



# Malaysia Marine & Heavy Engineering Berhad

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

**Maintain NEUTRAL**

## Cost Provision and Weak Ringgit Dragged 3Q23 Earnings

**Unchanged Target Price: RM0.51**

### KEY INVESTMENT HIGHLIGHTS

- **MMHE's 3QFY23 revenue up +56%yoy to RM639m, but earnings down to deficit of RM105.2m (below expectations)**
- **Additional provision cost due to delivery date extension incurred by MMHE; further impacted by weak MYR against USD**
- **Marine expected slowdown due to upcoming winter**
- **Maintain NEUTRAL with TP of RM0.51**

**Maintain NEUTRAL, TP:RM0.51.** Malaysian Marine & Heavy Engineering (MMHE)'s 3QFY23 results were way below our yearly expectations. We maintain our **NEUTRAL** call for MMHE, as we noted that the reported loss was from the prolonged provision cost incurred by MMHE for ongoing Heavy Engineering projects. Additionally, the weakening MYR against USD had also affected the pricing of materials and services in its operations. We believe the writeback for these projects would be present, as earnings had improved on a quarterly basis by nearly 3-fold. Nevertheless, due to adjustments on its revenue projection mitigated by the lower earnings in 3QFY23, we maintain our **target price at RM0.51**.

**3QFY23 revenue surged +56%yoy.** MMHE's 3QFY23 revenue gained +56%yoy to RM638.5m from higher revenue in its Heavy Engineering segment.

**3QFY23 earnings lost 8-fold.** MMHE's 3QFY23 earnings lost nearly 8-fold to a deficit of -RM105.2m against a profit of RM15.7m in 3QFY22. This is mainly due to additional cost provisions for ongoing Heavy Engineering projects recognised in 2QFY23. Additionally, the weakening of MYR against USD had impacted the hedging of receivables for a project.

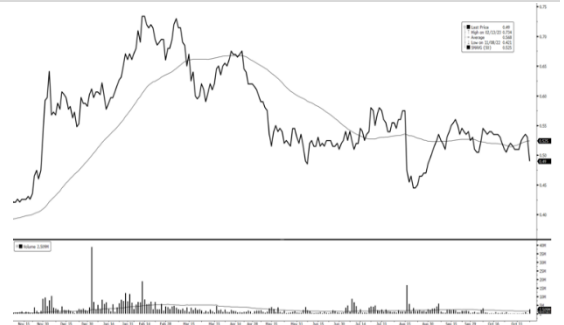
**Heavy Engineering.** 3QFY23 revenue rose by +78.1% to RM570.2m, but due to the additional cost provisions, it posted a deficit of -RM107.7m. Higher revenue was contributed by new and ongoing projects. Meanwhile, losses were due to price escalation impact and revised schedule on ongoing projects. The revised schedule has caused the extension of delivery dates of the ongoing projects, which was necessary to cater for the delayed onshore works.

**Marine.** 3QFY23 revenue dropped -23.5%yoy to RM68.2m, while earnings down by -74.2%yoy to RM4.4m. Lower revenue was due to lower number of vessels secured, which consequently contributed to the lower earnings. Lower earnings were also due to the doubtful debts being recovered in 3QFY23.

### RETURN STATISTICS

Price @ 8 <sup>th</sup> November 2023 (RM)	0.49
Expected share price return (%)	+4.1
Expected dividend yield (%)	+3.5
<b>Expected total return (%)</b>	<b>+7.6</b>

### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-6.7	-9.3
3 months	-6.7	-12.1
12 months	14.0	12.7

### INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	2,582	2,746	2,826
Operating Profit	-348	116	135
Profit Before Tax	-431	36	55
Core PATAMI	<b>-432</b>	<b>35</b>	<b>54</b>
Core EPS	-27.0	2.2	3.4
DPS	1.6	1.8	1.5
Dividend Yield	3.1%	3.5%	2.9%


### KEY STATISTICS

FBM KLCI	1,457.6
Issue shares (m)	1,600.0
Estimated free float (%)	13.6
Market Capitalisation (RM'm)	784.0
52-wk price range	RM0.42-RM0.77
3-mth average daily volume (m)	1.6
3-mth average daily value (RM'm)	0.8
Top Shareholders (%)	
MISC Bhd	66.5
Technip Energies M Sdn Bhd	8.5
Urusharta Jamaah Sdn Bhd	5.0

**Operational challenges from volatile energy market.** MMHE anticipated challenges in maintaining its pre-proposed margins due to higher raw material prices and disruptions in the global supply chain, subsequently affecting the execution of ongoing projects. Additionally, the upsurge in energy shipment demand in the Far East and Europe in preparation of the winter season, as well as the intense competition among shipyards, are expected to cause a slowdown in dry-docking activities.

**Risk mitigation underway but cyclical challenges remain.** Nevertheless, we believe MMHE would continue to mitigate the risks in supply chain disruptions, and negotiate ways to reduce its cost provisions for its ongoing projects until the end of its financial year. At the same time, we also acknowledge risk of inflation on raw material prices, as well as the one-off challenge from the upcoming winter season on the group's shipyard activities.

**Revised earnings estimates.** In consideration of MMHE's lower-than-expected earnings for 3QFY23 albeit the high revenue, we revised our earnings estimates to mirror the current projection. We are also considering the lower profit margin for its Marine segment in 3QFY23 by -13%, which is expected to prolong until the winter season, as well as the continuous losses in the Heavy Engineering segment in the forecast.

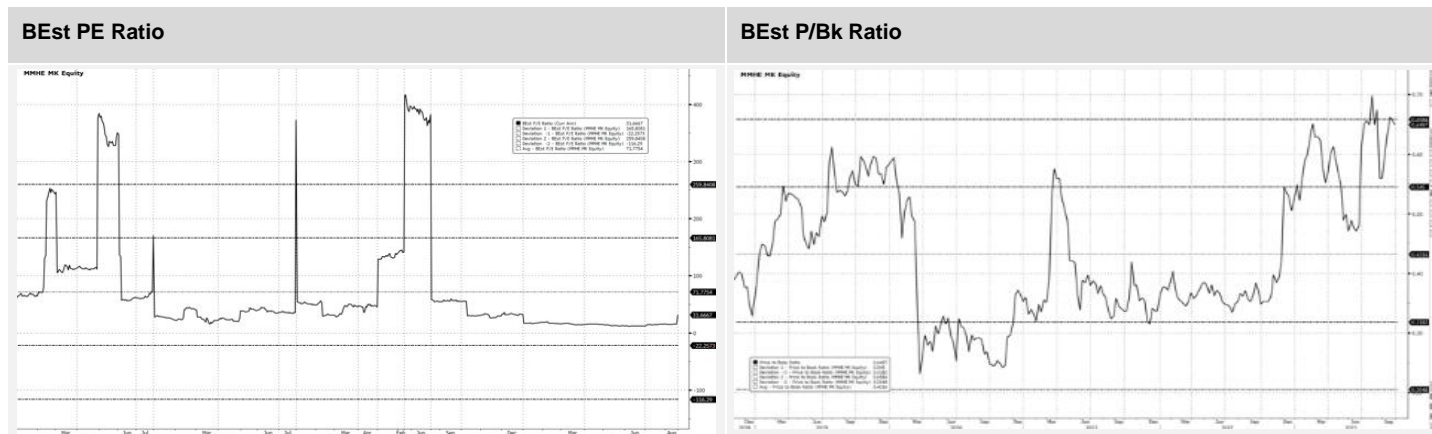
**Maintain target price at RM0.51.** Our target price is pegged on a PBR of 1.4x to BVPS24 of 36.6sen. The PBR is based on a 5-Year average PBR of the Energy sector. 

**TABLE 1: MMHE 3QFY23 RESULT SUMMARY**

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results					Cumulative		
	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY(%)	9MFY22	9MFY23	YoY (%)
Revenue	409.3	1,056.3	638.5	(39.6)	56.0	1,552.5	2,191.0	41.1
Other operating income	16.4	(1.2)	(15.9)	1,231.4	(196.9)	10.7	(5.1)	(147.8)
Operating profit/(loss)	19.1	(385.3)	(100.2)	(74.0)	(625.9)	(378.4)	(478.6)	26.5
Finance cost	(3.6)	(3.4)	(3.7)	11.1	-	(6.8)	(10.5)	55.1
Profit before taxation	15.5	(388.7)	(103.9)	(73.3)	(770.4)	(385.1)	(489.1)	27.0
Taxation	0.2	(0.0)	(1.1)	-	(596.1)	(0.0)	(1.1)	57,050.0
Profit after taxation	15.7	(388.7)	(105.1)	(73.0)	(767.8)	(385.1)	(490.2)	27.3
Minority interests	(0.2)	0.0	0.1	713.3	(158.4)	0.0	0.1	813.3
PATAMI/LATAMI	15.9	(388.7)	(105.2)	(72.9)	(759.8)	(385.2)	(490.4)	27.3
Normalised PATAMI/(LATAMI)	15.7	(388.7)	(105.1)	(73.0)	(767.8)	(385.1)	(490.2)	27.3
EPS Basic(sen)	1.0	(24.3)	(6.6)	(72.8)	(760.0)	(24.1)	(30.6)	27.0
Operating profit margin (%)	4.7	(36.5)	(15.7)	20.8	(20.4)	(24.4)	(21.8)	2.5
PATAMI margin (%)	3.9	(36.8)	-	36.8	(3.9)	(24.8)	(22.4)	2.4
Tax rate (%)	1.5	(0.0)	(1.1)	(1.1)	(2.6)	0.0	0.2	0.2
				+/-ppts				+/-ppts
<b>Segmental Revenue</b>								
Heavy Engineering	320.1	990.9	570.2	(42.5)	78.1	988.4	1,965.3	98.8
Marine	89.1	65.4	68.2	4.3	(23.5)	239.3	225.7	(5.7)
<b>Segmental EBIT</b>								
Heavy Engineering	1.4	(390.0)	(107.7)	(72.4)	(7,708.5)	5.5	(506.5)	(9,379.5)
Marine	17.0	3.3	4.4	33.4	(74.2)	39.6	20.4	(48.4)
<b>EBIT Margin (%)</b>								
Heavy Engineering	0.4	(39.4)	(18.9)	20.5	(19.3)	0.6	(25.8)	(26.3)
Marine	19.0	5.0	6.4	1.4	(12.6)	16.6	9.1	(7.5)

Source: Company, MIDFR

## FORWARD BAND



Source: Bloomberg, MIDFR

## FINANCIAL SUMMARY

<b>Income Statement (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Revenue	1,467.3	1651.7	2,581.8	2,745.5	2,825.9
EBITDA	(164.5)	145.4	(347.8)	116.3	135.1
D&A	87.7	79.9	77.7	78.1	80.5
Net interest	-3.7	-0.1	0.2	0.2	0.2
Profit before tax	-274.1	46.7	(430.8)	36.3	55.1
Tax	0.0	20.9	(1.5)	(1.5)	(1.5)
PATAMI	-270.4	67.8	(432.3)	34.8	53.6
Core PATAMI	-265.1	67.6	(432.1)	35.0	53.8

<b>Balance Sheet (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Fixed assets	1,524.8	1,493.4	1,809.1	1,851.3	1,880.2
Intangible assets	202.7	200.4	240.0	250.0	260.0
<b>Non-current assets</b>	<b>1,830.2</b>	<b>1,788.7</b>	<b>2,144.4</b>	<b>2,196.6</b>	<b>2,235.5</b>
Cash	709.9	797.0	684.3	703.2	709.1
Trade debtors	831.9	748.0	1,044.8	1,177.7	1,178.4
<b>Current assets</b>	<b>1,559.9</b>	<b>1,569.5</b>	<b>1,725.5</b>	<b>1,857.4</b>	<b>1,884.5</b>
Trade creditors	1,307.4	1,241.3	1,258.2	1,331.3	1,414.7
Short-term debt	34.5	36.2	36.1	36.1	36.1
<b>Current liabilities</b>	<b>1,347.6</b>	<b>1,284.9</b>	<b>1,357.7</b>	<b>1,428.8</b>	<b>1,502.2</b>
Long-term debt	335.1	299.0	361.0	365.0	370.0
<b>Non-current liabilities</b>	<b>335.1</b>	<b>303.7</b>	<b>366.2</b>	<b>370.0</b>	<b>375.0</b>
Share capital	1,618.3	1,618.3	1,618.3	1,618.3	1,618.3
Retained earnings	88.4	156.1	350.0	375.0	245.0
<b>Equity</b>	<b>1,965.7</b>	<b>1,707.4</b>	<b>2,146.0</b>	<b>2,255.1</b>	<b>2,242.9</b>

<b>Cash Flow (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
PBT	-274.1	46.7	(430.8)	36.3	55.1
Depreciation & amortisation	87.7	79.9	77.7	78.1	80.5
Changes in working capital	167.7	38.5	(44.4)	(174.4)	(199.4)
<b>Operating cash flow</b>	157.2	172.5	(174.0)	(15.2)	(34.3)
Capital expenditure	-48.1	-40.5	(71.2)	(75.0)	(75.0)
<b>Investing cash flow</b>	37.8	3.4	(28.9)	(67.7)	(59.3)
<b>Financing cash flow</b>	-107.1	-49.7	180.0	180.0	180.0
<b>Net cash flow</b>	58.9	87.1	(100.6)	19.0	5.9
<b>Beginning cash flow</b>	638.9	697.7	784.9	684.3	703.2
<b>Ending cash flow</b>	697.7	784.9	684.3	703.2	709.1

<b>Profitability Margins</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
EBITDA margin	-11.2%	8.8%	-13.5%	4.2%	4.8%
PBT margin	-18.7%	2.8%	-16.7%	1.3%	1.9%
PAT margin	-18.4%	4.1%	-16.7%	1.3%	1.9%
Core PAT margin	-18.1%	4.1%	-16.7%	1.3%	1.9%

Source: Bloomberg, MIDFR

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#### 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