



Malaysia Marine & Heavy Engineering Holdings Berhad

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

Maintain BUY

Higher Upstream Activities Boosted 3Q24 Earnings

Revised Target Price: RM0.72
(Previously RM0.65)

KEY INVESTMENT HIGHLIGHTS

- **MMHE's 9MFY24 revenue went up +27%yoy while earnings surged 6-fold, which came above expectations**
- **Higher earnings from recognition of cost recovery as well as high dry-docking and maintenance activities**
- **Higher upstream activities sustain operations, mitigated by cyclical lower dry-docking and maintenance demand**
- **Maintain BUY, revised target price RM0.72**

Maintain BUY, TP:RM0.72. Malaysian Marine & Heavy Engineering (MMHE)'s 9MFY24 results had bypassed our yearly expectation by +37%. In consideration of the results, we revised our FY24-FY25 earnings forecast to reflect the uptick in upstream activities amid the expected lower dry-docking activities in winter. We maintain a **BUY** call with a revised target price of **RM0.72** (previously RM0.65).

9MFY24 normalised earnings surged 6-fold. MMHE's 9MFY24 earnings climbed nearly 6-fold to RM139.5m from a deficit of -RM488.6m in 9MFY23. Meanwhile, 9MFY24 revenue gained +27.4%yoy to RM2.19b.

Heavy Engineering (HE). 9MFY24 revenue rose up by +26.1%yoy to RM2.48b, while PBT surged nearly 7-fold to RM87.5m from a deficit of -RM506.5m in 9MFY23. The improved revenue was due to higher revenue from ongoing projects advancing into the construction stage, with sail away of two wellhead platforms. The higher PBT was attributable to recognition of cost recovery claims after the additional cost provisions from revised project schedule in early FY24. HE's 9MCY24 orderbook stood at RM5.3b – 84% of FY23 – with new order intake at RM1.5b. Current tender book is approximately RM8b-9b.

Marine. 9MFY24 revenue gained +38.5%yoy to RM312.5m, while PBT added +66.0%yoy to RM33.9m. The higher revenue and earnings were due to higher dry-docking and repair activities, notably for LNGCs, as demand for conversions and decarbonisation is on the rise. Additionally, MMHE's new expansion into the Greek market increased dry-docking activities for the quarter. In YTD24, the Marine segment had completed the repair and maintenance of 64 vessels, including 10 LNGCs.

Upstream opportunities remain high. Despite Brent crude oil price dropping -7.4%qoq in 3QCY24 to a quarterly average of USD79pb, upstream O&G activities remain sanguine, coupled with the sustained demand for energy security ahead of the winter season, notably the LNG demand from the Northern Hemisphere. Additionally, the Marine segment will continue to find opportunities from the higher demand for the low-carbon solutions in the shipping sector. Hence, we believe that MMHE has the leverage on its balanced portfolio which served both conventional and clean energy industry.

RETURN STATISTICS

Price @ 13 th Nov 2024 (RM)	0.44
Expected share price return (%)	+63.6
Expected dividend yield (%)	+2.5
Expected total return (%)	+66.1

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.1	2.6
3 months	-1.1	2.1
12 months	-7.4	-16.9

INVESTMENT STATISTICS

FYE Mar	2024F	2025F	2026F
Revenue	3,750	3,783	3,864
Operating Profit	300	307	320
Profit Before Tax	121	123	128
Core PATAMI	143	145	151
Core EPS	8.9	9.0	9.4
DPS	1.3	1.2	1.2
Dividend Yield	2.5%	2.4%	2.4%

KEY STATISTICS

FBM KLCI	1611.50
Issue shares (m)	1,600.0
Estimated free float (%)	19.28
Market Capitalisation (RM'm)	704.0
52-wk price range	RM0.44-RM0.52
3-mth average daily volume (m)	1.30
3-mth average daily value (RM'm)	0.89
Top Shareholders (%)	
MISC Bhd	66.50
Technip Energies M Sdn Bhd	8.50
Lembaga Tabung Angkatan Tentera	3.09

Competition and geopolitical tensions remain key risks. The near-term downside risks to MMHE are: (i) colder-than-expected winter season hampering dry-docking demand, (ii) competition with regional and Chinese shipyards, (iii) ongoing geopolitical conflicts, (iv) supply chain disruptions, and (v) unforeseen delays of HE projects following additional fits and unfavourable forex. Nevertheless, we opine that MMHE will continue to remain vigilant on the risks and adapt its current contracting strategies for future projects, particularly in renewable energy and decarbonization.

Revised earnings estimates. All in, we revised our earnings forecast for FY24-FY25 upward by +40% and +11% respectively. The higher revision is in consideration that the impairment from two HE projects (i.e. Kasawari CCS and MTJDA FDP) nearing completion is minimised, on top of new offshore wind projects (Ijmuiden ver Alpha and Nederwiek 1) that will sustain the engineering and construction operations until FY25. We also believe that the increased upstream capex to RM26b in CY24 will impact MMHE's HE business segment positively. However, the modest growth in the forecasted earnings for FY24 is taking into account of the cyclical lower dry-docking and maintenance activities for the Marine segment in 4QFY24, which will further be impacted by the expected colder winter over La Nina weather, consequently signalling lesser tankers opting for maintenance services.


Maintain BUY, revised target price to RM0.72. Our new target price (previously RM0.65) is pegged on a PER of 8x to a revised EPS25 of 9.0sen. The PER is based on the O&G Construction Services PER, which mirrors the recovery in MMHE's HE and Marine businesses moving forward. This is also in line with the sanguine outlook on the global and local upstream O&G, though offset by macroeconomic uncertainties and ongoing geopolitical tensions. 

TABLE 1: MMHE 3QFY24 RESULT SUMMARY

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results					Cumulative		
	3QFY23	2QFY23	3QFY24	QoQ (%)	YoY(%)	9MFY23	9MFY24	YoY (%)
Revenue	638.5	900.0	906.5	0.7	42.0	2,191.0	2,791.0	27.4
Other operating income	(15.9)	28.4	(6.1)	(121.6)	104.2	(5.1)	26.8	(622.7)
Operating profit/(loss)	(100.2)	79.1	20.8	(73.7)	587.1	(478.6)	114.3	504.7
Finance cost	(3.7)	(4.7)	(4.8)	(25.5)	(27.7)	(10.5)	(13.1)	(18.1)
Profit before taxation	(103.9)	74.4	16.0	(78.5)	622.5	(489.1)	101.2	551.5
Profit after taxation	(105.1)	74.0	15.3	(79.4)	625.3	(490.2)	99.7	556.3
Minority interests	0.1	0.1	(0.0)	(126.4)	(111.5)	1.9	0.0	(98.0)
PATAMI/LATAMI	(105.2)	73.1	55.9	(23.5)	631.7	(488.6)	139.5	558.6
Normalised PATAMI/(LATAMI)	(105.1)	73.1	55.9	(23.5)	631.7	(486.6)	139.5	558.6
EPS Basic(sen)	(6.6)	4.6	1.0	(78.3)	628.3	(30.6)	6.2	554.7
Operating profit margin (%)	(15.7)	8.8	2.3	(6.5)	18.0	(21.8)	4.1	25.9
PATAMI margin (%)	(16.5)	8.1	(909.6)	(917.7)	(893.2)	(22.3)	5.0	27.3
				+/-ppts				+/-ppts
Segmental Revenue								
Heavy Engineering	570.2	809.5	799.9	(1.2)	40.3	1,965.3	2,478.5	26.1
Marine	68.2	90.6	106.5	17.6	56.2	225.7	312.5	38.5
Segmental EBIT								
Heavy Engineering	(107.7)	67.7	19.5	(71.1)	676.1	(506.5)	87.5	686.3
Marine	4.4	9.1	11.0	20.7	152.1	20.4	33.9	66.0
EBIT Margin (%)								
Heavy Engineering	(18.9)	8.4	2.4	(5.9)	21.3	(25.8)	3.5	29.3
Marine	6.4	10.1	10.3	0.3	3.9	9.1	10.9	1.8

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2023A	2024E	2025F	2026F	2027F
Revenue	3,309.4	3,750.0	3,783.1	3,863.6	4,090.9
EBITDA	(391.9)	300.3	307.2	319.5	344.2
D&A	67.8	84.0	74.0	75.0	76.0
Profit before tax	(483.1)	120.7	122.5	128.0	130.6
Tax	(1.1)	(1.5)	(1.8)	(1.8)	(2.0)
PATAMI	(484.2)	144.2	145.7	151.2	153.6
Core PATAMI	(484.2)	142.7	144.7	150.7	153.3

Balance Sheet (RM'm)	2023A	2024E	2025F	2026F	2027F
Fixed assets	1,507.7	1,526.8	1,542.2	1,549.5	1,560.9
Intangible assets	195.4	200.0	210.0	220.0	221.0
Non-current assets	1,797.9	1,821.6	1,847.0	1,864.3	1,877.7
Cash	557.6	577.9	608.7	650.2	651.2
Trade debtors	1,291.0	1,695.2	1,710.2	1,746.6	1,860.5
Current assets	1,851.5	2,177.1	2,297.9	2,326.0	2,443.9
Trade creditors	1,981.0	1,892.9	2,003.2	1,996.5	2,100.2
Short-term debt	105.7	100.0	75.0	50.0	51.0
Current liabilities	2,113.5	2,023.9	2,109.7	2,078.5	2,185.2
Long-term debt	261.3	300.0	300.0	300.0	301.0
Non-current liabilities	268.5	305.0	305.0	305.0	307.0
Share capital	1,618.3	1,618.3	1,618.3	1,618.3	1,618.3
Retained earnings	(352.1)	50.0	110.2	186.5	206.2
Equity	1,267.3	1,669.8	1,730.3	1,806.8	1,829.4

Cash Flow (RM'm)	2023A	2024E	2025F	2026F	2027F
PBT	(483.1)	120.7	122.5	128.0	130.6
Depreciation & amortisation	67.8	84.0	74.0	75.0	76.0
Changes in working capital	202.0	-19.8	-32.4	-58.1	-72.8
Operating cash flow	(164.8)	183.9	170.3	146.0	137.0
Capital expenditure	(82.1)	(110.6)	(106.3)	(91.6)	(91.6)
Investing cash flow	(66.3)	(95.6)	(88.8)	(71.6)	(70.6)
Financing cash flow	(8.4)	(46.2)	(58.0)	(42.0)	(98.5)
Net cash flow	797.0	557.6	577.9	608.7	650.2
Beginning cash flow	(239.5)	20.3	30.8	41.5	1.0
Ending cash flow	557.57	577.9	608.7	650.2	651.2

Profitability Margins	2023A	2024E	2025F	2026F	2027F
EBITDA margin	-11.8%	8.0%	8.1%	8.3%	8.4%
PBT margin	-14.6%	3.2%	3.2%	3.3%	3.2%
PAT margin	-14.6%	3.8%	3.9%	3.9%	3.8%
Core PAT margin	-14.6%	3.8%	3.8%	3.9%	3.7%

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