Malaysia Marine & Heavy Engineering

***Maintain* BUY**

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

Contract for new offshore platform awarded to MMHE

***Unchanged* Target Price: RM0.54**

KEY INVESTMENT HIGHLIGHTS

- **MMHE secured EPC contract with Sarawak Shell for building of offshore platform; completion in 2025**
- **New platform with 20 years design life, powered by solar**
- **Once completed, expected to cater for 800mscfpd of gas; approximately 10% of Malaysia's gas production**
- **No changes made to earnings estimates**
- **Maintain BUY with unchanged TP of RM0.54 per share**

EPC contract secured from Shell. Malaysia Marine and Heavy Engineering Sdn Bhd (MMHE), a wholly owned subsidiary of Malaysia Marine and Heavy Engineering Holdings Berhad (MHB), was awarded a contract by Sarawak Shell Berhad (SSB) to undertake the engineering, procurement and construction (EPC) services of the offshore platform for the Rosmari-Marjoram sour gas field development project, off the coast of Sarawak, Malaysia. The Rosmari-Marjoram gas field was discovered in 2014 and is 75% owned by SSB, 15% by Petronas Carigali (Carigali) and 10% by Brunei Energy Exploration, with an estimated investment of USD1b. The field is expected to start its full operations of its onshore gas processing plant in 2025.

Solar panels to power up platform. The platform will comprise of a topside, a 4-legged jacket and piles. Upon completion, the platform will be installed in a water depth of 140 metres within SK318 area, off the coast of Bintulu, Sarawak. The platform will be primarily powered by solar panels. With a design life of 20 years, it will cater for up to 800 million scfpd (approximately 142K boepd) of gas. The start-up supply to Petronas's LNG complex in Bintulu from this platform is targeted to begin in 2026.

Signals upbeat in Upstream. We believe that the contract award is a sign of, not only the trust in MMHE's capability and capacity to develop jackets for offshore platforms, but also the strength of the group's long-lasting collaboration with SSB. The contract also signals the ramping up of the upstream subsector after being hampered by the pandemic and a nationwide economic slowdown. Nevertheless, MMHE remained vigilant of its financial health and will continue to be on the outlook for new developments in the exploration and production (E&P) industry. Additionally, MMHE continues to be committed to offering better energy options via solar panels for the platform it builds; assisting in its stakeholders' sustainability goals of net zero-carbon emission.

RETURN STATISTICS	
Price @ 11th October 2022 (RM)	0.40
Expected share price return (%)	+35.0
Expected dividend yield (%)	0.0
Expected total return (%)	**+35.0**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.3	6.6
3 months	1.3	6.9
12 months	-21.0	-10.9

KEY STATISTICS	
FBM KLCI	1,386.82
Syariah compliant	Yes
FSGBM Index	Yes
ESG Grading Band	☆☆☆☆
Issues shares (m)	1600.00
Estimated free float (%)	14.10
Market Capitalisation (RM'm)	632.00
52-wk price range	RM0.34 - RM0.51
Beta vs FBM KLCI (x)	1.15
Monthly velocity (%)	0.00
Monthly volatility (%)	27.24
3-mth average daily volume (m)	0.42
3-mth average daily value (RM'm)	0.17
Top Shareholders (%)	
MISC Bhd	66.50
Technip Geoproduction M Sdn Bhd	8.50
Urusharta Jamaah Sdn Bhd	5.24

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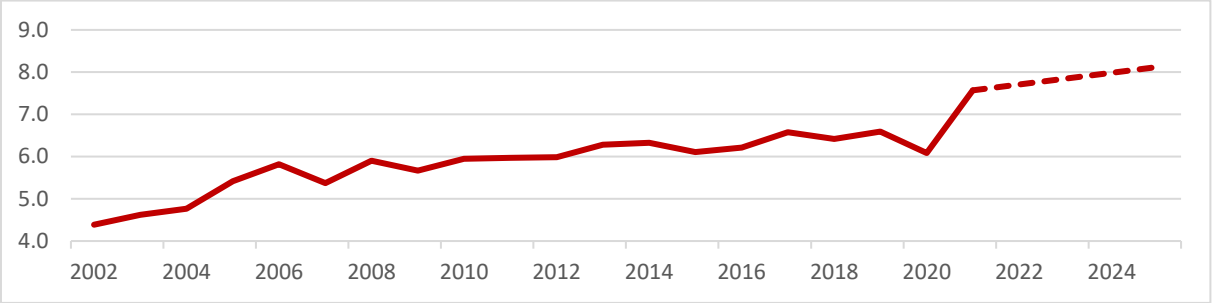
CHART 1: Malaysia's Natural Gas Production Forecast (bscfpd)



Source: OPEC, Macrobond, MIDFR

10% contribution to total gas production. This project, once commencing its refinery process in 2026, is expected to contribute about 10% of Malaysia's projected natural gas production of approximately 8.1 bscfpd (see Chart 1). Despite the positive prospects of the Rosmari-Marjoram field, the major challenges for it remain to be: (i) under utilisation of the LNG refinery complex in Bintulu to below 90%, (ii) explosions and gas leaks in pipelines connecting the platform to the refining complex, (iii) difficult and time-consuming refining process of sour gas, which could cause a shortfall of feedstock and negative environmental impact on the disposal of H2S contaminants, and (iv) increased sales tax on petroleum products hampering project economics of future developments in the field. We strongly believe advanced and upgraded acid gas removal facilities could mitigate feedstock supply troubles and environmental issues, which could also unlock more gas resources in offshore Sarawak, hence more demand for production platforms in the near future.

No changes to earnings forecast. In consideration that this project will not be completed until 2025 and the uncertainty of the regional gas market continues to remain volatile, we make no changes to our earnings estimates. Our target price remains at RM0.54, pegging on a PER of 10.5x to an EPS23 of 5.1sen. The PER is based on the 5-year average PER of drydocking and marine subindustry.

Maintain BUY. All in, we maintain our **BUY** recommendation on MMHE with a **target price of RM0.54.** We opine that MMHE will continue to benefit from the restart of delayed and deterred E&P projects as well as new ones after the setbacks on labour shortages and supply chain disruptions caused by pandemic lockdowns. Demand for platform jackets with clean and sustainable measures taken is expected to grow in line with the ESG aspirations of the oil and gas sector. We reiterate our positive stance on the group, for its strong orderbook backlog for current and future projects, as well as its long-term initiatives to incorporate sustainable solutions for its heavy construction build.

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

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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