

# Muhibbah Engineering Berhad

(5703 | MUHI MK) Main | Construction

## Earnings dragged by construction segment

### KEY INVESTMENT HIGHLIGHTS

- Earnings behind estimates in FY19
- Revenue of RM1,608.9m (+2.1%yoy) logged in FY19
- In 4QFY19, infrastructure construction segment made up 86.8% of total revenue but only 16.8% of PBT
- 2.5sen/share dividend proposed
- Change in estimate due to worse margin fetched
- Reiterate BUY with adjusted TP of RM2.08 (from RM3.73)

**Earnings behind estimates in FY19.** Muhibbah's FY19 earnings of RM37.8m (-73.9%yoy) missed ours at merely 29.0% and consensus' at only 30.0% of respective full year estimates.

**Revenue of RM1,608.9m (+2.1%yoy) logged in FY19.** At the profit before tax (PBT) level, the group reported RM158.5m (-42.1%yoy) in FY19. We understand that the notable contraction was due to the massive reduction of operating profit compared to the year before. Moreover, the group's profit after tax (PAT) shrank by -48.7% to RM118.8m in FY18. The significant decline was attributed to the provision made for project claims and variation orders for construction projects.

**In the quarter, infrastructure construction segment made up 86.8% of total revenue but only 16.8% of PBT.** The group registered revenue of RM1396.8m (-12.6%yoy) and PBT of RM26.7m (-81.3%yoy). It is also worth noting that, as of 28<sup>th</sup> February 2020, Muhibbah Engineering's current order book stood at RM1.5b, i.e. construction (RM897m) and cranes (RM582m). Moreover, 50.8% of the total current order book was from projects in Malaysia and 49.2% from projects clinched overseas, i.e. Asia-Pacific (34.8%), Middle East (10.5%), Europe (3.4%), and Africa (0.5%). Moving forward, the group expects many upcoming developments in Qatar as it will be the host for FIFA World Cup 2022. In the Um Alhoul Special Economic Zone (SEZ), there are 8,400 acres to be developed over the next 20 years. We understand the group is anticipated to continue pursuing infrastructure and marine projects from both overseas and domestic markets in the future.

**Maintain BUY**

**Adjusted Target Price : RM2.08**

(from RM3.73)

### RETURN STATISTICS

Price @ 28 <sup>th</sup> Feb 2020 (RM)	RM 1.62
Expected share price return (%)	+28.58
Expected dividend yield (%)	+5.33
<b>Expected total return (%)</b>	<b>+33.91</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-8.99	-4.75
3 months	-34.15	-25.73
12 months	-45.82	-37.59

### KEY STATISTICS

FBM KLCI	1482.64
Syariah compliant	Yes
Issue shares (m)	481.7
Estimated free float (%)	57.0
Market Capitalisation (RM'm)	783.18
52-wk price range	RM1.57 - RM3.08
Beta vs FBM KLCI (x)	1.0
Monthly velocity (%)	11.0
Monthly volatility (%)	10.5
3-mth average daily volume (m)	1.03
3-mth average daily value (RM'm)	1.94
Top Shareholders (%)	
Mac Ngan Boon	20.86
FIL Ltd	9.95
Lembaga Tabung Haji	6.91

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**2.5sen/share dividend proposed.** The group proposed first and final tax exempt dividend of 2.5 sen per ordinary share in respect of the financial year ended 31 December 2019 - subject to the approval of the company's shareholders at the forthcoming Annual General Meeting of the company. The proposed final dividend payable is approximately RM12.1m and computed based on the issued and paid-up share capital (excluding treasury shares) of 483,385,250 ordinary shares as at 31 December 2019.

**Change in estimate due to worse margin fetched.** We adjusted our current year earnings estimate to reflect on the negative deviation. Following our earnings adjustment, we arrived at PATAMI of RM90.7m (from RM149.9m) for FY20F. We also introduce FY21F earnings at RM100.7m. Our adjusted/new estimates were arrived after taking into account the current performance of infrastructure construction performance which was notably underperformed.

**Reiterate BUY with adjusted TP of RM2.08 (from RM3.73).** We ascribe PE multiples of 10x to FY21EPS (from PE multiples of 15x to FY19EPS) which reflects the conservative current sector wide valuation on construction stocks. Our TP implies a +33.9% upside.

## INVESTMENT STATISTICS

FYE Dec	FY16	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	1918.7	1388.2	1543.1	1608.9	1528.5	1589.6
EBIT (RM'm)	87.6	81.5	131.7	2.5	58.8	67.6
Pre-tax Profit (RM'm)	160.5	216.4	262.1	158.5	221.9	241.8
PATAMI (RM'm)	105.5	131.6	144.8	37.8	90.7	100.7
EPS (sen)	22.2	27.4	29.6	7.8	18.8	20.8
EPS growth (%)	-6.0	23.5	23.5	-73.6	140.0	11.0
PER(x)	11.1	9.0	8.4	20.7	8.6	7.8
Net Dividend (sen)	5.0	7.0	7.5	2.5	5.0	5.0
Net Dividend Yield (%)	2.0	2.2	3.0	1.5	3.1	3.1

Source: Company, MIDFR

## 4QFY19 RESULTS REVIEW

FYE Dec (RM'm)	4QFY19	4QFY18	3QFY19	YoY Chg	QoQ Chg	12MFY19	12MFY18	YoY Chg
<b>Revenue</b>	<b>550.2</b>	<b>458.1</b>	<b>217.5</b>	<b>20.1%</b>	<b>153.0%</b>	<b>1608.9</b>	<b>1576.1</b>	<b>2.1%</b>
Interest income	2.1	4.2	2.3	-48.3%	-4.7%	11.6	10.2	14.1%
Finance cost	-9.6	-6.0	-5.3	59.5%	81.2%	-25.4	-24.1	5.2%
<b>Operating profit</b>	<b>-43.7</b>	<b>56.7</b>	<b>11.5</b>	<b>-177.1%</b>	<b>-479.0%</b>	<b>2.5</b>	<b>131.7</b>	<b>-98.1%</b>
Share results of associates	29.5	26.1	43.8	13.2%	-32.7%	155.9	142.1	9.7%
<b>Pre-tax profit</b>	<b>-14.2</b>	<b>82.7</b>	<b>55.4</b>	<b>-117.2%</b>	<b>-125.6%</b>	<b>158.5</b>	<b>273.8</b>	<b>-42.1%</b>
Taxation	-20.1	-19.4	-6.3	3.9%	220.8%	-39.7	-42.3	-6.1%
<b>PAT</b>	<b>-34.3</b>	<b>63.3</b>	<b>49.1</b>	<b>-154.2%</b>	<b>-170.0%</b>	<b>118.8</b>	<b>231.5</b>	<b>-48.7%</b>
<b>PATANCI</b>	<b>-55.5</b>	<b>37.9</b>	<b>29.4</b>	<b>-246.5%</b>	<b>-288.6%</b>	<b>37.8</b>	<b>144.8</b>	<b>-73.9%</b>
EPS (sen) FD	-11.4	7.6	6.0	-248.8%	-288.9%	7.8	29.6	-73.8%
	4QFY19	4QFY18	3QFY19	+/- ppts	+/- ppts	12MFY19	12MFY18	+/- ppts
Operating margin	-7.9%	12.4%	5.3%	-20.3	-13.2	0.2%	8.4%	-8.2
Pre-tax margin	-2.6%	18.1%	25.5%	-20.6	-28.0	9.8%	17.4%	-7.5
PATANCI margin	-6.2%	13.8%	22.6%	-20.1	-28.8	7.4%	14.7%	-7.3
Effective tax rate	-3.7%	-4.2%	-2.9%	0.6	-0.8	-2.5%	-2.7%	0.2

### Segmental Breakdown

Revenue	4QFY19	4QFY18	3QFY19	YoY Chg	QoQ Chg	12MFY19	12MFY18	YoY Chg
Infrastructure Construction	534.9	458.5	179.4	16.7%	198.2%	1396.8	1597.3	-12.6%
Cranes	225.2	179.5	112.3	25.4%	100.4%	700.2	545.2	28.4%
Concession	108.3	116.7	105.1	-7.2%	3.0%	423.3	376.1	12.5%
Group Elimination	-186.8	-171.0	-63.7	9.3%	193.2%	-426.9	-452.2	-5.6%
<b>TOTAL</b>	<b>681.5</b>	<b>583.8</b>	<b>333.2</b>	<b>16.7%</b>	<b>104.6%</b>	<b>2093.5</b>	<b>2066.5</b>	<b>1.3%</b>
PBT	4QFY19	4QFY18	3QFY19	YoY Chg	QoQ Chg	12MFY19	12MFY18	YoY Chg
Infrastructure construction	0.7	75.2	0.3	-99.1%	141.2%	26.7	142.5	-81.3%
Cranes	46.7	35.0	30.4	33.6%	53.6%	118.0	94.9	24.3%
Concession	27.1	33.9	48.6	-20.0%	-44.2%	169.7	151.3	12.1%
Group Elimination	-88.8	-73.1	-23.9	21.4%	271.0%	-155.9	-126.6	23.1%
<b>TOTAL</b>	<b>-14.2</b>	<b>71.0</b>	<b>55.4</b>	<b>-120.0%</b>	<b>-125.6%</b>	<b>158.5</b>	<b>262.1</b>	<b>-39.5%</b>
PBT margin	4QFY19	4QFY18	3QFY19	+/- ppts	+/- ppts	12MFY19	12MFY18	+/- ppts
Infrastructure construction	0.1%	16.4%	0.2%	-16.3	0.0	1.9%	8.9%	-7.0
Cranes	20.8%	19.5%	27.1%	1.3	-6.3	16.9%	17.4%	-0.6
Concession	25.0%	29.1%	46.2%	-4.0	-21.2	40.1%	40.2%	-0.1

Source: Company, MIDFR

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#### 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.