

Malaysia Marine & Heavy Engineering

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

Maintain NEUTRAL

Revenue from existing projects cushioned earnings

Revised Target Price: RM0.43

(Previously RM0.72)

KEY INVESTMENT HIGHLIGHTS

- **Malaysia Marine & Heavy Engineering (MHB) remains in black with a profit of RM6.1m in 1QFY20**
- **Earnings for the quarter was mainly driven by its Heavy Engineering segment arising from better revenue recognition from its ongoing projects**
- **Marine segment slid into a loss-making position arising from high unabsorbed overhead costs**
- **FY20-21F earnings trimmed to RM24.8m and RM40.4m**
- **Maintain NEUTRAL with a revised TP of RM0.43/share**

Earnings cushioned by better revenue recognition. Malaysia Marine and Heavy Engineering (MHB) reported its second consecutive quarterly profit. Its net profit was RM6.1m in 1QFY20 after two consecutive years of losses. However, it came in below our and consensus' full-year FY20 earnings expectation. Comparing against 1QFY19, revenue surged by +70.6%yoy while earnings grew by >100% to RM6.1m respectively. On a quarterly sequential basis, revenue grew by +25.7%. However, earnings declined by -33.9%qoq due to higher unabsorbed cost coming from its Marine segment.

Heavy Engineering. The Heavy Engineering segment revenue jumped by +80.8%yoy to RM226.8m mainly due to the higher recognition on the ongoing projects during the quarter notably from: (i) Bekok Oil project; (ii) Bergading CPP-MRU project and; (iii) the EPCIC Kasawari Gas Development project. Additionally, the segment also recorded an operating profit of RM1.2m or >-100% primarily due to the reversal of cost provision during the quarter.

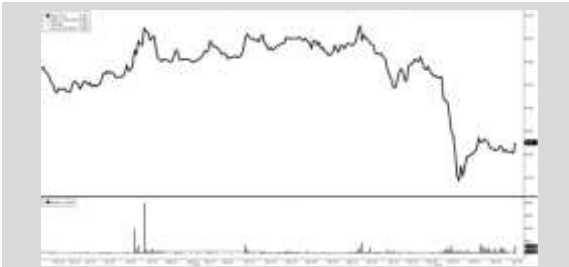
Marine Repair & Conversion. The segment recorded higher revenue of RM119.7m or a growth of +54.0%yoy during the quarter. This was mainly attributable to higher dry-docking services on LPG vessels and conversion works done on vessels during the quarter. However, the segment result slide into a loss of -RM1.5m during the quarter mainly attributable to lower revenue from the conversion work during the quarter coupled with unabsorbed costs.

Orderbook update. The company's current orderbook as of March 2020 stands at RM2,734.5m (from RM2,957.9m previously in December 2019). Currently, >70% of the orderbook is attributable to the Kasawari Gas Development project and about RM300m from the Bokor CPP. Meanwhile, its tenderbook currently stands at RM17.03b with 81% of the tenders are for international projects with the remaining 19% are for local projects.

RETURN STATISTICS

Price @ 29 th April 2020 (RM)	0.45
Expected share price return (%)	-4.44
Expected dividend yield (%)	+0.00
Expected total return (%)	-4.44

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	8.4	6.1
3 months	8.4	-28.2
12 months	-42.7	-31.8

KEY STATISTICS


FBM KLCI	1,380.30
Syariah compliant	Yes
Issue shares (m)	1,600.00
Estimated free float (%)	9.82
Market Capitalisation (RM'm)	720.00
52-wk price range	RM0.25-RM0.97
Beta vs FBM KLCI (x)	1.98
Monthly velocity (%)	11.02
Monthly volatility (%)	27.24
3-mth average daily volume (m)	0.91
3-mth average daily value (RM'm)	0.45
Top Shareholders (%)	
MISC Bhd	66.50
Technip Geoproduction	8.50
Urusharta Jamaah Sdn Bhd	6.60

Lower earnings expected in 2QFY20. While we note that MHB has been profitable for the past two quarters after seven consecutive quarters of losses; we remain conservative on the earnings prospect of MHB given that there the Movement Restriction Order (MCO) currently being implemented in Malaysia which has caused yards and docks to be temporary closed and employees refrained from coming to work. While we understand that MHB has received the greenlight to resume the operation of their yards from the Ministry of International Trade & Industry (MITI) on 16th of April 2020, operations at the yards and docks are unlikely to resume as per pre-MCO due to social distancing currently being practiced to curb the spread of the novel coronavirus (Covid19). The impact from the almost four weeks of yard and dock closures could potentially lead to: (i) delayed completion of projects; (ii) deferment of revenue recognition and; (iii) deferment of vessels coming in for repairs and conversion works which we opine would adversely impact its earnings for 2QFY20.

That said, we understand from the Management that there were already bookings made for vessels to come in for repairs and conversion works pre-MCO slated for 2QFY20 which could arrest the impact of Covid19 on its marine segment. Furthermore, there were also several queries from potential clients in the pipelines for potential vessels to come in for dry docking activity, but these were disrupted due to the implementation of MCO. However, we understand that these discussions will now resume with the resumption of operation at the docks.

Potential impairment to address impact from Covid19. Management in its earnings announcement disclosed that there could potentially be impairments on its assets in the current financial year. The impairment to be undertaken is to reflect the lower recoverable value of its property, plant and equipment due to the potential adverse impact from Covid19 and the oil price crash. These potential assets include the facilities, machinery, equipment and buildings at its yard in Pasir Gudang. That said, the extent of the impairment is yet to be ascertain at this juncture.

Earnings revision. We are revising down our FY20-21F earnings expectations to RM24.8m and RM40.4m respectively (from RM49.5m and RM57.8m previously) as we factor in the impact from the implementation of Movement Control Order (MCO) which took effect from 18th March 2020 which we opine will adversely impact MHB's earnings in 2QFY20.

Maintain NEUTRAL with a revised TP of RM0.43. Post earnings revision; we are maintaining our **NEUTRAL** recommendation on MHB with a revised TP of **RM0.43 per share** (from RM0.72 per share previously). Our TP is premised on PER21 of 17x pegged to EPS21 of 2.5sen. We opine that the revised target price is fair given that we are expecting MHB's business to experience a temporary slowdown due to the implementation of the MCO in Malaysia. However, we reiterate that MHB will stage gradual recovery from the 2HFY20 onwards with: (i) better revenue recognition from several projects slated to be completed from 2QFY20 onwards; (ii) higher revenue recognition from its Bokor CPP project and; (iii) more dry docking and fabrication activities once its Dry Dock 3 comes onboard in 3QFY20. 

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	2017A	2018A	2019A	2020E	2021F
Revenue (RM'm)	956.4	974.4	1,009.5	1,500.0	1,750.0
EBITDA (RM'm)	60.1	(39.4)	43.4	105.0	120.3
Pretax Profit (RM'm)	32.4	(124.1)	(39.7)	22.5	36.8
Net Profit (RM'm)	34.2	(122.7)	(34.2)	24.8	40.4
EPS (sen)	2.1	(7.7)	(2.1)	1.5	2.5
EPS (%)	(1.3)	(4.7)	(0.7)	(1.7)	0.6
PER (x)	21.4	na	(21.1)	29.1	17.8
Dividend Per Share (sen)	-	-	-	-	-
Dividend Yield (%)	-	-	-	-	-

Source: Company, MIDFR

MALAYSIA MARINE & HEAVY ENGINEERING: 1QFY20 RESULTS SUMMARY

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results				
	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY(%)
Revenue	203.1	275.6	346.4	25.7	70.6
Other operating income	4.6	(3.5)	8.1	-332.6	76.7
Operating profit	(29.3)	1.6	5.6	244.7	-119.3
Provision for impairment on goodwill and assets	-	-	-	n.a	n.a
Finance cost	(0.2)	-	-	n.a	n.a
Profit before taxation	(29.5)	3.0	5.6	89.1	-119.1
Taxation	(0.3)	6.4	(0.1)	-101.6	-60.8
Profit after taxation	(29.8)	9.4	5.5	-41.2	-118.6
Minority interests	(0.4)	0.2	(0.6)	-479.9	48.1
PATAMI	(29.4)	9.3	6.1	-33.9	-120.9
EPS Basic(sen)	(1.8)	0.6	0.4	-33.3	-122.2
Operating profit margin (%)	(14.4)	0.6	1.6	1.0	16.1
PATAMI margin (%)	(14.5)	3.4	1.8	(1.6)	16.2
Tax rate (%)	0.9	(215.8)	(1.8)	214.1	(2.6)
Segmental Revenue					
Offshore	125.4	148.5	226.8	52.7	80.8
Marine Repair & Conversion	77.7	127.2	119.7	-5.9	54.0
Segmental EBIT					
Offshore	(23.9)	(10.3)	1.2	-111.9	-105.1
Marine Repair & Conversion	(7.5)	4.8	-1.5	-130.2	-80.5
EBIT Margin (%)					
Offshore	(19.0)	(6.9)	0.5	7.5	19.6
Marine repair & conversion	(9.6)	3.8	(1.2)	-5.0	8.4

Source: Company, 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.