

01 June 2015 | 1QFY15 Results Review

Muhibbah Engineering Bhd

A promising start

INVESTMENT HIGHLIGHTS


- Muhibbah's 1QFY15 PATAMI of RM23.3m in-line with ours and consensus expectations.
- The encouraging results were driven by cranes and concession assets at associate level.
- We lowered our FY16 earnings forecast by -1.5%.
- Overall, we maintain our BUY recommendation with a revised TP of RM2.73.

Broadly in line. Muhibbah's 1QFY15 PATAMI jumped by +16%yoy and +15%qoq to RM23.3m. The results were within ours and consensus estimates, making up 23% and 24% of full-year earnings forecasts respectively.

Earnings were supported by cranes and concession assets. While its revenue of RM363.2m was lower by -8%yoy and -20%qoq in the 1QFY15, growth in its earnings turned out stronger contributed by higher revenue from Favelle Favco cranes business and improvement in its operational efficiencies. Additionally, for its associate, Cambodia airports higher passenger movement continues to be seen, contributing to the Group's current quarter's earnings. This is in-line with our expectation.

Impact on earnings. We make no changes to our FY15 earnings forecasts at this juncture. However, we have fine-tuned our FY16 earnings by -1.5% due to the lower purchase orders received for cranes this year.

Recommendation. We maintain our **BUY** stance with a **revised TP of RM2.73** based on FY15 sum-of-parts valuation (SOP). The revision was due to adjustment in our in-house Favelle Favco's PER valuation to 8x, which reflects its average monthly rolling PER for the past three years. Apart from that, we reduced our discount applied to Muhibbah's SOP as recovery in year-to-date average Brent crude oil price of USD59 is approaching our in-house estimates of between USD60-70 a barrel.

What to expect ahead? We expect the Group would meet our remaining RM614m new construction jobs replenishment target hence bringing the full year new construction jobs to RM800m in FY15. This is expected to be derived from (i) on-shore Oil & Gas related jobs worth between RM250-400m, and (ii) RM256m Part B of Westport Container Terminal 8 wharf, in the next three months. 

Maintain BUY

Revised Target Price (TP): RM2.73
(previously RM2.85)

RETURN STATS	
Price (29 May 2015)	RM2.42
Target Price	RM2.73
Expected Share Price Return	+13.0%
Expected Dividend Yield	+2.1%
Expected Total Return	+15.1%

STOCK INFO	
KLCI	1,747.52
Bursa / Bloomberg	5703 / MUHI MK
Board / Sector	Main/Construction
Syariah Compliant	Yes
Issued shares (mil)	467.7
Par Value (RM)	0.50
Market cap. (RM'm)	1,131.9
Price over NA	1.42x
52-wk price Range	RM1.51 – RM3.52
Beta (against KLCI)	1.84x
3-mth Avg Daily Vol	1.59m
3-mth Avg Daily Value	RM3.86m
Major Shareholders (%)	
Ngan Boon Mac	19.53
Lembaga Tabung Haji	9.57

INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15F	FY16F
Revenue (RM'm)	1,936.4	1,692.8	1,966.4	1,943.8
EBIT (RM'm)	104.9	111.1	172.7	172.2
Pre-tax Profit (RM'm)	132.6	145.2	176.7	179.7
PATAMI (RM'm)	86.4	81.6	102.7	104.8
EPS (sen)	19.7	17.7	22.5	23.0
EPS growth (%)	>100	-10.4	27.2	2.0
PER(x)	10.9	10.6	10.8	10.5
Net Dividend (sen)	4.5	4.0	5.0	5.0
Net Dividend Yield (%)	2.0	2.1	2.1	2.1

Source: MIDFR

SOP VALUATION

Segments	Basis	Market Value (RM'm)	Per Share (RM)
Favelle Favco	MIDFR TP: RM3.30	433.0	0.93
Infrastructure construction	FY15 PER of 12x	276.7	0.59
Ship building & repair	FY15 PER of 6x	99.7	0.21
Cambodia airports	DCF Valuation	399.9	0.86
Road Maintenance	DCF Valuation	11.5	0.02
Total Sum-of-Parts (SOP)			2.61
Net (debt) / cash	As at 1QFY15	125.0	0.27
SOP per share (RM)			2.88
Discount			5%
Discounted SOP (RM)			2.73
Enlarged no. of shares (mil)			467.7

Source: MIDFR

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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1QFY15 RESULTS SUMMARY

FYE Dec (RM'm)	1Q15	1Q14	4Q14	YoY Chg	QoQ Chg
Revenue	363.2	393.9	456.6	-8%	-20%
Other income	2.1	0.9	-0.4	125%	-568%
Interest income	1.2	1.6	3.7	-25%	-67%
Finance cost	-4.3	-2.0	-11.1	112%	-62%
Operating profit	23.2	15.6	25.1	49%	-8%
Share results of associates	16.3	15.4	16.6	6%	-1%
Pre-tax profit	39.6	30.9	41.7	28%	-5%
Taxation	-7.6	-8.7	-10.2	-13%	-26%
Minority interest	-8.7	-2.1	-11.3	NA	NA
PATAMI	23.3	20.2	20.2	16%	15%
EPS (sen)	5.1	4.4	4.3	16%	18%
	1Q15	1Q14	4Q14	+/- ppts	+/- ppts
Operating margin	6.4%	4.0%	5.5%	2.4	0.9
Pre-tax margin	10.9%	7.9%	9.1%	3.0	1.8
PATAMI margin	6.4%	5.1%	4.4%	1.3	2.0
Effective tax rate	19.1%	28.0%	24.4%	-8.9	-5.4

Segmental breakdown					
Revenue	1Q15	1Q14	4Q14	YoY Chg	QoQ Chg
Infrastructure construction	236.1	277.9	348.5	-15%	-32%
Cranes	192.0	156.1	212.7	23%	-10%
Shipping	19.7	47.3	52.2	-58%	-62%
(Eliminations)	-84.6	-87.4	-156.8	-3%	-46%
TOTAL	363.2	393.9	456.6	-8%	-20%
PBT	1Q15	1Q14	4Q14	YoY Chg	QoQ Chg
Infrastructure construction	11.3	10.5	5.9	7%	91%
Cranes	29.9	17.1	28.3	75%	6%
Shipping	0.6	5.9	17.2	-89%	-96%
Concession	17.6	14.2	15.5	24%	13%
(Eliminations)	-19.8	-16.7	-25.2	NA	NA
TOTAL	39.6	30.9	41.7	28%	-5%
PBT margin	1Q15	1Q14	4Q14	+/- ppts	+/- ppts
Infrastructure construction	4.8%	3.8%	1.7%	1.0	3.1
Cranes	15.6%	10.9%	13.3%	4.6	2.3
Shipping	3.2%	12.5%	33.0%	-9.2	-29.7

Source: Bursa Malaysia, MIDFR

FINANCIAL SUMMARY

Income Statement	FY13	FY14	FY15F	FY16F	Cash Flow Statement	FY13	FY14	FY15F	FY16F
Revenue	1,936.4	1,692.8	1,966.4	1,943.8	Operating activities				
Cost of sales	-1,723.1	-1,582.9	-1,649.8	-1,626.1	PBT	132.6	145.2	176.7	179.7
Operating expenses	-111.3	0.0	-143.9	-145.6	Depr & Amort	52.6	60.3	56.7	58.4
Other income	3.0	1.2	0.0	0.0	Chgs in working capital	205.8	-256.1	103.0	-30.8
EBIT	104.9	111.1	172.7	172.2	Non-cash adjustment	8.3	16.5	-4.0	-7.6
Net interest expense	-18.9	-13.7	-44.4	-42.4	Interest expense	-39.5	-24.5	-51.7	-50.3
PBT	132.6	145.2	176.7	179.7	Tax paid	-31.3	-38.7	-38.9	-39.6
Taxation	-16.4	-33.7	-38.9	-39.6	CF from Operations	328.3	-97.4	241.7	109.8
PATAMI	86.4	81.6	102.7	104.8					
					Investing activities				
Balance Sheet	FY13	FY14	FY15F	FY16F	Capex	-38.1	-56.6	-70.0	-70.0
Non-current assets	930.6	991.8	999.5	1010.0	Other income received	42.7	21.0	66.8	68.9
PPE	710.7	724.9	722.9	723.5	CF from Investments	4.6	-35.6	-3.2	-1.1
Investments in associate	219.9	266.9	276.6	286.6					
					Financing activities				
Current assets	1,719.6	2,173.3	2,062.1	2,102.0	Dividends paid to owners	-7.8	-19.1	-22.8	-22.8
Inventories	206.6	226.0	243.2	264.4	Dividends paid to MI	-31.9	-27.5	-60.9	-59.7
Receivables	664.2	756.5	787.5	817.6	Net proceeds in borrowings	-227.0	327.6	-250.7	-60.8
Amount due from customer	412.3	577.4	473.0	446.0	CF from Financing	-266.6	281.0	-334.4	-143.3
Other current assets	10.1	12.5	12.5	12.5					
Cash & equivalent	426.3	600.9	545.8	561.6	Net changes in cash	66.3	148.1	-96.0	-34.6
TOTAL ASSETS	2,650.2	3,165.1	3,061.6	3,112.0	Beginning cash	320.3	421.6	590.1	545.8
					Overdrafts	0.0	0.0	0.0	0.0
Share capital	211.2	215.7	215.7	215.7	Ending cash	386.6	569.7	494.1	511.2
Minority Interest	194.5	216.9	237.4	273.3					
Reserves	351.4	428.4	508.3	590.3	Ratios	FY13	FY14	FY15F	FY16F
TOTAL EQUITY	757.1	861.1	961.4	1,079.3					
					Revenue growth	-26.2%	-12.6%	16.2%	-1.2%
Non-current liabilities	199.0	131.1	127.9	124.8	PBT growth	>100%	9.5%	21.7%	1.7%
Long-term borrowings	137.3	69.3	66.0	62.9	PATAMI growth	>100%	-5.6%	25.9%	2.0%
Payables	61.7	61.9	61.9	61.9	PBT margin	6.8%	8.6%	9.0%	9.2%
					PATAMI margin	4.5%	4.8%	5.2%	5.4%
Current liabilities	1,694.0	2,172.8	1,972.3	1,907.9	ROE	15.4%	12.7%	14.2%	13.0%
Short-term borrowings	737.5	1167.6	920.2	862.5	ROA	3.2%	2.6%	3.4%	3.4%
Payables	539.7	625.7	604.8	626.5	Net gearing (x)	Ncash	Ncash	Ncash	Ncash
Amount due to customer	408.2	340.7	408.5	380.2	Book value/share (RM)	1.34	1.40	1.59	1.77
Other current liabilities	8.7	38.8	38.8	38.8	PBV (x)	1.7	1.3	1.5	1.4
TOTAL LIABILITIES	1,893.1	2,304.0	2,100.1	2,032.7	EV/share (RM)	3.36	3.31	3.92	4.03

Source: MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.