

# Malaysia Marine & Heavy Engineering

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

MHB returns to black

## KEY INVESTMENT HIGHLIGHTS

- **Malaysia Marine & Heavy Engineering (MHB) returns to black with a profit of RM9.4m in 4QFY19**
- **Earnings for the quarter was mainly driven by its Marine segment arising from the improved margin from conversion works**
- **Heavy Engineering segment remains in a loss-making position arising from high unabsorbed overhead costs**
- **FY20F earnings trimmed downwards by -42.8%**
- **Maintain NEUTRAL with a revised TP of RM0.72/share**

**First quarterly profit in two years.** Malaysia Marine and Heavy Engineering (MHB) reported a 4QFY19 net profit of RM9.3m. This brings its cumulative loss to-date to -RM34.2m which was below our and consensus' full-year FY19 earnings expectation. Comparing against 4QFY18, revenue was flat at +0.9%yoy while earnings grew by >100% to RM9.3m respectively. On a quarterly sequential basis, revenue grew by +8.4%. Similarly, earnings expanded by >100% as the company returns to black during the quarter. Additionally, 4QFY19 also marks the first quarter of profit for MHB after seven consecutive quarterly losses.

**Heavy Engineering.** The Heavy Engineering segment revenue declined by -33.7%yoy to RM148.5m mainly due to the gap between projects that are reaching tail-end with its newly secured projects – which are still at infancy level. Meanwhile, the segment also recorded an operating loss of -RM10.3m or >-100% which was attributable to the lower revenue recorded during the quarter as well as higher unabsorbed costs.

**Marine Repair & Conversion.** The segment recorded higher revenue of RM127.1m or a growth of +158.5%yoy during the quarter. This was mainly attributable to higher dry-docking services on LNG carriers and conversion works done on vessels during the quarter. Furthermore, the segment remains profit making during the quarter with an operating profit of RM4.9m. We understand from the Management that a total of 77 vessels were serviced by MHB's marine segment in the whole of FY19, with 20 of them being LNG carriers.

**Orderbook update.** The company's current orderbook as of December 2019 stands at RM2,957.9m (from RM2,739.7m previously in September 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 RM12.9b with 40% of it attributable to offshore projects and 15% from marine. Furthermore, 70% of the tenders are for international projects with the remaining 25% are for local projects respectively.

**Maintain NEUTRAL**

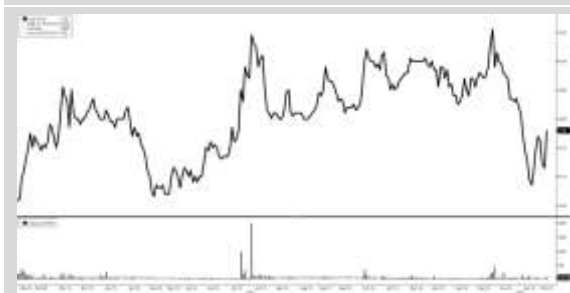
**Revised Target Price: RM0.72**

(Previously RM0.88)

## RETURN STATISTICS

Price @ 12 <sup>th</sup> February 2020 (RM)	0.78
Expected share price return (%)	-7.69
Expected dividend yield (%)	+0.00
<b>Expected total return (%)</b>	<b>-7.69</b>

## SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-12.8	-10.5
3 months	-10.3	-10.3
12 months	18.2	29.1

## KEY STATISTICS

FBM KLCI	1,542.94
Syariah compliant	Yes
Issue shares (m)	1,600
Estimated free float (%)	10.3
Market Capitalisation (RM'm)	1,248
52-wk price range	RM0.61-RM0.97
Beta vs FBM KLCI (x)	1.61
Monthly velocity (%)	11.2
Monthly volatility (%)	27.2
3-mth average daily volume (m)	0.54
3-mth average daily value (RM'm)	0.47
Top Shareholders (%)	
MISC Bhd	66.5
Technip Geoproduction	8.50
Urusharta Jamaah Sdn Bhd	6.60

**Analyst(s)**


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**Going forward.** While we note that MHB has returned to profit during the quarter after seven consecutive quarterly losses, we remain conservative on the earnings prospect of MHB given that there is a glaring gap between its current project which have reached the tail-end and its newly secured projects which are still in infancy. This, we opine will continue to compress the margin for the Heavy Engineering segment in the near term.

Meanwhile, the highly anticipated Kasawari Gas Development project has finally gone through its first steel cut back in December and it is expected to commence its first construction in March. That said, since the project is back-end loaded, the revenue recognition would not be significant in the coming two years.

We also note that there are several projects that are expected to be completed from 2QFY20 onwards which we opine will assist to cushion earnings whilst waiting for more significant revenue recognition to come from Bokor and Kasawari projects. Furthermore, with the expected completion of Dry Dock 3 (DD3) in 3QFY20, we anticipate more marine repair works and conversions to take place as DD3 will be able to relieve the bottleneck currently experienced by DD1. Additionally, this would also allow MHB to take in more LNG carriers than before.

**Earnings revision.** We are revising down our FY20F earnings expectations to RM49.5m (from RM86.5m previously) in view of the gradual recovery of its heavy engineering segment and compressed margin. We have also introduced our FY21 numbers in this report.

**Maintain NEUTRAL with a revised TP of RM0.72.** Post earnings revision and rolling forward our valuation base year to FY21; we are maintaining our **NEUTRAL** recommendation on MHB with a revised TP of RM0.72 per share. Our TP is premised on PER21 of 20x pegged to EPS21 of 3.6sen. We opine that the revised target price is fair given that we are expecting MHB's business to stage gradual recovery from the 2HFY20 onwards with: (i) better revenue recognition from projects expected 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	127.5	136.0
Pretax Profit (RM'm)	32.4	(124.1)	(39.7)	45.0	52.5
<b>Net Profit (RM'm)</b>	<b>34.2</b>	<b>(122.7)</b>	<b>(34.2)</b>	<b>49.5</b>	<b>57.8</b>
EPS (sen)	2.1	(7.7)	(2.1)	3.1	3.6
EPS (%)	(1.3)	(4.7)	(0.7)	(2.4)	0.2
PER (x)	37.6	na	(37.0)	25.5	21.9
Dividend Per Share (sen)	-	-	-	-	-
Dividend Yield (%)	-	-	-	-	-

Source: Company, MIDFR

**MALAYSIA MARINE & HEAVY ENGINEERING: 4QFY19 RESULTS SUMMARY**

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results					Cumulative		
	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY(%)	FY18	FY19	YoY (%)
Revenue	273.2	254.3	275.6	8.4	0.9	974.4	1,009.5	3.6
Other operating income	(8.6)	1.9	(3.5)	->100	-59.7	24.2	11.2	-53.9
Operating profit	(29.2)	(4.9)	1.6	->100	->100	(126.2)	(41.1)	-67.4
Provision for impairment on goodwill and assets	-	-	-	NA	NA	-	-	NA
Finance cost	(0.9)	0.4	-	-100.0	-100.0	(0.9)	-	-100.0
Profit before taxation	(26.3)	(4.5)	3.0	->100	-111.4	(124.1)	(39.8)	-68.0
Taxation	0.5	(0.3)	6.4	->100	>100	0.1	5.5	>100
Profit after taxation	(25.8)	(4.7)	9.4	->100	->100	(124.1)	(34.2)	-72.4
Minority interests	(0.6)	(0.1)	0.2	->100	->100	(1.5)	0.0	-100.3
PATAMI	(25.2)	(4.7)	9.3	->100	->100	(122.7)	(34.2)	-72.1
EPS Basic(sen)	(1.6)	(0.3)	0.6	->100	->100	(7.7)	(2.1)	-72.7
Operating profit margin (%)	(10.7)	(1.9)	0.6	2.5	11.3	-13.0	-4.1	8.9
PATAMI margin (%)	(9.2)	(1.8)	3.4	5.2	12.6	-12.6	-3.4	9.2
Tax rate (%)	(1.8)	(6.1)	215.8	221.9	217.6	0.0	-13.9	-13.9
<b>Segmental Revenue</b>								
Offshore	224.0	152.8	148.5	-2.8	-33.7	651.5	578.6	-11.2
Marine Repair & Conversion	49.2	101.5	127.2	25.3	158.5	322.9	430.9	33.4
<b>Segmental EBIT</b>								
Offshore	1.6	(6.8)	-10.3	51.6	-738.1	-39.0	-60.8	55.9
Marine Repair & Conversion	(33.0)	2.5	4.8	92.0	-114.6	-81.7	8.5	-110.3
<b>EBIT Margin (%)</b>								
Offshore	0.7	(4.5)	(6.9)	-2.5	-7.7	-6.0	-10.5	-4.5
Marine repair & conversion	(67.0)	2.5	3.8	1.3	70.8	-25.3	2.0	27.3

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.