Malaysia Marine & Heavy Engineering Holdings Berhad

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

FY23 Earnings Impacted by Cost Provision for HE Projects

***Maintain* NEUTRAL**

***Unchanged* Target Price: RM0.51**

KEY INVESTMENT HIGHLIGHTS

- **MMHE's 4QFY23 surged +164%yoy to RM1.12b, but earnings down -78%yoy to RM6m (within expectations)**
- **Slow dry-docking demand, more cost provision for HE projects pulled earnings down to a deficit for FY23**
- **Key risks moving forward include high raw material prices, tight competition for dry-docking**
- **Maintain NEUTRAL with TP of RM0.51**

Maintain NEUTRAL, TP:RM0.51. Malaysian Marine & Heavy Engineering (MMHE)'s FY23 results were within our expectation, pinning at 94% of our FY23 forecast but way below consensus's expectation of a deficit RM132.3m. We maintain our **NEUTRAL** call for MMHE, as we continue to add in the impact of the provision cost incurred by MMHE for ongoing Heavy Engineering projects. Additionally, the weakening MYR against USD had also disrupted the supply chain in its operations, in addition to the winter season deescalating dry-docking operation in 4QFY23. However, in consideration that the impact from the winter season will be lessened coupled with the expectation of increased LNG trading in the near future, we maintain our **target price at RM0.51.**

4QFY23 revenue surged +164%yoy. MMHE's 4QFY23 revenue gained +163.8%yoy to RM1.12b from higher revenue in its Heavy Engineering segment.

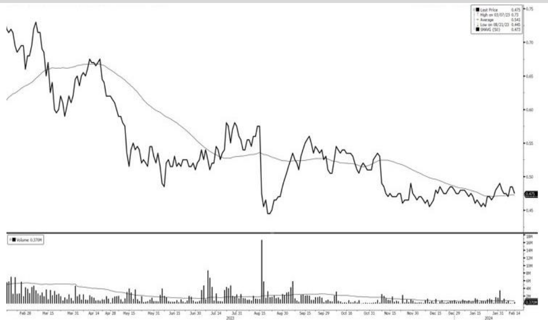
4QFY23 earnings lost -78%yoy. MMHE's 4QFY23 earnings lost -77.8%yoy to RM6.0m. This is mainly due to additional cost provisions for ongoing Heavy Engineering projects recognised. Additionally, the weakening of MYR against USD had impacted the hedging of receivables for a project.

Heavy Engineering. 4QFY23 revenue rose up by +212.6%yoy to RM1.02b, while profit added +152.1%yoy to RM7.4m. Higher revenue was contributed by new and ongoing projects. Meanwhile, profit gain was due to the partial recognition of cost recovery claims, negated by the additional cost provisions for an ongoing project during 4QFY23. Reimbursement for the additional cost provisions is expected to commence within CY24.

Marine. 4QFY23 revenue gained marginally by +0.6%yoy to RM98.2m, while earnings slipped -90.8%yoy to RM2m. Lower profit for the segment was due to the tight competition for marine services in the region. As indicated in the group's previous quarter report, the demand for energy shipment is higher in the current winter season, leading to slower demand for dry-docking activities. This is, however, offset by the recovery of doubtful debts.

RETURN STATISTICS	
Price @ 14th February 2024 (RM)	0.48
Expected share price return (%)	+6.2
Expected dividend yield (%)	+2.4
Expected total return (%)	**+8.6**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.3	1.4
3 months	-1.0	-4.1
12 months	-35.4	-37.1

INVESTMENT STATISTICS

FYE Dec	2023A	2024F	2025F
Revenue	3309	2,746	2,826
Operating Profit	-468	45	86
Profit Before Tax	-483	43	64
Core PATAMI	**-484**	**44**	**65**
Core EPS	-30.3	2.8	4.1
DPS	1.5	1.2	1.2
Dividend Yield	2.9%	2.4%	2.4%

KEY STATISTICS	
FBM KLCI	1,529.33
Issue shares (m)	1,600.0
Estimated free float (%)	13.63
Market Capitalisation (RM'm)	760.0
52-wk price range	RM0.44-RM0.76
3-mth average daily volume (m)	0.75
3-mth average daily value (RM'm)	0.36
Top Shareholders (%)	
MISC Bhd	66.5
Technip Energies M Sdn Bhd	8.5
Urusharta Jamaah Sdn Bhd	5.0

MIDF Research
research@midf.com.my

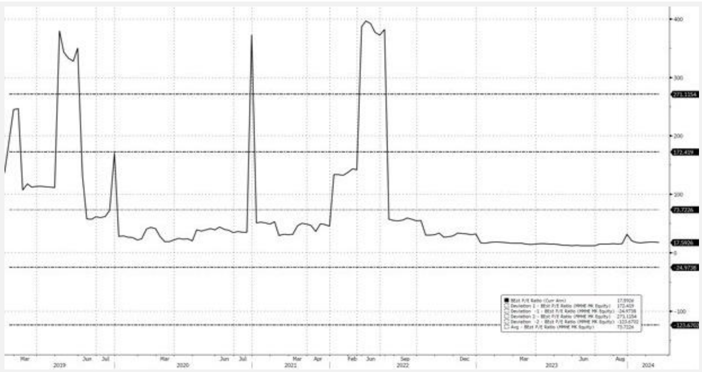
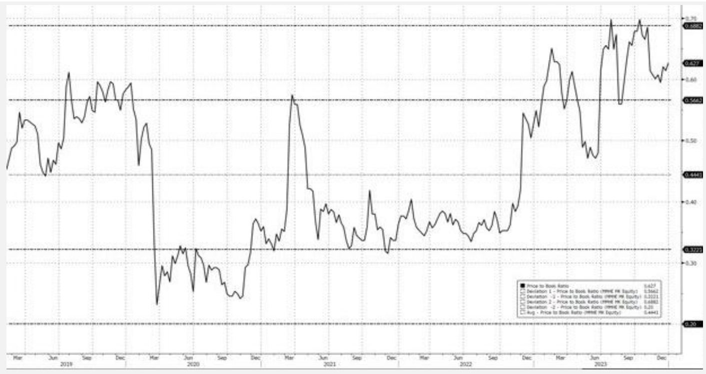
High-cost environment anticipated for FY24. As we enter CY24, we are expecting the oil and gas market to improve, given the fundamentals of a constantly elevated oil prices amid OPEC+ supply cuts and global economic growth. Nevertheless, MMHE had concerns regarding the geopolitical tensions in the Middle East that, if escalated, could raise the prices of raw materials and consequently affecting its supply chain and impact the schedule of ongoing projects. This, however, could be mitigated by major oil players boosting its upstream capex for CY24.

Increased clean energy demand translates to more business. In addition to its usual business, MMHE is also looking into opportunities to venture into the renewable energy space. Additionally, LNG trading is expected to grow in demand in CY24 onwards, partially given its importance in the energy transition movement. This could translate to more demand for dry-docking for LNGCs and offshore vessels associating with upstream gas fields. Nevertheless, the risk remains on the high competition among regional peers, most notably China, which recently completed multiple LNGC repair yards. In addition to MMHE's awarded offshore windfarm project and involvement in topside construction for CCS fields, we believe the group has the potential to venture into more clean energy ventures within its heavy engineering and marine services in the near future.

Revised earnings estimates. While MMHE's FY23 earnings is within our expectations, we revised our earnings forecast for FY24 and FY25 upward by +26% and +21% respectively. This is in consideration that the impact of the winter season would be lessened for Heavy Engineering and Marine segments in the coming quarters and the mitigation measures for the persistent supply chain disruptions.

Maintain NEUTRAL, target price at RM0.51. Our target price is pegged on a PBR of 0.49x to a revised BVPS24 of 104sen. The PBR is based on MMHE's 5-Year average PBR, a slight discount from the industry average PBR of 0.6x, on the basis of the high-cost environment expected to persist in the near term.

FORWARD BAND

BEst PE Ratio	BEst P/Bk Ratio
	

Source: Bloomberg, MIDFR

TABLE 1: MMHE 4QFY23 RESULT SUMMARY

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results					Cumulative		
	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY(%)	FY22	FY23	YoY (%)
Revenue	424.0	638.5	1,118.4	75.2	163.8	1,651.7	3,309.4	100.4
Other operating income	7.5	(15.9)	5.6	(135.0)	(25.6)	61.0	0.4	(99.3)
Operating profit/(loss)	9.8	(100.2)	10.9	(110.9)	11.4	60.9	(467.7)	(867.7)
Finance cost	(3.4)	(3.7)	(4.9)	30.1	-	(14.2)	(15.4)	8.5
Profit before taxation	6.3	(103.9)	6.0	(105.8)	(4.6)	46.7	(483.1)	(1,133.6)
Taxation	20.8	(1.1)	-	-	(100.0)	20.9	(1.1)	(105.5)
Profit after taxation	27.1	(105.1)	6.0	(105.7)	(77.8)	67.6	(484.2)	(815.9)
Minority interests	0.0	0.1	(0.1)	(220.5)	(1,733.3)	(0.1)	(0.0)	(92.6)
PATAMI/LATAMI	27.1	(105.2)	6.2	(105.9)	(77.2)	67.8	(484.2)	(814.4)
Normalised PATAMI/(LATAMI)	27.1	(105.1)	6.0	(105.7)	(77.8)	67.6	(484.2)	(815.9)
EPS Basic(sen)	1.7	(6.6)	0.4	(106.1)	(76.5)	4.2	(30.3)	(821.4)
Operating profit margin (%)	2.3	(15.7)	1.0	16.7	(1.3)	3.7	(14.1)	(17.8)
PATAMI margin (%)	6.4	(16.5)	111.2	127.7	104.8	4.1	(14.6)	(18.7)
Tax rate (%)	328.8	(1.1)	-	1.1	(328.8)	44.7	0.2	(44.5)
				+/-ppts				*+/-ppts*
Segmental Revenue								
Heavy Engineering	326.4	570.2	1,020.2	78.9	212.6	1,314.8	2,985.5	127.1
Marine	97.6	68.2	98.2	43.9	0.6	336.9	323.9	(3.9)
Segmental EBIT								
Heavy Engineering	(14.2)	(107.7)	7.4	(106.8)	(152.0)	(8.7)	(499.1)	5,636.9
Marine	22.0	4.4	2.0	(53.8)	(90.8)	61.6	22.5	(63.6)
EBIT Margin (%)								
Heavy Engineering	(4.3)	(18.9)	0.7	19.6	5.1	(0.7)	(16.7)	(16.1)
Marine	22.6	6.4	2.1	(4.3)	(20.5)	18.3	6.9	(11.4)

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023A	2024F	2025F
Revenue	1,467.3	1651.7	3,309.4	2,745.5	2,825.9
EBITDA	(164.5)	145.4	(391.9)	122.9	163.8
D&A	87.7	79.9	75.8	78.0	80.5
Net interest	-3.7	-0.1	-0.0	0.1	0.1
Profit before tax	-274.1	46.7	(483.1)	43.0	64.1
Tax	0.0	20.9	(1.1)	1.0	1.0
PATAMI	-270.4	67.8	(484.2)	44.0	65.1
Core PATAMI	-265.1	67.6	(484.2)	44.0	65.1

Balance Sheet (RM'm)	2021A	2022A	2023A	2024F	2025F
Fixed assets	1,524.8	1,493.4	1,507.7	1,526.8	1,542.2
Intangible assets	202.7	200.4	195.4	200.0	210.0
Non-current assets	1,830.2	1,788.7	1,797.9	1,821.6	1,847.0
Cash	709.9	797.0	557.6	577.9	608.7
Trade debtors	831.9	748.0	1,291.0	1,241.1	1,277.5
Current assets	1,559.9	1,569.5	1,851.5	1,769.8	1,865.3
Trade creditors	1,307.4	1,241.3	1,981.0	1,485.6	1,570.5
Short-term debt	34.5	36.2	105.7	100.0	75.0
Current liabilities	1,347.6	1,284.9	2,113.5	1,616.6	1,677.0
Long-term debt	335.1	299.0	261.3	300.0	300.0
Non-current liabilities	335.1	303.7	268.5	305.0	305.0
Share capital	1,618.3	1,618.3	1,618.3	1,618.3	1,618.3
Retained earnings	88.4	156.1	(352.1)	50.0	110.2
Equity	1,965.7	1,707.4	1,267.3	1,669.8	1,730.3

Cash Flow (RM'm)	2021A	2022A	2023A	2024F	2025F
PBT	-274.1	46.7	(483.1)	43.0	64.1
Depreciation & amortisation	87.7	79.9	75.8	78.0	80.5
Changes in working capital	167.7	38.5	202.0	(19.8)	(32.4)
Operating cash flow	157.2	172.5	(164.8)	100.3	108.3
Capital expenditure	-48.1	-40.5	(82.1)	(100.0)	(100.0)
Investing cash flow	37.8	3.4	(66.3)	(85.0)	(82.5)
Financing cash flow	-107.1	-49.7	(8.4)	5.0	5.0
Net cash flow	71.0	87.1	(239.5)	20.3	30.8
Beginning cash flow	638.9	709.9	797.0	557.6	577.9
Ending cash flow	709.9	797.0	684.3	703.2	709.1

Profitability Margins	2021A	2022A	2023A	2024F	2025F
EBITDA margin	-11.2%	8.8%	-11.8%	4.5%	5.8%
PBT margin	-18.7%	2.8%	-14.6%	1.6%	2.3%
PAT margin	-18.4%	4.1%	-14.6%	1.6%	2.3%
Core PAT margin	-18.1%	4.1%	-14.6%	1.6%	2.3%

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 *rise* 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 *fall* 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