



Malaysia Marine & Heavy Engineering Holdings Berhad

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

Upgrade to BUY

(Previously NEUTRAL)

Upstream Capex to Boost Activities in HE And Marine

Revised Target Price: RM0.65

(Previously RM0.51)

KEY INVESTMENT HIGHLIGHTS

- **MMHE's 1QFY24 revenue up +98%yoy and earnings surged +97%yoy, which came within expectations**
- **Higher earnings from ongoing projects, high dry-docking activities**
- **Upstream capex, stable Brent price promising better operations in HE and Marine**
- **Recommendation revised upward to BUY, supported by new target price RM0.65**

Revised BUY, TP:RM0.65. Malaysian Marine & Heavy Engineering (MMHE)'s 1QFY24 results were within our yearly expectation at 24% and consensus at 22%. While the ongoing supply chain disruption due to geopolitical tensions and inflationary pressures may remain, the relatively stable oil prices are anticipated to continue in the near-to-mid-term. This will lead to an increase in upstream capex spending amid the rising demand for energy security and cleaner energy. Foreseeing better demand for projects for offshore vessels and platforms, we revised our call to **BUY** and our target price to **RM0.65**.

1QFY24 normalised earnings surged 3-fold. MMHE's 1QFY24 earnings climbed nearly 3-fold to RM10.4m from RM3.5m in 1QFY23. Meanwhile, 1QFY24 revenue gained +98.4%yoy to RM984.5b.

Heavy Engineering. 1QFY24 revenue rose up by +115%yoy to RM869.1m, while EBIT added +103.4%yoy to RM0.3m from a deficit of -RM8.7m in 1QFY23. The higher revenue was contributed by ongoing projects.

Marine. 1QFY24 revenue gained marginally by +25.3%yoy to RM115.4m, while EBIT added +6.9%yoy to RM13.8m. The higher revenue was a result of higher dry-docking and repair activities. YTD, the Marine segment had completed the repair and maintenance of 22 vessels, including 2 LNGCs.

Orderbook. MMHE's YTD orderbook stood at RM5.4b, with 98.2% are from Heavy Engineering projects and 1.8% are from Marine projects. Heavy Engineering tender book is expected at approximately RM6b to RM7b.

Upstream looking promising. MMHE is expected to continue improving its contracting strategies to mitigate the challenging environment of possibly prolonged global supply chain disruption and global inflationary pressures, following the geopolitical tensions in Europe and the Middle East. Brent crude oil prices had been on a relatively stable trend, giving the opportunity for the upstream to boost its capex in CY24, which would translate into higher demand for Heavy Engineering services and Marine segments.

RETURN STATISTICS

Price @ 24 th May 2024 (RM)	0.52
Expected share price return (%)	+26.2
Expected dividend yield (%)	+2.5
Expected total return (%)	+28.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	8.4	5.2
3 months	8.4	1.6
12 months	-1.9	-14.6

INVESTMENT STATISTICS

FYE Mar	2024F	2025F	2026F
Revenue	3,636	3,783	3,818
Operating Profit	64	96	135
Profit Before Tax	54	70	90
Core PATAMI	55	72	91
Core EPS	3.4	4.5	5.7
DPS	1.3	1.2	1.2
Dividend Yield	2.5%	2.4%	2.3%

KEY STATISTICS

FBM KLCI	1,619.40
Issue shares (m)	1,600.0
Estimated free float (%)	19.28
Market Capitalisation (RM'm)	824.0
52-wk price range	RM0.44-RM0.59
3-mth average daily volume (m)	0.75
3-mth average daily value (RM'm)	0.36
Top Shareholders (%)	
MISC Bhd	66.50
Technip Energies M Sdn Bhd	8.50
Lembaga Tabung Angkatan Tentera	3.09

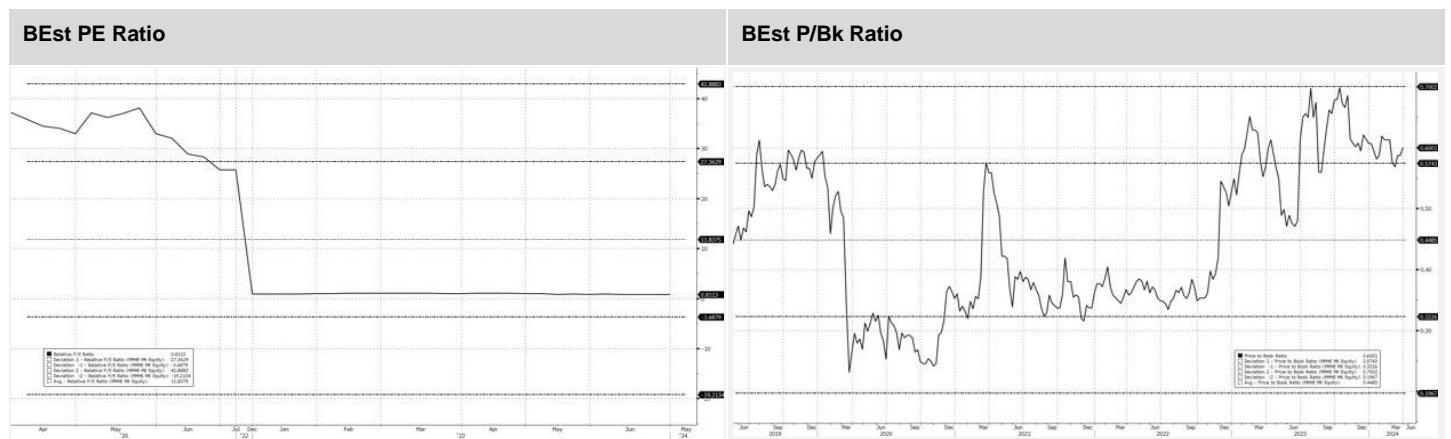
The group is also well-positioned to leverage on the favourable trend in low carbon solutions, most notably in CCUS and LNGCs. However, we remain cautious on the intense competition in Marine, given the increasing number of new LNGC-repair yards in neighbouring countries and China.

Revised earnings estimates. While MMHE’s 1QFY24 earnings is within our expectations at this juncture, we revised our earnings forecast for FY24 and FY25 upward by +10% and +5% respectively. This is in consideration that the increased upstream capex would impact MMHE’s Heavy Engineering and Marine segments positively in the coming quarters, in addition to an expected dry season in 2HFY24 which could increase demand for dry-docking and repair and maintenance services.

Revised to BUY, target price at RM0.65. Our new target price is pegged on a PER of 19x to a revised EPS24 of 3.4sen. The PER is based on the Energy Services 3Y average PER of 19.6x, with a slight discount in consideration of the high-cost and competitive environment expected for the Marine segment.



FORWARD BAND



Source: Bloomberg, MIDFR

TABLE 1: MMHE 1QFY24 RESULT SUMMARY

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results					Cumulative		
	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY(%)	3MFY23	3MFY24	YoY (%)
Revenue	496.2	1,118.4	984.5	(12.0)	98.4	496.2	984.5	98.4
Other operating income	11.9	5.6	4.5	(18.5)	(62.0)	11.9	4.5	(62.0)
Operating profit/(loss)	7.0	10.9	14.4	32.6	107.6	7.0	14.4	107.6
Finance cost	(3.4)	(4.9)	(3.5)	28.5	-2.9	(3.4)	(3.5)	-2.9
Profit before taxation	3.5	6.0	10.9	80.7	208.5	3.5	10.9	208.5
Profit after taxation	3.5	6.0	10.4	72.7	194.7	3.5	10.4	194.7
Minority interests	1.8	(0.1)	0.1	200.0	(93.6)	1.8	0.1	(93.6)
PATAMI/LATAMI	5.3	6.2	10.5	70.4	97.1	5.3	10.5	97.1
Normalised PATAMI/(LATAMI)	3.5	6.0	10.4	72.7	194.7	3.5	10.4	194.7
EPS Basic(sen)	0.2	0.4	0.7	75.0	250.0	0.2	0.7	250.0
Operating profit margin (%)	1.4	1.0	1.5	0.5	0.1	1.4	1.5	0.1
PATAMI margin (%)	1.1	0.6	232.7	232.1	231.6	1.1	1.1	(0.0)
				<i>+/-ppts</i>				<i>+/-ppts</i>
Segmental Revenue								
Heavy Engineering	404.2	1,020.2	869.1	(14.8)	115.0	404.2	869.1	115.0
Marine	92.1	98.2	115.4	17.5	25.3	92.1	115.4	25.3
Segmental EBIT								
Heavy Engineering	(8.7)	7.4	0.3	(96.2)	103.4	(8.7)	0.3	103.4
Marine	12.9	2.0	13.8	583.2	6.9	12.9	13.8	6.9
EBIT Margin (%)								
Heavy Engineering	(2.2)	0.7	0.0	(0.7)	2.2	(2.2)	0.0	2.2
Marine	14.0	2.1	12.0	9.9	(2.1)	14.0	12.0	(2.1)

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	1651.7	3,309.4	3,636.4	3,737.5	3,818.2
EBITDA	145.4	(391.9)	141.7	173.9	212.5
D&A	79.9	75.8	78.0	80.5	83.0
Net interest	-0.1	-0.0	0.1	0.1	0.1
Profit before tax	46.7	(483.1)	53.7	70.4	90.1
Tax	20.9	(1.1)	1.0	1.0	1.0
PATAMI	67.8	(484.2)	54.7	71.4	91.1
Core PATAMI	67.6	(484.2)	54.8	71.5	91.2

Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Fixed assets	1,493.4	1,507.7	1,526.8	1,542.2	1,549.5
Intangible assets	200.4	195.4	200.0	210.0	220.0
Non-current assets	1,788.7	1,797.9	1,821.6	1,847.0	1,864.3
Cash	797.0	557.6	577.9	608.7	650.2
Trade debtors	748.0	1,291.0	1,643.8	1,689.5	1,726.0
Current assets	1,569.5	1,851.5	2,125.7	2,277.3	2,305.5
Trade creditors	1,241.3	1,981.0	1,841.6	1,982.6	1,976.0
Short-term debt	36.2	105.7	100.0	75.0	50.0
Current liabilities	1,284.9	2,113.5	1,972.6	2,089.1	2,058.0
Long-term debt	299.0	261.3	300.0	300.0	300.0
Non-current liabilities	303.7	268.5	305.0	305.0	305.0
Share capital	1,618.3	1,618.3	1,618.3	1,618.3	1,618.3
Retained earnings	156.1	(352.1)	50.0	110.2	186.5
Equity	1,707.4	1,267.3	1,669.8	1,730.3	1,806.8

Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
PBT	46.7	(483.1)	53.7	70.4	90.1
Depreciation & amortisation	79.9	75.8	78.0	80.5	83.0
Changes in working capital	38.5	202.0	(19.8)	(132.4)	(158.1)
Operating cash flow	172.5	(164.8)	111.0	114.6	108.2
Capital expenditure	-40.5	(82.1)	(110.6)	(106.3)	(91.6)
Investing cash flow	3.4	(66.3)	(95.6)	(88.8)	(71.6)
Financing cash flow	-49.7	(8.4)	5.0	5.0	5.0
Net cash flow	87.1	(239.5)	20.3	30.8	41.5
Beginning cash flow	797.0	684.3	557.57	577.9	608.7
Ending cash flow	684.3	557.57	577.9	608.7	650.2

Profitability Margins	2022A	2023A	2024F	2025F	2026F
EBITDA margin	8.8%	-11.8%	3.9%	4.7%	5.6%
PBT margin	2.8%	-14.6%	1.5%	1.9%	2.4%
PAT margin	4.1%	-14.6%	1.5%	1.9%	2.4%
Core PAT margin	4.1%	-14.6%	1.5%	1.9%	2.4%

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