

# Muhibbah Engineering Berhad

(5703 | MUHI MK) Main | Construction

## Steep decline in earnings

### KEY INVESTMENT HIGHLIGHTS

- **Bottomline missed ours and consensus estimates**
- **Topline has shown an on-year improvement**
- **In 1QFY20, infrastructure construction segment made up 58.45% of total revenue but only 14.9% of PBT**
- **Outstanding order book stood at RM1.3b**
- **Revised earnings downwards**
- **Maintain BUY with lower TP of RM1.35 (from RM2.08)**

**Bottomline missed ours and consensus estimates.** Muhibbah reported 1QFY20 core net profit of RM5.1m which came below ours and consensus estimates, accounting for only 6% and 5% of FY20F respectively. Its 1QFY20 earnings fell -84.6%yoy largely due to lower profit contribution from airport concession division which has been adversely impacted by the global COVID-19 pandemic.

**Topline has shown an on-year improvement.** The Group's reported revenue of RM333.5m in 1QFY20, higher by +22.4%yoy from RM272.4m in 1QFY19. However, on a quarterly sequential basis, the revenue shrank by -29.4%qoq. The on-quarter decline was largely due to the suspension of works imposed during the MCO period which affected Infrastructure and Cranes divisions negatively.

**In 1QFY20, infrastructure construction segment made up 58.45% of total revenue but only 14.9% of PBT.** For this sector, the group booked revenue of RM251.8m (-7.1%yoy) and PBT of RM3.3m (-72.1%yoy). It is worth noting that Muhibbah has completed the catering facility at the New Doha International Airport in Qatar. On top of that, there are a few on-going projects in Qatar, namely (1) construction of roads & infrastructure works in Manateq's Economic Zone, (2) additional work order associated to the construction of roads and infrastructure works at Um Alhoul Economic Zone (QEZ-3), and (3) design construction and erection of synncrolift and travel lift with Ancillaries and all associated works.

**Outstanding order book stood at RM1.3b.** As of 17 June 2020, the Group's total outstanding secured order book stood at RM1.3b, i.e. construction division (RM772m) and cranes division (RM521m).

## Maintain Buy

**Adjusted Target Price : RM1.35**

(from RM2.08)

### RETURN STATISTICS

Price @ 22 <sup>nd</sup> June 2020 (RM)	RM 0.96
Expected share price return (%)	+40.60
Expected dividend yield (%)	+8.27
<b>Expected total return (%)</b>	<b>+48.86</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	2.7	-2.4
3 months	27.3	6.2
12 months	-66.4	-62.6

### KEY STATISTICS

FBM KLCI	1,511.24
Syariah compliant	Yes
Issue shares (m)	483.39
Estimated free float (%)	56.96
Market Capitalisation (RM'm)	464.11
52-wk price range	RM0.72 - RM2.84
Beta vs FBM KLCI (x)	1.21
Monthly velocity (%)	0.00
Monthly volatility (%)	10.48
3-mth average daily volume (m)	5.64
3-mth average daily value (RM'm)	5.41
Top Shareholders (%)	
Mac Ngan Boon	19.48
FIL Ltd	7.02
Lembaga Tabung Haji	4.97

**KIFNI** Kamaruddin  
 Head, Strategy  
[smkifni@midf.com.my](mailto:smkifni@midf.com.my)  
 03 -2173 8383

**Revised earnings downwards.** We cut our FY20F and FY21F earnings by -39.1% and -35.2% due to (i) notable underperformance of 1QFY20 results, and (ii) we believe the fallout from Covid-19 pandemic will continue to impact negatively on the Group's airport business in Cambodia during the next 12-18 months.

**Maintain BUY with lower TP of RM1.35 (from RM2.08).** We ascribe PE multiples of 10x to FY21EPS which reflects the conservative current sector wide valuation on construction stocks. Our TP implies a +48.86% upside.

## INVESTMENT STATISTICS

FYE Dec	FY16	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	1918.7	1388.2	1543.1	1608.9	1681.4	1780.4
PATAMI (RM'm)	105.5	131.6	144.8	37.8	55.2	65.3
EPS (sen)	22.2	27.4	29.6	7.8	31.1	13.5
EPS growth (%)	-6.0	23.5	23.5	-73.6	14.7	-56.6
PER(x)	11.1	9.0	8.4	20.7	7.9	7.1
Net Dividend (sen)	5.0	7.0	7.5	2.5	5.2	5.2
Net Dividend Yield (%)	2.0	2.2	3.0	1.5	2.5	5.4

Source: Company, MIDFR

## 1QFY20 RESULTS REVIEW

FYE Dec (RM'm)	1QFY20	1QFY19	4QFY19	YoY Chg	QoQ Chg	3MFY20	3MFY19	YoY Chg
<b>Revenue</b>	<b>333.5</b>	<b>272.4</b>	<b>550.2</b>	<b>22.4%</b>	<b>-39.4%</b>	<b>333.5</b>	<b>272.4</b>	<b>22.4%</b>
Interest income	1.0	3.7	2.1	-72.7%	-51.5%	1.0	3.7	-72.7%
Finance cost	-3.4	-5.2	-9.6	-34.5%	-64.3%	-3.4	-5.2	-34.5%
<b>Operating profit</b>	<b>5.5</b>	<b>8.6</b>	<b>-43.7</b>	<b>-36.0%</b>	<b>-112.7%</b>	<b>5.5</b>	<b>8.6</b>	<b>-36.0%</b>
Share results of associates	16.5	50.8	29.5	-67.5%	-43.9%	16.5	50.8	-67.5%
<b>Pre-tax profit</b>	<b>22.1</b>	<b>59.5</b>	<b>-14.2</b>	<b>-62.9%</b>	<b>-255.4%</b>	<b>22.1</b>	<b>59.5</b>	<b>-62.9%</b>
Taxation	-2.9	-5.1	-20.1	-43.1%	-85.6%	-2.9	-5.1	-43.1%
<b>PAT</b>	<b>19.2</b>	<b>54.4</b>	<b>-34.3</b>	<b>-64.7%</b>	<b>-155.9%</b>	<b>19.2</b>	<b>54.4</b>	<b>-64.7%</b>
<b>PATANCI</b>	<b>5.1</b>	<b>33.0</b>	<b>-55.5</b>	<b>-84.6%</b>	<b>-109.2%</b>	<b>5.1</b>	<b>33.0</b>	<b>-84.6%</b>
EPS (sen) FD	1.1	6.7	-11.4	-84.3%	-109.3%	1.1	6.7	-84.3%
	1QFY20	1QFY19	4QFY19	+/- ppts	+/- ppts	3MFY20	3MFY19	+/- ppts
Operating margin	1.7%	3.2%	-7.9%	-1.5	9.6	1.7%	3.2%	-1.5
Pre-tax margin	6.6%	21.8%	-2.6%	-15.2	9.2	6.6%	21.8%	-15.2
PATANCI margin	5.8%	20.0%	-6.2%	-14.2	12.0	5.8%	20.0%	-14.2
Effective tax rate	-0.9%	-1.9%	-3.7%	1.0	2.8	-0.9%	-1.9%	1.0

### Segmental Breakdown

Revenue	1QFY20	1QFY19	4QFY19	YoY Chg	QoQ Chg	3MFY20	3MFY19	YoY Chg
Infrastructure Construction	251.8	235.1	534.9	7.1%	-52.9%	251.8	235.1	7.1%
Cranes	147.2	159.7	225.2	-7.8%	-34.6%	147.2	159.7	-7.8%
Concession	86.1	113.0	108.3	-23.8%	-20.5%	86.1	113.0	-23.8%
Group Elimination	-54.4	-110.8	-186.8	-50.9%	-70.9%	-54.4	-110.8	-50.9%
<b>TOTAL</b>	<b>430.6</b>	<b>397.0</b>	<b>681.5</b>	<b>8.5%</b>	<b>-36.8%</b>	<b>430.6</b>	<b>397.0</b>	<b>8.5%</b>
PBT	1QFY20	1QFY19	4QFY19	YoY Chg	QoQ Chg	3MFY20	3MFY19	YoY Chg
Infrastructure construction	3.3	11.8	0.7	-72.1%	369.1%	3.3	11.8	-72.1%
Cranes	16.1	18.5	46.7	-13.0%	-65.6%	16.1	18.5	-13.0%
Concession	17.0	50.3	27.1	-66.1%	-37.2%	17.0	50.3	-66.1%
Group Elimination	-14.3	-21.1	-88.8	-32.2%	-83.9%	-14.3	-21.1	-32.2%
<b>TOTAL</b>	<b>22.1</b>	<b>59.5</b>	<b>-14.2</b>	<b>-62.9%</b>	<b>-255.4%</b>	<b>22.1</b>	<b>59.5</b>	<b>-62.9%</b>
PBT margin	1QFY20	1QFY19	4QFY19	+/- ppts	+/- ppts	3MFY20	3MFY19	+/- ppts
Infrastructure construction	1.3%	5.0%	0.1%	-3.7	1.2	1.3%	5.0%	-3.7
Cranes	10.9%	11.6%	20.7%	-0.7	-9.8	10.9%	11.6%	-0.7
Concession	19.8%	44.5%	25.0%	-24.7	-5.2	19.8%	44.5%	-24.7

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.