

Muhibbah Engineering (M) Berhad

(5703 | MUHI MK) Main | Construction

Earnings Supported by Cranes and Concessions

KEY INVESTMENT HIGHLIGHTS

- **Core earnings rose 3.6x to RM7.4m in 1HFY23 but still below expectations**
- **Construction segment was the underperformer, but earnings were supported by cranes and concessions**
- **Order book of RM1.98b provides earnings visibility up to FY25**
- **Maintain NEUTRAL with a revised TP of RM0.78**

Below expectations. Muhibbah Engineering (M) Berhad (Muhibbah) posted a core net profit RM7.4m for the 1HFY23, a significant improvement over RM1.3m recorded in the same period last year. This came on the back of a stronger revenue of +42.0%yoy to RM527.7m. This was mainly due to the improvement in the group's concession division and cranes division. The results however, were below expectations, making up 26.9% and 29.4% of ours and consensus' full year estimates respectively, dragged by a weaker performance of its infrastructure construction division.

Slower infra construction numbers. Infrastructure construction revenue declined -3.2%yoy during the six-month period while its PBT plunged to RM3.5m during the period from RM152.9m a year ago as most of its active projects at hand are still at their initial stages, with a large portion being secured in 2HFY22 and 1QFY23. We can expect stronger contributions from the division in upcoming quarters as the projects progresses further.

Supported by cranes and concessions. Muhibbah's performance for the 1HFY23 period was supported by its cranes and automation division and its share of concessions profits. Prior to group eliminations, the former contributed a PBT of RM34.0m on the back of stronger crane sales while the latter generated a PBT of RM18.8m as compared to a loss of -RM4.4m in the same period last year, due to stronger tourist arrivals in Cambodia.

Order book. The current outstanding order book for group is RM1.98b, comprising RM1.15b in infrastructure construction and RM823m in cranes and automation, providing the group with earnings visibility up to FY25. Over the past nine months, Muhibbah has secured RM783m worth of oil and gas and building construction projects. The tender book as at 2QFY23 is RM1.1b.

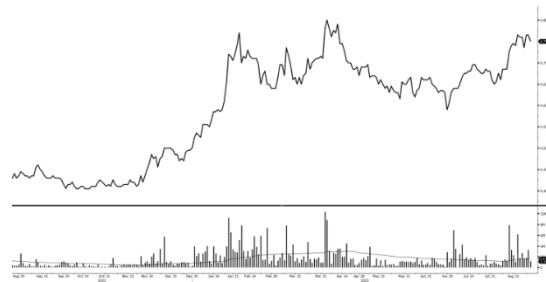
Earnings estimates. We are maintaining our earnings estimates for FY23 as we expect Muhibbah's current active projects to pick up pace in 2HFY23 and on the back of expectations of the continuous recovery in tourist arrivals in Cambodia, while yet to achieve even near pre-Covid levels yet, has already rebounded above pandemic levels. There have been 2.5m passengers in 1HFY23, surpassing 2.4m for the whole of 2022. In 2019, the total was 11.6m.

Maintain NEUTRAL
Revised Target Price: RM0.78
 (previously RM0.61)

RETURN STATISTICS

Price @ 25 th Aug 2023 (RM)	0.75
Expected share price return (%)	4.0
Expected dividend yield (%)	0.0
Expected total return (%)	4.0

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	11.1	10.5
3 months	27.1	15.6
12 months	74.4	80.6

INVESTMENT STATISTICS


FYE Dec	2023E	2024F	2025F
Revenue	1,043.8	1,356.3	1,397.0
Operating Profit	46.6	60.5	62.3
Profit Before Tax	47.3	134.9	154.9
Core PATAMI	27.5	40.7	55.9
Core EPS	3.8	5.6	7.7
DPS	0	0	0
Dividend Yield	0%	0%	0%

KEY STATISTICS

FBM KLCI	1,444.41
Issue shares (m)	725.17
Estimated free float (%)	66.06
Market Capitalisation (RM'm)	545.21
52-wk price range	RM0.39-RM0.81
3-mth average daily volume (m)	1.55
3-mth average daily value (RM'm)	1.06
Top Shareholders (%)	
Mac Ngan Boon	17.01
FIL Ltd	5.06
Fidelity Funds Asean	1.21

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Target price. We are revising our **TP** to **RM0.78** by pegging a slightly higher forward PER of 14x to the group's FY24F EPS of 5.6 sen, which we believe is justified alongside the expectations of improving earnings prospects which could see them rebounding into the black in FY23. Recall that the group has been in the red for the past three financial years. The PER is at a slight discount to the sector's PE of about 17x.

Maintain NEUTRAL. The expected improvement in the construction sector will augur well for Muhibbah's prospects and the group has been able to secure new jobs amidst a challenging operating environment over the past year. The uptrend of oil and gas prices are also expected to result in stronger investments in the sector, which will trickle down to higher demand for offshore platform structures, cranes, system automations and support vessels, all of which are part of Muhibbah's expertise. We also expect the group to be able to benefit from the gradual improvement coming from its Cambodia airports concession amidst improving tourist arrival numbers, with pre-pandemic numbers being expected by 2025. All factors considered, we maintain a **NEUTRAL** recommendation on Muhibbah pending potential rerating catalysts in the form of more contracts secured and faster than expected recovery of the tourist arrivals in Cambodia. We believe Muhibbah's potential rebound into the black this year may have been priced in at this juncture. 

MUHIBBAH ENGINEERING: 2QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
	2QFY23	1QFY23	2QFY22	QoQ	YoY	1HFY23	1HFY22	YoY
Income Statement								
Revenue	324.00	203.72	196.43	59%	64.9%	527.72	371.62	42.0%
Gross Profit	(317.81)	(197.61)	(188.59)	-61%	-68.5%	(515.42)	(355.84)	-44.8%
Net Finance Costs	(3.88)	(3.48)	(1.95)	-11%	-99.2%	(7.36)	(3.97)	-85.6%
Operating Profit	2.32	2.62	5.89	-12%	-60.7%	4.94	11.81	-58.2%
Associates	8.03	10.15	2.07	-21%	289.1%	18.19	(2.51)	823.6%
Profit Before Tax	10.35	12.77	7.95	-19%	30.1%	23.12	9.30	148.7%
Tax Expense	(4.91)	(4.27)	(2.86)	-15%	-71.4%	(9.18)	(4.53)	-102.7%
Minority Interest	0.31	6.46	3.75	-95%	-91.7%	6.77	2.96	128.5%
Reported Net Profit	5.13	2.04	1.34	151%	283.1%	7.17	1.81	297.0%
Core Net Profit	5.13	2.27	0.38	126%	1239.4%	7.40	1.30	469.1%
Basic EPS	0.71	0.28	0.20	154%	255.0%	0.30	0.99	-69.7%
Diluted EPS	0.68	0.28	0.20	143%	240.0%	0.30	0.96	-68.8%

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	1,004.86	1,018.30	1,043.80	1,356.33	1,397.02
Operating profit	47.64	19.1	46.65	60.53	62.33
Profit before tax	17.42	20.4	47.30	134.87	154.87
Tax	(15.68)	(16.6)	(24.59)	(31.31)	(32.52)
PATAMI	(3.35)	(17.8)	27.47	40.69	55.88
Core PATAMI	(8.88)	(16.2)	27.47	40.69	55.88

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	1052.3	1027.8	1058.6	1079.8	1069.0
Non-current assets	1875.1	1838.3	2030.0	2051.2	2040.4
Cash	628.4	450.5	405.5	385.2	394.8
Trade debtors	532.0	450.2	544.0	525.0	589.0
Current assets	1811.5	1542.4	1591.2	1551.9	1625.5
Trade creditors	486.0	416.2	502.9	485.4	544.5
Short-term debt	379.3	429.9	386.9	348.2	313.4
Current liabilities	1772.8	1506.3	1730.3	1676.5	1688.4
Long-term debt	161.4	130.9	120.0	115.0	110.0
Non-current liabilities	242.6	212.3	201.4	196.4	191.4
Share capital	306.6	306.6	306.6	306.6	306.6
Retained earnings	780.1	795.7	823.2	863.9	919.8
Equity	1671.2	1662.0	1689.5	1730.2	1786.1

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	17.4	31.0	47.3	134.9	154.9
Depreciation & amortisation	15.1	13.3	31.8	32.4	32.1
Changes in working capital	-2.7	8.9	25.3	28.5	28.8
Operating cash flow	35.0	26.1	61.0	64.8	64.8
Capital expenditure	-40.5	-30.0	-35.0	-35.0	-35.0
Investing cash flow	-26.3	-21.6	-26.6	-26.6	-26.6
Debt raised/(repaid)	-180.0	-170.0	-153.0	-137.7	-123.9
Financing cash flow	59.1	33.2	50.2	65.5	79.3
Net cash flow	60.7	29.6	84.6	103.7	117.5
Beginning cash flow	441.6	284.7	314.4	399.0	502.7
Ending cash flow	502.3	314.4	399.0	502.7	620.1

Profitability Margins	2021A	2022A	2023E	2024F	2025F
Operating profit margin	4.7%	2.7%	4.5%	4.5%	4.5%
PBT margin	1.7%	3.0%	4.5%	9.9%	11.1%
PAT margin	-0.3%	1.5%	2.6%	3.0%	4.0%
Core PAT margin	-0.9%	1.5%	2.6%	3.0%	4.0%

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