



Malaysia Marine & Heavy Engineering Holdings Berhad

RM(5186 | MMHE MK) Energy | Energy Infrastructure, Equipment & Services

RM389m Loss as MMHE Incurred Provision Cost

KEY INVESTMENT HIGHLIGHTS

- **MMHE's 2QFY23 revenue up >100%yoy to RM1.1b, but earnings down to deficit of RM389m which is below our expectation**
- **There is additional provision cost due to delivery date extension incurred by MMHE**
- **Kasawari completed onshore construction, Jerun completed jacket and topside expected to sail away in 1QCY24**
- **Downgrade to NEUTRAL with a lower TP of RM0.51**

Revised to NEUTRAL, TP:RM0.51. Malaysian Marine & Heavy Engineering (MMHE)'s 2QFY23 results were way below our yearly expectations. At this juncture, we revised our call from BUY to **NEUTRAL** for MMHE, as we noted the reported loss was due to a one-off provision cost incurred by MMHE for ongoing Heavy Engineering projects. We believe the writeback for these projects will be present in 3QFY23's earnings performance. Nevertheless, due to the lower earnings in 2QFY23 for the Marine and Heavy Engineering segments, barring the provision cost, we revise downward our earnings forecast and thus, **our target price to RM0.51** (previously RM0.81).

2QFY23 revenue surged +164%yoy. MMHE's 2QFY23 revenue gained +163.7%yoy to RM1.06b from higher progress in its Heavy Engineering segment.

2QFY23 earnings lost 18-fold. MMHE 2QFY23 reported loss of RM388.7m against a profit of RM22.1m in 2QFY22. This was mainly due to additional cost provisions for ongoing Heavy Engineering projects recognised in 2QFY23.

Additional cost provisions a one-off. MMHE's clients had requested for additional processes to be completed prior to offshore load out. This caused for a revised schedule and extension on delivery dates for the ongoing undisclosed projects, which are necessary to cater for the delayed onshore works. In a bid to adhere to the timeline, MMHE had incurred the cost and yet to receive a writeback from the clients, which is recognised in 2QFY23 accounts. The practice of provisional pricing in lieu of an extension on delivery dates is common in the oil and gas sector.

Heavy Engineering. 2QFY23 saw a 3-fold rise in revenue to RM990.9m. But due to the cost provisions, the segment reported loss of RM390m. Barring the cost provision, Kasawari had reached its final phase of construction with a progress of 83%, as it had sailed away, and the onshore portion of the construction has been completed. Jerun EPCIC had also sailed away its jacket, and its topside is still onsite until 1QFY24. Jerun is currently progressing at 75%. We believe that, without the cost provision, this segment is performing at a breakeven.

Downgrade to NEUTRAL

(Previously BUY)

Revised Target Price: RM0.51

(Previously RM0.81)

RETURN STATISTICS

Price @ 16 th August 2023 (RM)	0.48
Expected share price return (%)	+6.2
Expected dividend yield (%)	+2.0
Expected total return (%)	+8.2

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-12.0	-15.5
3 months	-6.9	-15.9
12 months	13.1	17.3

INVESTMENT STATISTICS

FYE Dec	2023E	2024F	2025F
Revenue	1,893	2,013	2,072
Operating Profit	115	124	125
Profit Before Tax	30	40	41
Core PATAMI	30	40	41
Core EPS	1.8	2.4	2.5
DPS	1.6	1.8	1.5
Dividend Yield	2.0%	2.2%	1.9%

KEY STATISTICS

FBM KLCI	1,463.51
Issue shares (m)	1,600.0
Estimated free float (%)	13.6
Market Capitalisation (RM'm)	760.0
52-wk price range	RM0.38-RM0.77
3-mth average daily volume (m)	2.0
3-mth average daily value (RM'm)	1.1
Top Shareholders (%)	
MISC Bhd	66.5
Technip Energies M Sdn Bhd	8.5
Urusharta Jamaah Sdn Bhd	5.0

Marine. 2QFY23 revenue dropped -27.9%yoy to RM65.4m, while earnings down by -82.7%yoy to RM3.28m. The lower revenue was due to lesser number of vessels secured, mitigated by higher dry-docking and repair activities. However, it should be noted that 2QFY22's higher earnings was mainly due to the recovery of doubtful debts of RM4m. We expect that, with the maintenance and repair season is currently ongoing, as well as in view of a higher demand for vessel maintenance ahead of the upcoming winter season, MMHE's Marine business will perform better in the subsequent quarters.

Revised earnings estimates. In consideration of MMHE's 2QFY23 performance, barring the additional provision cost, is still below expectations, we revised our earnings estimates to mirror the current run rate. We are also considering the lower profit margin for its Marine segment (approximately 5%) in 2QFY23, and its breakeven position for Heavy Engineering segment, in addition to the expectation of an increased competitiveness in dry-docking activities from the reopening of China's borders.

Revised target price to RM0.51. Our target price is pegged on a PBR of 1.3x to BVPS24 of 43.2sen. The PBR is based on a 5-Year average PBR of the Marine and Engineering subsector. Note that we migrated our valuation methodology from PER to PBV in view of the group's earnings volatility.

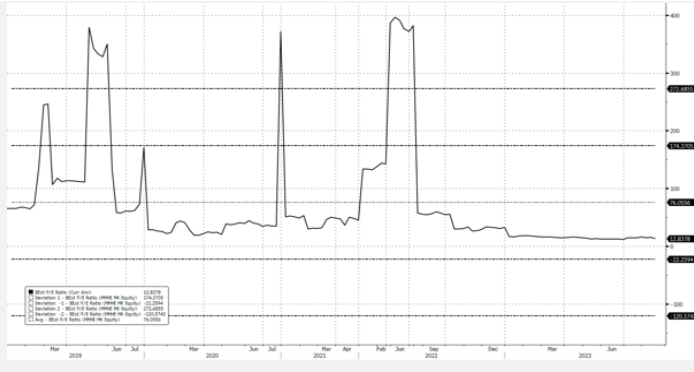
TABLE 1: MMHE 2QFY23 RESULT SUMMARY

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results					Cumulative		
	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY(%)	1HFY22	1HFY23	YoY (%)
Revenue	400.6	496.2	1,056.3	112.9	163.7	818.4	1,552.5	89.7
Other operating income	21.2	11.9	(1.2)	(110.0)	(105.6)	37.1	10.7	(71.1)
Operating profit/(loss)	25.8	7.0	(385.3)	(5,637.0)	(1,595.2)	32.1	(378.4)	(1,279.4)
Finance cost	(3.6)	(3.4)	(3.4)	(1.7)	-	(7.2)	(6.8)	(5.5)
Profit before taxation	22.2	3.5	(388.7)	(11,089.0)	(1,850.5)	24.9	(385.1)	(1,646.9)
Taxation	(0.1)	-	(0.0)	-	(98.6)	(0.1)	(0.0)	(98.6)
Profit after taxation	22.1	3.5	(388.7)	(11,089.1)	(1,861.9)	24.8	(385.1)	(1,655.9)
Minority interests	0.1	-	0.0	-	(84.2)	0.1	0.0	(76.9)
PATAMI/LATAMI	22.0	3.5	(388.7)	(11,089.5)	(1,869.5)	24.7	(385.2)	(1,660.1)
Normalised PATAMI/(LATAMI)	22.1	3.5	(388.7)	(11,089.1)	(1,861.9)	24.8	(385.1)	(1,655.9)
EPS Basic(sen)	1.4	0.2	(24.3)	(12,250.0)	(1,835.7)	1.6	(24.1)	(1,606.3)
Operating profit margin (%)	6.4	1.4	(36.5)	(37.9)	(42.9)	3.9	(24.4)	(28.3)
PATAMI margin (%)	5.5	0.7	-	(0.7)	(5.5)	3.0	(24.8)	(27.8)
Tax rate (%)	(0.6)	-	(0.0)	(0.0)	0.6	(0.6)	0.0	0.6
				+/-ppts				+/-ppts
Segmental Revenue								
Heavy Engineering	309.9	404.2	990.9	145.2	219.7	668.3	1,395.1	108.8
Marine	90.7	92.1	65.4	(29.0)	(27.9)	150.1	157.5	4.9
Segmental EBIT								
Heavy Engineering	1.1	(8.7)	(390.0)	4,376.4	(34,585.2)	4.0	(398.7)	(9,964.9)
Marine	19.0	12.9	3.3	(74.6)	(82.7)	22.7	16.2	(28.6)
EBIT Margin (%)								
Heavy Engineering	0.4	(2.2)	(39.4)	(37.2)	(39.7)	0.6	(28.6)	(29.2)
Marine	20.9	14.0	5.0	(9.0)	(15.9)	15.1	10.3	(4.8)

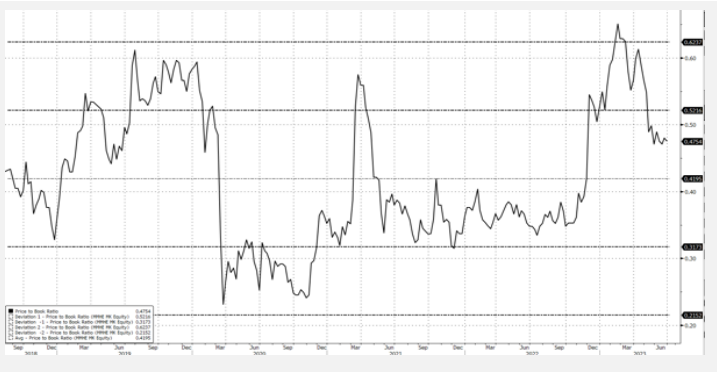
Source: Company, MIDFR

FORWARD BAND

BEST PE Ratio



BEST P/Bk Ratio



Source: Bloomberg, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	1,467.3	1,651.7	1,893.3	2,013.3	2,072.3
EBITDA	(164.5)	145.4	114.5	124.3	125.3
D&A	-9.0	0	0	0	0
Net interest	-3.7	-0.1	0	0	0
Profit before tax	-274.1	46.7	30.0	39.8	40.8
Tax	0.0	20.9	21.0	22.0	22.0
PATAMI	-270.4	67.8	30.1	40.0	41.1
Core PATAMI	-265.1	67.6	30.1	40.0	41.1
Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	1,524.8	1,493.4	1,509.1	1,501.3	1,505.2
Intangible assets	202.7	200.4	201.0	201.4	202.1
Non-current assets	1,830.2	1,788.7	1,804.3	1,796.5	1,800.4
Cash	709.9	797.0	684.3	703.2	709.1
Trade debtors	831.9	748.0	855.9	910.1	936.8
Current assets	1,559.9	1,569.5	1,561.8	1,636.1	1,669.6
Trade creditors	1,307.4	1,241.3	1,245.0	1,248.0	1,252.0
Short-term debt	34.5	36.2	37.0	37.8	38.2
Current liabilities	1,347.6	1,284.9	1,262.7	1,265.0	1,265.0
Long-term debt	335.1	299.0	300.0	305.0	305.0
Non-current liabilities	335.1	303.7	304.0	306.0	308.0
Share capital	1,618.3	1,618.3	1,618.3	1,618.3	1,618.3
Retained earnings	88.4	156.1	91.7	91.7	91.7
Equity	1,965.7	1,707.4	1,769.5	2,521.6	2,525.0
Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	-274.1	46.7	89.3	174.2	209.9
Depreciation & amortisation	79.0	71.6	79.9	80.0	79.0
Changes in working capital	167.7	38.5	29.0	40.1	67.8
Operating cash flow	157.2	172.5	43.0	43.0	57.2
Capital expenditure	-48.1	-40.5	-60.2	-60.2	-60.0
Investing cash flow	37.8	3.4	-46.1	-46.1	-46.0
Financing cash flow	-107.1	-49.7	-20.0	-20.0	-20.0
Net cash flow	2-2.9	-226.6	-125.6	-25.2	-25.0
Beginning cash flow	638.9	865.4	991.0	965.9	966.0
Ending cash flow	865.4	991.0	965.9	940.7	941.0
Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	-17.2%	3.7%	9.2%	12.8%	14.2%
PBT margin	-18.7%	2.8%	4.7%	8.7%	10.1%
PAT margin	-18.4%	4.1%	5.1%	8.9%	10.2%
Core PAT margin	105.1%	111.0%	55.7%	69.3%	72.1%

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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology