

# Malaysia Marine & Heavy Engineering

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

**Maintain NEUTRAL**

## Bearing the full brunt of Covid19 in 2QFY20

**Revised Target Price: RM0.37**

(Previously RM0.43)

### KEY INVESTMENT HIGHLIGHTS

- **Malaysia Marine & Heavy Engineering (MHB) slips back into the red with a normalised loss of -RM97.0m in 2QFY20**
- **Earnings were impacted by the closure of yards following the implementation of MCO during the quarter resulting in lower revenue recognition for both segments**
- **Marine segment remains in loss-making position arising from high unabsorbed overhead costs**
- **FY20-21F earnings trimmed to -RM82.6m and RM34.7m**
- **Maintain NEUTRAL with a revised TP of RM0.37/share**

**Full impact from Covid19 felt in 2QFY20.** Malaysia Marine and Heavy Engineering (MHB) slips back into the red with a reported loss of -RM400.3m in 2QFY20. However, after stripping out the impairment loss on its property, plant and equipment as well as right-of-use assets amounting to RM300.0m, its normalized loss came to -RM97.0m during the quarter. This was below our and consensus' full-year earnings expectation for FY20. Comparing against 2QFY19, revenue fell by -43.8%yoy. Meanwhile, earnings dipped by >100% mainly attributable primarily to: (i) lower revenue from both segments; (ii) additional cost provisions and; (iii) associated higher unabsorbed overhead costs from the spread of novel coronavirus (Covid19). All of which were estimated to be at about RM90.0m recognised during the quarter. Similarly, on a quarterly sequential basis, revenue declined by -55.2% and earnings dipped by >100%qoq due to higher unabsorbed cost coming from its Marine segment.

**Heavy Engineering.** The Heavy Engineering segment revenue slid by -26.2%yoy to RM112.1m mainly due to the lower recognition on the ongoing projects during the quarter. Additionally, the segment also recorded an operating loss of -RM69.8m or >-100% primarily due to the additional cost provisions and higher unabsorbed overheads arising from Covid19 pandemic as yards were forced to shut down for four weeks due to the implementation of the Movement Control Order (MCO) in March and April.

**Marine Repair & Conversion.** Similarly, the marine segment recorded lower revenue of RM43.3m or a contraction of -65.3%yoy during the quarter. This was mainly attributable to lower number of vessels secured for dry-docking services on LPG vessels and conversion works done on vessels during the quarter following the shut-down of its yard due to the implementation of MCO. This was exacerbated by the lockdown measures implemented worldwide which has restricted the movement of vessels in international water to prevent further spread of Covid19. As a result, the segment result remains a loss of -RM30.0m during the quarter mainly attributable to lower revenue from the conversion work during the quarter coupled with unabsorbed overhead costs.

### RETURN STATISTICS

Price @ 23 <sup>th</sup> July 2020 (RM)	0.38
Expected share price return (%)	-2.63
Expected dividend yield (%)	+0.00
<b>Expected total return (%)</b>	<b>-2.63</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-6.17	-12.23
3 months	-5.00	-20.97
12 months	-59.79	-58.64


### KEY STATISTICS

FBM KLCI	1,606.42
Syariah compliant	Yes
Issue shares (m)	1600.00
Estimated free float (%)	9.82
Market Capitalisation (RM'm)	608.00
52-wk price range	RM0.25 – 0.97
Beta vs FBM KLCI (x)	1.83
Monthly velocity (%)	0.00
Monthly volatility (%)	27.24
3-mth average daily volume (m)	3.72
3-mth average daily value (RM'm)	1.74
Top Shareholders (%)	
MISC Bhd	66.50
Technip Geoproduction	8.50
Urusharta Jamaah Sdn Bhd	6.60

**Orderbook update.** The company's current orderbook as of March 2020 stands at RM2,598.4m (from RM2,734.5m previously in March 2020). 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 RM12.53b with 81% of the tenders are for international projects with the remaining 19% are for local projects respectively.

**Going forward into 2HFY20.** Now that impairment is out of the way, we opine that MHB can now concentrate on the recovery of both its business segments in the second half of FY20. This is as Malaysia has finally eased restrictions with the movement control order recovery (MCOR) period from 12<sup>th</sup> June 2020 until 31<sup>st</sup> August 2020. As such many businesses have been allowed to resume operation and some sense of normality have returned to the market. However, we believe that recovery will be gradual given that new infection cases from Covi19 remains elevated in 16 countries which typically accounts for 70% of the world's demand for crude and crude-related products. This, we expect will delay the recovery in demand and will continue to put pressure of the oil price until the end of 2020. As a result, upstream E&P spending might still remain suppressed and margins to be compressed in the face of higher operational costs for the remainder of the year.

**Earnings revision.** We are revising down our FY20-21F earnings expectations to -RM82.6m and RM34.7m respectively (from RM24.8m and RM40.4m previously) as we factor a slower recovery in earnings following the recent development of Covid19 globally which is currently seeing newly infected cases elevating in some countries. This, we opine could potentially delay the recovery in oil and gas spending worldwide as well as; causes delay in vessel repair and maintenance due to lower demand for crude and LNG globally.

**Maintain NEUTRAL with a revised TP of RM0.37.** Post earnings revision; we are maintaining our **NEUTRAL** recommendation on MHB with a revised TP of **RM0.37 per share** (from RM0.43 per share previously). Our TP is premised on PER21 of 17x pegged to EPS21 of 2.2sen. 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
<b>Revenue (RM'm)</b>	<b>956.4</b>	<b>974.4</b>	<b>1,009.5</b>	<b>1,500.0</b>	<b>1,750.0</b>
EBITDA (RM'm)	60.1	(39.4)	43.4	7.5	115.0
Pretax Profit (RM'm)	32.4	(124.1)	(39.7)	(75.0)	31.5
<b>Normalised Profit/(Loss) (RM'm)</b>	<b>34.2</b>	<b>(122.7)</b>	<b>(34.2)</b>	<b>(82.6)</b>	<b>34.7</b>
EPS (sen)	2.1	(7.7)	(2.1)	(5.2)	2.2
EPS (%)	(1.3)	(4.7)	(0.7)	1.4	(1.4)
PER (x)	18.1	na	(17.8)	(7.4)	17.5
Dividend Per Share (sen)	-	-	-	-	-
Dividend Yield (%)	-	-	-	-	-

Source: Company, MIDFR

## MALAYSIA MARINE & HEAVY ENGINEERING: 2QFY20 RESULTS SUMMARY

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results					Cumulative		
	2QFY19	1QFY20	2QFY20	QoQ (%)	YoY(%)	6MFY19	6MFY20	YoY (%)
Revenue	276.45	346.44	155.31	(55.17)	(43.82)	479.56	501.75	4.63
Other operating income	8.14	8.07	(9.60)	>-100	>100	12.71	(1.52)	>-100
Operating profit/(loss)	(8.59)	5.65	(100.24)	>-100	>100	(37.89)	(94.59)	>100
Impairment loss	-	-	(300.00)	nm	nm	-	(300.00)	nm
Finance cost	(0.20)	-	-	nm	nm	(0.40)	-	nm
Profit before taxation	(8.79)	5.65	(400.24)	>-100	>-100	(38.29)	(394.59)	>100
Taxation	(0.37)	(0.10)	(0.10)	1.00	(72.99)	(0.63)	(0.20)	(68.04)
Profit after taxation	(9.16)	5.55	(400.34)	>-100	>100	(38.92)	(394.79)	>100
Minority interests	0.31	(0.59)	(3.32)	>100	>100	(0.08)	(3.90)	>100
PATAMI/LATAMI	(9.48)	6.13	(397.02)	>-100	>100	(38.84)	(390.89)	>100
Normalised PATAMI/(LATAMI)	-	-	(97.02)					
EPS Basic(sen)	(0.60)	0.40	(24.80)	>-100	>100	(2.40)	(24.40)	>100
Operating profit margin (%)	(3.11)	1.63	(64.54)	(66.17)	(61.44)	(7.90)	(18.85)	(10.95)
PATAMI margin (%)	(3.43)	1.77	(255.64)	>-100	>-100	(8.10)	(77.91)	(69.81)
Tax rate (%)	4.26	1.77	0.03	(1.75)	(4.23)	1.64	0.05	(1.59)
<b>Segmental Revenue</b>								
Offshore	151.89	226.79	112.05	(50.59)	(26.23)	277.32	338.84	22.18
Marine Repair & Conversion	124.56	119.65	43.25	(63.85)	(65.27)	202.24	162.91	(19.45)
<b>Segmental EBIT</b>								
Offshore	(19.80)	1.23	(69.77)	>-100	>100	(43.66)	(68.55)	57.00
Marine Repair & Conversion	8.61	(1.45)	(30.02)	>100	>-100	1.15	(31.47)	>-100
<b>EBIT Margin (%)</b>								
Offshore	(13.04)	0.54	(62.27)	(62.81)	(49.23)	(15.74)	(20.23)	(4.49)
Marine repair & conversion	6.91	(1.21)	(69.41)	(68.20)	(76.32)	0.57	(19.32)	(19.89)

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.