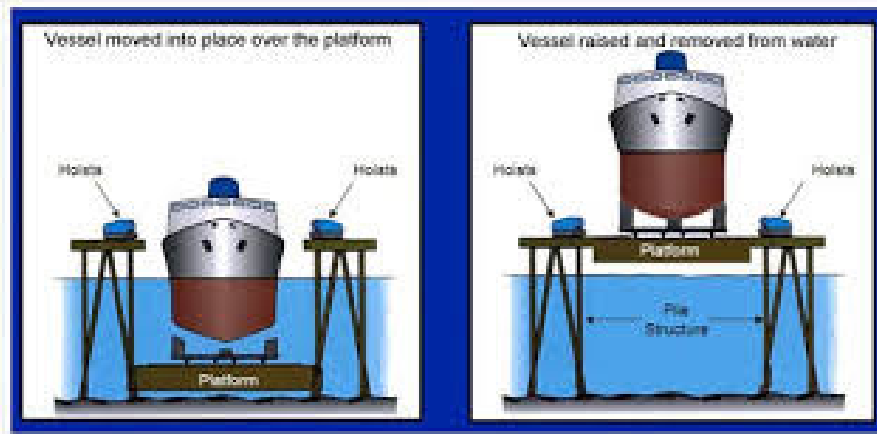
DAILY PRICE CHART



Source: Company, MIDFR

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FIGURE 1: SYNCROLIFT



Source: www.propakistani.pk

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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. |