

10 January 2018 | Corporate Update

## Muhibbah Engineering Berhad

### Run-up from Sturdy Project Wins Last Year

**Maintain BUY**  
**Target Price (TP): RM3.60**  
*(Previously RM3.45)*

#### INVESTMENT HIGHLIGHTS

- **Given Street's blessing**
- **Positioned for another round of local and Qatar job wins**
- **Expecting another smooth sailing year**
- **Maintain BUY recommendation with an adjusted TP of RM3.60**

**Given Street's blessing.** Muhibbah started the year with Street's confidence - its share price advanced +13.7% for the first week of FY18 fomenting a closer look at its orderbook. For FY17, Muhibbah has secured RM1.6bn worth of job wins; +62.6% above our award value estimates of RM600m. Its awarded contract in Malaysia amounted to 66.6% of its FY17 job wins. This indicates quality orderbook whereby risks of translation and regional politics are reduced. Justifiably, its flitting share price scores a strong fundamental overtone where in total its orderbook amounted to RM2.1bn.

**Positioned for another round of local and Qatar job wins.** For FYE18, we're expecting that Muhibbah would secure RM700m worth of jobs with Qatar and Malaysian infrastructure projects given the most spotlight which is in-line with our forecast. Despite the trade blockade by Saudi-led coalition to Qatar, project win from the latter is not entirely muted as in Oct-17 Muhibbah won another award of RM59.1m (49.0% JV) albeit lower than the previous award of RM438.1m in January. The balancing factor would be of PBT contribution of 30.2% quarterly for the past two years from its airport concessions in Cambodia.

**Expecting another smooth sailing year.** Therefore earnings wise, we are expecting another smooth sailing year for Muhibbah despite the grim outlook for its cranes segment via Favelle Favco. But then, comparing the competitive business environment for crane manufacturers worldwide such as Manitowoc (negative earnings reported year-to-date) and Liebherr. Favelle Favco would stand a better chance to survive due to its operational size, customization expertise and presence in South East Asia and Middle East. Noticeably, earnings started to grow in Q4, 2016 illustrating the accretion of projects that reflects a better risk/reward profile on the back of +6.0% operation margin. Thus, we make no changes to our earnings assumptions as Muhibbah is backed by total orderbook of RM2.1bn with average backlog duration of 22 months or 1.7x construction revenue cover.

**Recommendation.** We reiterate our **BUY** recommendation with an adjusted TP of RM3.60 per share on the basis of our sum-of-parts methodology. Muhibbah remains as one of our top pick for small-cap construction companies. Its shares are trading at an undemanding PER of 12.1x below the KLCI average of 17.0x by 5.5ppts and its peers in KL Construction Index of 23.0x by 11.5ppts.

RETURN STATS	
Price (9 January 2018)	RM3.23
Target Price	RM3.60
Expected Share Price Return	+10.2%
Expected Dividend Yield	+2.2%
<b>Expected Total Return</b>	<b>+12.4%</b>

STOCK INFO	
KLCI	1,826.95
Bursa / Bloomberg	MUHI MK/5703
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	480.33
Par Value (RM)	1.00
Market cap. (RM'm)	1551.46
Price over NA	1.52
52-wk price Range	RM2.35-RM3.36
Beta (against KLCI)	1.12
3-mth Avg Daily Vol	0.85m
3-mth Avg Daily Value	RM2.5m
Major Shareholders (%)	
Ngan Boon Mac	15.3
LTH	10.0
CIMB Principal	4.3
FIL Ltd	4.0

## INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16	FY17F	FY18F
Revenue (RM'm)	1,692.8	2,085.1	1,918.7	2,217.0	2,580.0
EBIT (RM'm)	110.9	178.8	87.6	191.3	230.0
Pre-tax Profit (RM'm)	145.1	183.1	160.5	174.9	209.0
PATAMI (RM'm)	81.4	107.7	105.5	136.3	136.6
EPS (sen)	17.7	23.6	22.2	32.0	39.0
EPS growth (%)	-10.5	33.6	-6.0	33.3	21.8
PER(x)	18.2	13.7	14.5	10.1	8.3
Net Dividend (sen)	4.0	5.0	5.0	5.0	5.0
Net Dividend Yield (%)	1.2	1.5	1.5	1.5	1.5

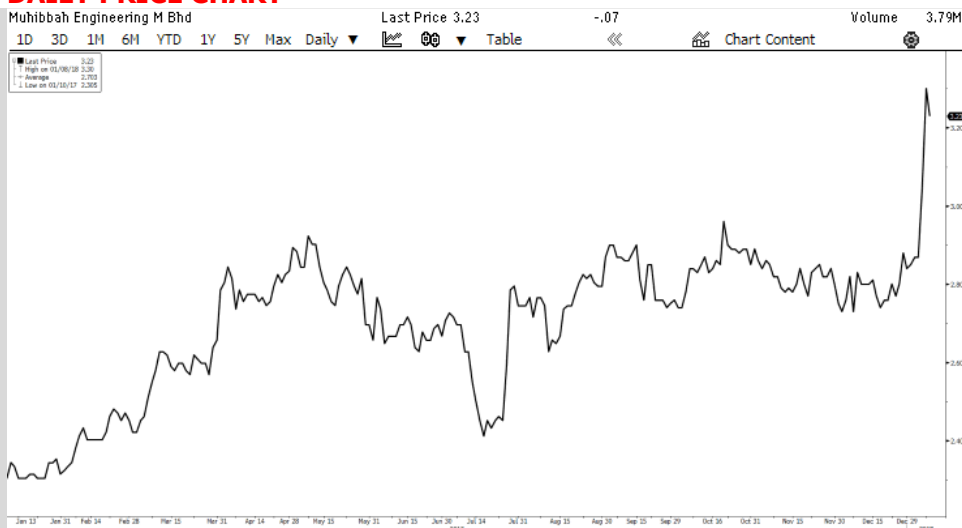
Source: Company, MIDFR

## 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%		
<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: Company, MIDFR

## DAILY PRICE CHART



Source: Bloomberg, MIDFR

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**FIGURE 1: SPILLOVER EFFECT FROM THE LIST OF PROJECTS WON IN 2017**

No	Announcement Date (FY17)	Projects	Location	Amount (RM)	Duration (Months)
1	10 <sup>th</sup> January	Roads and infrastructure construction at Um Alhoul Economic Zone (QEZ-3) Phase 2.1 (Portion 2a, marine cluster), for the Qatar Economic Zones Company	Qatar	438.1m	18
2	28 <sup>th</sup> April	Design & build for the development of supply base wharf and associated works in the second Harbour Basin, Bintulu Port, Bintulu, Sarawak for Bintulu Port Authority	Malaysia	584.84m	35
3	6 <sup>th</sup> October	Design and construction of complementary utilities and pavements with syncrolift, travel lift and north side of canal areas at Um Alhoul Special Economic Zone (Qez-3)	Malaysia	120.5m (49.0% JV; 59.05m)	18
4	10 <sup>th</sup> October	Infrastructure works for Kertih Biopolymer Park (Phase 3 Lot Q), Kemaman, Terengganu	Malaysia	168m	24
5	21 <sup>st</sup> December	Design, supply, installation, testing and commissioning of noise barriers and enclosures (Package v201 to v210) for KVMRT2 (SSP Line)	Malaysia	189m	24

6	27 <sup>th</sup> December	Reinforced concrete jetty and platform for 230kv Senibong Switching Station And 230kv Overhead Line from PMU Senibong to Senibong Switching Station in Johor Bahru, Johor Darul Ta'zim, Malaysia	Malaysia	70m	12
<b>Total FY17 Job Wins</b>				<b>1,608m</b>	

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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.