Muhibbah Engineering Berhad

(5703 | MUHI MK) Main | Construction

Maintain BUY

Biding its time

Revised Target Price: RM0.57
(previously RM0.67)

KEY INVESTMENT HIGHLIGHTS

- **Muhibbah Engineering Berhad (MEB)'s 1HFY22 core earnings improved to RM3.7m from core losses of RM2.4m in 1HFY21**
- **Results was way below ours and consensus estimates**
- **Drag in earnings mainly caused by crane business, higher production and shipping costs**
- **Depleting order book recently boosted with RM240m PCC contract from Petronas Carigali**
- **Earnings estimates revised lower to reflect weaker expectations**
- **Maintain BUY with TP revised lower to RM0.57**

Below Expectations. Muhibbah Engineering Berhad (MEB)'s core earnings gained +41.3%yoy in 2QFY22 to RM380,000 on the back of a lower revenue by -32.1%yoy to RM196.4m. Its 1HFY22 core earnings of RM3.7m, though an improvement over the core losses of -RM2.4m in 1HFY21, was way below expectations, making up only 6.8% of our full year estimates and 13.9% of the consensus.

Weaker performance across the board. Revenue from MEB's three operating segments – infrastructure construction; cranes and automation and concessions – was RM469.2m for 1HFY22, with a profit before tax of RM9.3m. This was a reduction of -20.2%yoy and -40.8%yoy respectively. The drag came mainly from the production of cranes, which have been affected by the quarantine of operational staffs and workers due to Covid-19, on top of higher components and shipping costs.

New order book boost. MEB has been suffering from a depleting order book, at a level of about RM263m as of June but it managed to nearly double that amount with a latest job win from Petronas Carigali on Tuesday, a RM240m contract for the provision of procurement, construction and commissioning (PCC) of Module 9 and pipeline for the Integrated Bekok Oil Project in the offshore of Terengganu. MEB's share in the contract remains unclear for now but it is the consortium lead partner. The project is expected to be completed within 18 months. Other outstanding order book includes that of its crane division at RM560m, which includes RM141m of intelligent automation jobs.

Earnings estimates. We are making revisions to our earnings estimates for FY22, slashing projections for revenue to RM1.02b (previously RM1.2b) and core earnings to RM30.6m (previously RM53.5m). We also adjust our FY23 revenue and core earnings projections accordingly to RM1.18b (previously RM1.31b) and RM47.3m (previously RM69.6m) respectively.

Target price. As such**,** we are lowering our **TP to RM0.57** (previously RM0.67) as we peg a projected forward PER of 6.0x to the group's FY23 EPS of 9.51 sen.

RETURN STATISTICS	
Price @ 30th August 2022	**0.435**
Expected share price return (%)	**+31.03**
Expected dividend yield (%)	**+4.39**
Expected total return (%)	**+35.42**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-4.4	-5.6
3 months	-13.9	-16.2
12 months	-51.6	-48.8

KEY STATISTICS	
FBM KLCI	1,512.05
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star Rating)	☆
Issue shares (m)	497.13
Estimated free float (%)	64.47
Market Capitalisation (RM'm)	316.22
52-wk price range	RM0.40 - RM1.00
Beta vs FBM KLCI (x)	1.06
Monthly velocity (%)	0.00
Monthly volatility (%)	10.48
3-mth average daily volume (m)	1.21
3-mth average daily value (RM'm)	0.59
Top Shareholders (%)	
Mac Ngan Boon	21.13
FIL Ltd	5.84
Fidelity Funds Asean	4.45

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Maintain BUY. Despite its recent weakness, we are still positive on MEB as it bides it time to ride on the uptrend of the construction sector when infrastructure jobs start flowing in, which will benefit both its construction and crane divisions. We continue to like MEB's renewable energy play by its wholly-owned subsidiary CiTech and its commitment to expand the business, which is in waste heat recovery. This is likely to gain traction in the coming years as calls for sustainability practices gets stronger. Recall that it CiTech has a patented product CiBAS, which offers up to 50% reduction in overall weight and space. All factors considered, we maintain our **BUY** recommendation on MEB.

INVESTMENT STATISTICS

Annual Standardized All in RM'm unless stated otherwise	**2020A**	**2021A**	**2022F**	**2023F**	**2024F**
Revenue	1,189.61	1,004.86	1,018.30	1,181.70	1,356.33
Gross Profit	(1,234.25)	(944.09)	(964.17)	(1,118.88)	(1,284.23)
Net Finance Costs	(10.09)	(13.12)	(8.70)	(10.00)	(11.57)
Other Opex	(13.14)	0.00	0.00	0.00	0.00
Operating Profit	(67.87)	47.64	45.43	52.81	60.53
Associates	10.80	(30.22)	70.61	75.78	74.34
Profit Before Tax	(57.08)	17.42	116.03	128.60	134.87
Tax Expense	(26.51)	(15.68)	(24.66)	(27.84)	(31.31)
Reported Net Profit	(123.26)	(3.35)	30.55	47.27	71.90
Core Net Profit	(137.79)	(8.88)	30.55	47.27	71.90
Basic EPS	(25.50)	(0.67)	6.15	9.51	14.46
Diluted EPS	(25.50)	1.08	11.07	14.40	14.40
DPS	2.50	3.90	2.50	2.50	2.50
Dividend Yield	2.8%	4.1%	2.6%	2.6%	2.6%

Source: Company, MIDFR

MUHIBBAH ENGINEERING BHD: 2QFY22 RESULTS SUMMARY

All in RM'm unless stated otherwise	**Quarterly Results**					**Cumulative**		
Income Statement	**Q222**	**Q122**	**Q221**	**QoQ**	**YoY**	**1H22**	**1H21**	**YoY**
Revenue	196.43	175.19	289.47	**12%**	**-32.1%**	371.62	507.52	**-27%**
Gross Profit	(188.59)	(167.25)	(265.93)	**-13%**	**29.1%**	(355.84)	(469.99)	**24%**
Net Finance Costs	(1.95)	(2.02)	(4.81)	**4%**	**59.5%**	(3.97)	(5.62)	**29%**
Operating Profit	5.89	5.92	18.73	**-1%**	**-68.6%**	11.81	31.91	**-63%**
Associates	2.07	(4.58)	(9.60)	**145%**	**121.5%**	(2.51)	(16.20)	**84%**
Profit Before Tax	7.95	1.35	9.14	**491%**	**-12.9%**	9.30	15.71	**-41%**
Tax Expense	(2.86)	(1.67)	(4.37)	**-72%**	**34.5%**	(4.53)	(5.76)	**21%**
Minority Interest	3.75	(0.79)	3.60	**576%**	**4.3%**	2.96	3.45	**-14%**
Reported Net Profit	1.34	0.47	1.17	**186%**	**14.5%**	1.81	6.49	**-72%**
Core Net Profit	0.38	3.27	0.27	**-88%**	**41.3%**	3.65	(2.38)	**254%**
Basic EPS	0.20	0.10	0.24	**100%**	**-16.7%**	0.3	1.34	**-78%**

Source: Company, MIDFR

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(Bank Pelaburan)

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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

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology