

01 September 2015 | 2QFY15 Results Review

Muhibbah Engineering Berhad

Sluggish Construction Contribution

Maintain BUY

Unchanged Target Price (TP): RM2.59

INVESTMENT HIGHLIGHTS


- Muhibbah Engineering Berhad (MHB)'s 2QFY15 earnings of RM19.3m came in lower than expected
- The lower than expected figure was due to (i) lower contribution from oil and gas and infrastructure construction, and (ii) conservative progress billings and profit recognition.
- However, our earnings outlook remains sanguine due to (i) total outstanding orderbook of RM2.25bn, (ii) positive performance of airports concession in Cambodia, and (iii) healthy jobs flows from RAPID, Pengerang
- We reaffirm our BUY recommendation with an unchanged TP of RM2.59

2QFY15 weaker earnings lower than our estimates. MEB's 2QFY15 PATAMI was lower at RM-19.3m (-8%qoq, -17%yoy). Altogether, its 1HFY15 earnings of RM42.6m came below our estimate, clinching only 41.4% of our full-year forecast.

Influenced by lower construction jobs. We opine its subdued earnings were attributable to lower contribution from infrastructure, installation and commissioning jobs in RAPID Pengerang, Northport and Westport. Construction segment contributed +27% of PBT for 2QFY15.

Impact on earnings. Despite waning overall market condition for oil and gas jobs, MEB's orderbook remains strong. Thus we maintain our earnings forecasts due to (i) total outstanding orderbook of RM2.25bn (including crane orderbook of RM1.02bn), (ii) jobs inflows from crane segment and RAPID, Pengerang, and (iii) higher contribution from airports concession due to:

- Higher tourist influx into Cambodia (year-to-date +4.81% growth),
- Siem Reap and Phnom Penh International Airports accounted for 53.5% of inbound arrivals for 1HFY15,
- Favourable USD rates.

Recommendation. We maintain our **BUY** recommendation with an unchanged TP of RM2.59 implying FYE16 PER of 12x. The assigned multiple equates to the lower end of our midcap construction range of 12-14x. 

RETURN STATS	
Price (28 August 2015)	RM1.86
Target Price	RM2.59
Expected Share Price Return	+39%
Expected Dividend Yield	+2.7%
Expected Total Return	+41.7%

STOCK INFO	
KLCI	1612.74
Bursa / Bloomberg	MUHI MK
Board / Sector	Main / Eng
Syariah Compliant	Yes
Issued shares (mil)	468.5
Par Value (RM)	1.00
Market cap. (RM'm)	871.4
Price over NA	1.17
52-wk price Range	RM1.51 -RM3.27
Beta (against KLCI)	1.64
3-mth Avg Daily Vol	0.82m
3-mth Avg Daily Value	RM1.79m
Major Shareholders (%)	
Mac Ngan Boon	20.65
LTH	9.76
Universal Capital Re	3.84
Fidelity International	3.01

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	110.9	172.8	172.1
Pre-tax Profit (RM'm)	132.6	145.1	176.9	179.7
PATAMI (RM'm)	86.4	81.4	102.8	104.8
EPS (sen)	19.7	17.7	22.5	23.0
EPS growth (%)	>100	-10.5	27.6	1.9
PER(x)	10.9	10.6	8.3	8.1
Net Dividend (sen)	4.5	4.0	5.0	5.0
Net Dividend Yield (%)	2.0	2.1	2.7	2.7

Source: MIDFR

SOP VALUATION

Segments	Basis	Market Value (RM'm)	Per Share (RM)
Favelle Favco	MIDFR TP	433.0	0.93
Infrastructure construction	FY15 PER of 12x	277.1	0.59
Ship building & repair	FY15 PER of 6x	99.8	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			10%
Discounted SOP (RM)			2.59
Enlarged no. of shares (mil)			467.7

Source: MIDFR, Bloomberg, Bursa

DAILY PRICE CHART



Syed Muhammed Kifni
Fadhli Dzulkifly
abdul.fadhli@midf.com.my
03-2772 8462

Source: Bloomberg, MIDFR

2QFY15 RESULTS SUMMARY

FYE Dec (RM'm)	2Q15	2Q14	1Q15	YoY Chg	QoQ Chg
Revenue	410.0	466.1	363.2	-12%	13%
Other income	4.0	0.3	2.1	1131%	90%
Interest income	3.3	1.3	1.2	159%	170%
Finance cost	-9.5	-4.4	-4.3	116%	123%
Operating profit	25.9	33.9	23.2	-24%	12%
Share results of associates	11.2	10.7	16.3	5%	-31%
Pre-tax profit	37.3	44.6	39.6	-16%	-6%
Taxation	-11.2	-14.5	-7.6	-23%	48%
Minority interest	-6.8	-9.2	-8.7	NA	NA
PATAMI	19.3	20.9	23.3	-8%	-17%
EPS (sen)	4.2	4.6	5.1	-9%	-18%
	2Q15	2Q14	1Q15	+/- ppts	+/- ppts
Operating margin	6.3%	7.3%	6.4%	-1.0	-0.1
Pre-tax margin	9.1%	9.6%	10.9%	-0.5	-1.8
PATAMI margin	4.7%	4.5%	6.4%	0.2	-1.7
Effective tax rate	30.0%	32.5%	19.1%	-2.4	10.9

Source: Bursa Malaysia, MIDFR

Segmental breakdown					
Revenue	2Q15	2Q14	1Q15	YoY Chg	QoQ Chg
Infrastructure construction	277.20	225.2	236.1	23%	17%
Cranes	207.30	248.8	192.0	-17%	8%
Shipping	10.10	84.8	19.7	-88%	-49%
(Eliminations)	-84.30	-92.7	-84.6	-9%	0%
TOTAL	410.3	466.1	363.2	-12%	13%
PBT	2Q15	2Q14	1Q15	YoY Chg	QoQ Chg
Infrastructure construction	22.7	10.50	11.3	116%	102%
Cranes	26.6	17.06	29.9	56%	-11%
Shipping	5.2	5.91	0.6	-11%	717%
Concession	11.5	14.22	17.6	-19%	-35%
(Eliminations)	-28.2	0.0	-19.8	NA	NA
TOTAL	37.8	47.7	39.6	-21%	-4%
PBT margin	2Q15	2Q14	1Q15	+/- pts	+/- pts
Infrastructure construction	-91.8%	4.7%	4.8%	-96.5	-96.6
Cranes	12.8%	6.9%	15.6%	6.0	-2.7
Shipping	51.9%	7.0%	3.2%	44.9	48.6

Source: Bursa Malaysia, MIDFR

FINANCIAL RESULTS

Income Statement	FY13	FY14	FY15F	FY16F
Revenue	1,936.4	1,692.8	1,966.4	1,943.8
Cost of sales	-1,723.1	-1,582.9	-1,649.8	-1,626.1
Operating expenses	-111.3	0.0	-143.9	-145.6
Other income	3.0	1.2	0.0	0.0
EBIT	104.9	110.9	172.8	172.1
Net interest expense	-18.9	-13.7	-44.4	-42.4
PBT	132.6	145.1	176.9	179.7
Taxation	-16.4	-33.7	-39.0	-39.6
PATAMI	86.4	81.4	102.8	104.8
Balance Sheet	FY13	FY14	FY15F	FY16F
Non-current assets	930.6	991.8	1003.4	1013.6
PPE	710.7	724.9	726.8	727.1
Investments in associate	219.9	266.9	276.6	286.6
Current assets	1,719.6	2,173.3	2,115.3	2,195.3
Inventories	206.6	226.0	243.2	264.4
Receivables	664.2	756.5	787.5	817.6
Amount due from customer	412.3	577.4	473.0	446.0
Others	10.1	12.5	12.5	12.5
Cash & equivalent	426.3	600.9	599.0	654.9
TOTAL ASSETS	2,650.2	3,165.1	3,118.7	3,208.9
Share capital	211.2	215.7	215.7	215.7
Minority Interest	194.5	216.9	242.7	268.6
Reserves	351.4	428.4	508.4	590.4
TOTAL EQUITY	757.1	861.1	966.9	1,074.8
Non-current liabilities	199.0	131.1	131.1	131.1
Long-term borrowings	137.3	69.3	69.3	69.3
Payables	61.7	61.9	61.9	61.9
Current liabilities	1,694.0	2,172.8	2,020.7	2,003.0
Short-term borrowings	737.5	1167.6	968.6	957.6
Payables	539.7	625.7	604.8	626.5
Amount due to customer	408.2	340.7	408.5	380.2
Others	8.7	38.8	38.8	38.8
TOTAL LIABILITIES	1,893.1	2,304.0	2,151.8	2,134.2

Source: Bloomberg, MIDFR

Cash Flow Statement	FY13	FY14	FY15F	FY16F
Operating activities				
PBT	132.6	145.1	176.9	179.7
Depreciation & Amortization	52.6	60.3	57.0	58.7
Chgs in working capital	205.8	-256.1	103.0	-30.8
Non-cash adjustment	8.3	16.5	3.2	0.4
Interest expense	-39.5	-24.5	-51.7	-50.3
Tax paid	-31.3	-38.7	-39.0	-39.6
CF from Operations	328.3	-97.5	249.4	118.1
Investing activities				
Capex	-38.1	-56.6	-70.0	-70.0
Other income received	42.7	21.0	49.8	51.0
CF from Investments	4.6	-35.6	-20.2	-19.0
Financing activities				
Dividends paid to owners	-7.8	-19.1	-22.8	-22.8
Dividends paid to MI	7.7	-2.9	-9.3	-9.4
Net proceeds in borrowings	-227.0	327.6	-199.0	-11.0
CF from Financing	-227.1	305.6	-231.1	-43.2
Net changes in cash	101.4	168.3	-1.9	55.9
Beginning cash	320.3	426.3	600.9	599.0
Overdrafts & Deposits	4.7	6.2	0.0	0.0
Ending cash	426.3	600.9	599.0	654.9
Ratios	FY13	FY14	FY15F	FY16F
Revenue growth	-26.2%	-12.6%	16.2%	-1.2%
PBT growth	>100%	9.4%	21.9%	1.6%
PATAMI growth	>100%	-5.7%	26.3%	1.9%
PBT margin	6.8%	8.6%	9.0%	9.2%
PATAMI margin	4.5%	4.8%	5.2%	5.4%
ROE	15.4%	12.6%	14.2%	13.0%
ROA	3.2%	2.6%	3.3%	3.3%
Net gearing (x)	Ncash	Ncash	Ncash	Ncash
Book value/share (RM)	1.34	1.40	1.59	1.77
PBV (x)	1.7	1.3	1.2	1.1
EV/share (RM)	3.36	3.31	3.37	3.51

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.