Malaysia Marine & Heavy Engineering

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

Robust earnings over higher dry-docking activities

***Upgrade to* BUY**

(previously NEUTRAL)

***Revised* Target Price: RM0.54**

(previously RM0.44)

KEY INVESTMENT HIGHLIGHTS

- **MMHE reported a >100%yoy surge of profit to RM25m and revenue up by +27%yoy to RM818m in 1HFY22**
- **Earnings exceeded expectations by nearly double**
- **Resilient balance sheet with total assets at RM3.4b**
- **Orderbook at RM1.7b; RM18b worth tenders submitted**
- **FY23-24 earnings forecast revised +26% and +11%**
- **Revised to BUY with revised TP of RM0.54 per share**

Profit surged >100%. Malaysia's Marine & Heavy Engineering (MMHE) reported a >100% profit gain of RM22.1m in 2QFY22 from RM2.7m in 1QFY22 and from a loss of -RM37.3m in 2QFY21. For the cumulative first half, MMHE earned a total RM24.8m, up by >100%yoy from a loss of -RM141.8m, which came over and above our forecast and consensus by +93% and >100% respectively. The high profit was attributable to reversal of cost provision for post sail-away projects and higher contribution from the Marine segment.

Revenue up +33%yoy. MMHE's revenue in reported a rise by +32.5%yoy but slipped -4.1%yoy to RM400.6m. For the cumulative first half, MMHE's revenue totalled to RM818.4m, up by +26.7%yoy. Lower revenue from previous quarter was due to lower revenue from the Heavy Engineering segment.

Marine. This segment reported a gain in revenue by +23.2%yoy and +52.7qoq to RM90.7m, while profits gained >100% to RM19m from RM3.7m in 1QFY22 and from a loss of -RM4.9m in 2QFY21. For the cumulative first half, revenue rose up by +32.8%yoy to RM150.1m and profits surged 2-fold to RM22.7m from a loss of -RM22.6m a year prior. Higher revenue was a result of higher dry-docking activities, as borders are reopened after aggressive Covid-19 lockdowns. Recovery of doubtful debts had also attributed to the positive results.

Heavy Engineering. For this segment, MMHE announced a revenue of +35.5%yoy but -13.5%qoq to RM309.9m, while earnings gained >100%yoy from a loss of -RM20.4m in 2QFY21, but slipped -61.1%qoq to RM1.1m. For the cumulative half year, revenue for this segment increased +25.4%yoy to RM668.3m, while profit surged to RM4.0m from a deficit of -RM105.6m a year prior. The higher revenue was due to ongoing projects, and reversal of cost provisions for post sail-away projects.

RETURN STATISTICS	
Price @ 17th August 2022 (RM)	0.42
Expected share price return (%)	+28.57
Expected dividend yield (%)	0.00
Expected total return (%)	**+28.57**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	13.5	6.9
3 months	7.7	3.7
12 months	10.5	11.0

KEY STATISTICS	
FBM KLCI	1,518.16
Syariah compliant	Yes
FSGBM Index	Yes
ESG Grading Band	☆☆☆☆
Issues shares (m)	1600.00
Estimated free float (%)	14.10
Market Capitalisation (RM'm)	672.00
52-wk price range	RM0.34 - RM0.51
Beta vs FBM KLCI (x)	1.12
Monthly velocity (%)	0.00
Monthly volatility (%)	27.24
3-mth average daily volume (m)	0.26
3-mth average daily value (RM'm)	0.11
Top Shareholders (%)	
MISC Bhd	66.50
Technip Geoproduction M Sdn Bhd	8.50
Urusharta Jamaah Sdn Bhd	5.24

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Balance sheet. MMHE's total assets stands at RM3.4b in 1HFY22. The total drops about RM40m as compared to the end of FY20, mainly due to lower receivables from higher collection during 1HFY22. However, this is offset by: (i) higher net cash generated from operating activities, (ii) repayment of principal of RM17.4m contributing to lower borrowings, and (iii) higher shareholders' funds. The group's balance sheet remained robust, with an estimated DER of 0.2x for 1HFY22.

Orderbook update. As of June CY22, MMHE's orderbook backlog totalled up to RM1.72b – a decline from FY21 orderbook of RM2.17b – with 94% in Heavy Engineering and 6.0% in Marine. The group's new order intake in Heavy Engineering totalled up to RM22m as of June CY22, which was the shortlisted and awarded in 1Q CY22 with the provision of Front-End Engineering Design (FEED) Competition for the Kasawari Carbon Capture & Storage (CCS) project from PETRONAS Carigali. The FEED project is located at Block SK316 Offshore Sarawak – 200km from PETRONAS LNG Complex in Bintulu – and is reportedly nearing completion in design. As of June CY22, MHHE's Heavy Engineering segment had submitted approximately RM18b to RM19b worth of tenders up until 2023. The group had also completed repair and maintenance of 44 vessels of various types including 4 LNG carriers (LNGC) for its Marine segment.

TABLE 1: Malaysia Marine & Heavy Engineering's Major Projects as of 2QFY22

Heavy Engineering		
Projects	**Progress**	**Expected Completion**
EPCIC Kasawari Gas Development	70.2% (as of June 2022)	2023
EPCIC Jerun Development	39.7% (as of June 2022)	2023
FEED for Kasawari CCS Project	36.5% (as of June 2022)	End-2022
Marine		
Projects	**Scope**	**Completion**
Seri Bakti LNGC	Dry-docking, Repair	June 2022
SK Audace LNGC	Dry-docking, Repair	June 2022
Amali LNGC	Dry-docking, Repair, BWTS Installation	June 2022
Puteri Intan LNGC	Dry-docking, Repair	May 2022
C. Progress COT	Dry-docking, Repair	June 2022
KMarin Regard COT	Dry-docking, Repair	April 2022

Source: Company, MIDFR

Cautious yet optimistic. MMHE believed capex by oil majors is expected to increase on the back of increasing demand over tight supply caused by Russian oils sanctions. However, the risks remain to be supply chain disruptions, and volatile steel prices which would interrupt the Heavy Engineering segment, as well as the timely execution of ongoing projects. The reopening of international borders had boded well for the group's Marine segment recovery; hence, the group foresaw a demand growth for dry-docking activities as vessels are expected to increase its seaborne activities. The continuous lockdowns in China had improved MMHE's market share as shipowners opted for its shipyard in the region. Nevertheless, labour shortage may limit the amount of jobs taken, as it poses significantly to the execution and timeline of dry-docking projects. Nevertheless, given that MMHE's services are fully booked until the end of CY22, the group is confident that it can meet its end-year target despite the challenges.

Revised earnings FY23-24 forecast. Considering the group's strong performance in 1HFY22 and solid prospects for FY23, we revised our FY23 and FY24 earnings estimates upwards by +26% and +11% respectively. As such, we revise our target price to RM0.54 (previously RM0.44), pegging on a PER of 10.5x to a revised EPS23 of 5.1sen. The PER is based on the 5-year average PER of drydocking and marine subindustry.

Upgrade to BUY with revised TP. All in, we upgrade to a **BUY** recommendation on MMHE with the **revised target price of RM0.54.** We opine that MMHE will remain resilient, given that the impact of border restrictions is fully lifted and demand for heavy engineering and marine services will subsequently surge. While we believe that labour shortages could be mitigated, steel price hikes is likely to cause delays in its operations. Nevertheless, we continue our positive stance on the group, given its: (i) robust balance sheet and healthy cash flow, (ii) strong orderbook backlog for current and future projects, and (iii) ventures in sustainable solutions including offshore wind farms and CCS project as part of its ESG strategy.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	2020A	2021A	2022E	2023F	2024F
Revenue (RM'm)	**1,566.8**	**1,467.3**	**1,773.3**	**1,893.3**	**2,013.3**
EBITDA (RM'm)	(25.2)	(164.5)	131.8	165.7	255.8
Pretax Profit (RM'm)	(401.3)	(274.1)	47.3	81.2	171.3
Net Profit (RM'm)	**(401.3)**	**(274.1)**	**47.3**	**81.2**	**171.3**
Normalised net profit (RM'M)	**(98.0)**	**(265.1)**	**47.3**	**81.2**	**171.3**
EPS (sen)	(25.1)	(16.8)	3.0	5.1	10.7
EPS (%)	10.7	(0.3)	(1.2)	0.7	1.1
PER (x)	(2.1)	(3.2)	18.1	10.5	5.0

Source: Company, MIDFR

Table 2: Malaysia Marine & Heavy Engineering Quarterly Earnings Review

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results					Cumulative		
	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY(%)	1HFY21	1HFY22	YoY (%)
Revenue	302.4	417.8	400.6	(4.1)	32.5	646.0	818.4	26.7
Other operating income	2.7	15.9	21.2	33.6	693.6	7.7	37.1	382.9
Operating profit/(loss)	(26.3)	6.3	25.8	308.4	(198.0)	(128.2)	32.1	(125.0)
Impairment loss	(7.9)	-	-	-	-	(7.9)	-	(100.0)
Finance cost	(3.1)	(3.6)	(3.6)	(1.4)	-	(5.8)	(7.2)	23.6
Profit before taxation	(37.3)	2.7	22.2	724.5	(159.6)	(141.8)	24.9	(117.6)
Taxation	-	-	(0.1)	-	#DIV/0!	-	(0.1)	#DIV/0!
Profit after taxation	(37.3)	2.7	22.1	719.2	(159.2)	(141.8)	24.8	(117.5)
Minority interests	(2.9)	(0.0)	0.1	(416.7)	(103.3)	(3.1)	0.1	(102.1)
PATAMI/LATAMI	**(34.4)**	**2.7**	**22.0**	**706.7**	**(163.9)**	**(138.7)**	**24.7**	**(117.8)**
Normalised PATAMI/(LATAMI)	(29.4)	2.7	22.1	719.2	(175.0)	(134.0)	24.8	(118.5)
EPS Basic(sen)	(2.1)	0.2	1.4	600.0	(166.7)	(8.6)	1.6	(118.6)
Operating profit margin (%)	(8.7)	1.5	6.4	4.9	15.1	(19.8)	3.9	23.8
PATAMI margin (%)	(11.4)	0.7	-	(0.7)	11.4	(21.5)	3.0	24.5
Tax rate (%)	-	-	0.6	0.6	0.6	-	(0.6)	(0.6)
				+/-ppts				+/-ppts
Segmental								
Revenue								
Heavy Engineering	228.8	358.4	309.9	(13.5)	35.5	533.0	668.3	25.4
Marine	73.7	59.4	90.7	52.7	23.2	113.1	150.1	32.8
Operating Profit								
Heavy Engineering	(20.4)	2.9	1.1	(61.1)	(105.5)	(105.6)	4.0	(103.8)
Marine	(4.9)	3.7	19.0	416.2	(485.3)	(22.6)	22.7	(200.2)
Profit Margin %								
Heavy Engineering	(8.9)	0.8	0.4	(0.4)	9.3	(19.8)	0.6	20.4
Marine	(6.7)	6.2	20.9	14.7	27.6	(20.0)	15.1	35.1

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell