Malaysia Marine & Heavy Engineering

***Maintain* BUY**

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

Back to black on higher dry-docking demand

***Revised* Target Price: RM0.61**

(previously RM0.54)

KEY INVESTMENT HIGHLIGHTS

- **MMHE reported a >100%yoy surge of profit to RM41m and revenue up by +19%yoy to RM1.2b in 9MFY22**
- **Earnings exceeded expectations by +14%**
- **Resilient balance sheet with total assets at RM3.4b**
- **Orderbook at RM2.2b; RM16b worth tenders submitted**
- **FY23-24 earnings forecast revised +10% and +3%**
- **Maintain BUY with revised TP of RM0.61 per share**

Profit spiked >100%. Malaysia's Marine & Heavy Engineering (MMHE) reported a >100% profit gain of RM15.9m in 3QFY22 from a loss of -RM23.9m in 3QFY21, but recorded a slip by -27.4%qoq from 2QFY22. For the cumulative 9 months, MMHE earned a total RM40.6m, up by >100%yoy from a loss of -RM162.6m, better than our expectation as it came over and above our one-year forecast by +14%. The lower quarterly sequential earnings were due to lower forex gains and lower recovery of doubtful debts for its Marine segment.

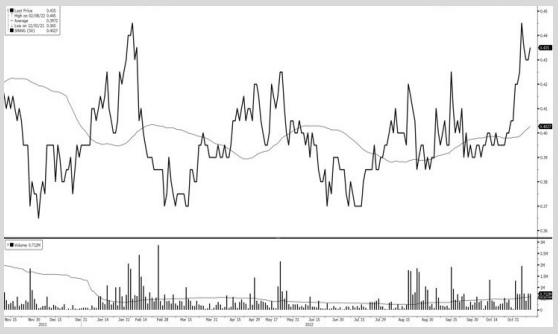
Revenue up 5%yoy. MMHE reported a rise in revenue by +5.1%yoy and +2.2%qoq to RM409.3m. For the cumulative 9 months, MMHE's revenue totalled to RM1.23b, up by +18.6%yoy. Heavy Engineering contributed to the higher revenue.

Marine. This segment reported a gain in revenue by +51.8%yoy but dropped -1.8%qoq to RM320.1m. Profit surged nearly 3-fold on-year from a deficit of -RM9.1m to RM17m, but slipped -10.6%qoq. For the cumulative 9 months, revenue rose up by +39.3%yoy to RM239.3m and profits surged 2-fold to RM39.6m from a loss of -RM31.7m a year prior. Higher revenue was a result of the recovery of dry-docking activities, as well as the reversal of impairment loss on trade receivables as doubtful debts were recovered in the current period.

Heavy Engineering. For this segment, revenue dropped -3.2%yoy but grew +3.3%qoq to RM320.1m. Profit surged +111.7%yoy and +25.2%qoq to RM1.4m, For the cumulative 9 months, revenue for this segment increased +14.5%yoy to RM988.4m, while profit surged +104.6%yoy to RM5.5m. The higher revenue was due to higher progress of ongoing projects, while the improved earnings were contributed by the recovery of Covid-19 claims and the reversal of cost provisions for ongoing and post sail-away projects.

RETURN STATISTICS	
Price @ 10th November 2022 (RM)	0.44
Expected share price return (%)	+38.6
Expected dividend yield (%)	0.00
Expected total return (%)	**+38.6**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	10.1	6.8
3 months	11.5	11.9
12 months	4.8	10.0

KEY STATISTICS	
FBM KLCI	1,449.74
Syariah compliant	Yes
FSGBM Index	Yes
ESG Grading Band	☆☆☆☆
Issues shares (m)	1600.00
Estimated free float (%)	14.10
Market Capitalisation (RM'm)	696.00
52-wk price range	RM0.34 - RM0.46
Beta vs FBM KLCI (x)	0.91
Monthly velocity (%)	0.00
Monthly volatility (%)	27.24
3-mth average daily volume (m)	0.55
3-mth average daily value (RM'm)	0.22
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 stood at RM3.4b in 9MFY22. The total dropped about RM3.8m as compared to the end of FY21, mainly due to lower receivables from higher collection. However, this was offset by: (i) higher net cash generated from operating activities, (ii) repayment of principal of RM16.2m contributing to lower borrowings, and (iii) higher shareholders' funds. The group's balance sheet remained robust, with an estimated DER of 0.2x.

Orderbook update. As of September CY22, MMHE's orderbook backlog totalled up to RM2.24b – a rise from FY21 orderbook by RM67m – with 97.3% in Heavy Engineering and 2.7% in Marine. The group's new order intake in Heavy Engineering totalled up to RM473m as of September CY22, which included the Front-End Engineering Design (FEED) for the Kasawari Carbon Capture & Storage (CCS) project awarded by PETRONAS Carigali in 1QFY22, and the Engineering, Procurement and Construction (EPC) services for the Rosmari-Marjoram Gas Project that was awarded in 3QFY22 by Shell. To-date, MHHE's Heavy Engineering segment had submitted approximately RM15b to RM16b worth of tenders up until 2023. The group had also completed repair and maintenance of 72 vessels of various types including 8 LNG carriers (LNGC) for its Marine segment.

Table 1: Malaysia Marine & Heavy Engineering's Major Projects as of 3QFY22

Heavy Engineering		
Projects	**Progress**	**Expected Completion**
EPCIC Kasawari Gas Development	73.1% (+2.9%qoq as of Sept 2022)	2023
EPCIC Jerun Development	54.5% (+14.8%qoq as of Sept 2022)	2023
FEED for Kasawari CCS Project	99.9% (+63.4%qoq as of Sept 2022)	End-2022
Marine		
Projects	**Scope**	**Completion**
Seri Cempaka LNGC (Eaglestar)	Dry-docking, Repair	August 2022
Aman Sendai LNGC (Eaglestar)	Dry-docking, Repair, BWTS Retrofitting, Cargo Tank Repair	July 2022
Methane Spirit LNGC (Seapeak Maritime)	Dry-docking, Repair, BWTS Retrofitting, Cargo Tank Repair	July 2022
C. Prosperity COT (SK Shipping)	Dry-docking, Repair	August 2022
White Moon COT (Zodiac Maritime)	Dry-docking, Repair, BWTS Installation	September 2022
Asian Pioneer COT (Kurniai Senpaku)	Dry-docking, Repair, BWTS Installation	August 2022

Source: Company, MIDFR

Stable oil price reiterates optimism. Following OPEC+'s decision to cut oil production by 2 mbpd, with an expected actual cut of 1 mbpd of oil from the market, Brent crude oil price is expected to maintain a stable hover between USD90-100pb. Additionally, the ongoing Russia-Ukraine conflict and the uncertainty on the sanctions against Russia's oil export continues keep the oil prices elevated. At this juncture, it is also anticipated that capital expenditures by major oil players to remain stable in the medium to long term. While the demand for renewable energy presents a great opportunity to MMHE, given its expertise on the construction of offshore platforms, the continuous risk posed by global supply chain disruptions and inflationary pressures causing production cost hikes has the potential to impact MMHE's operations and prospects. We believe the group will remain cautious yet optimistic on the outlook of its Heavy Engineering segment until the end-year.

Winter limits dry-docking. The reopening of borders earlier this year has facilitated the return of technical specialists into MMHE's yards, which contributed to the Marine segment. Global gas prices are also on the rise, with LNG demand in East Asia expected to persist in the upcoming winter season. Subsequently, the growth in LNG trade will cause more vessels to concede dry-docking, which will in turn create tougher competition amongst shipyards in the region for the limited dry-docking opportunities. We believe this cyclical manoeuvre will continue to be a challenge to MMHE's Marine business.

Revised FY23-24 earnings forecast. Considering that the group's strong performance is in the right trajectory and came in above our expectations, we revise our FY23 and FY24 earnings estimates up by +10% and +3% respectively. As such, we **revised our target price to RM0.61** (from RM0.54); pegging on a PER of 11x to a revised EPS23 of 5.6sen. The PER is based on the industry's 5-year average PER.

Maintain BUY. All in, we maintain to a **BUY** recommendation on MMHE with the **revised target price of RM0.61.** We opine that MMHE performance will remain resilient until the end of FY22, on the belief that the group will continue to capture opportunities for its Heavy Engineering segment in local and regional markets, more so with the increasing demand for LNG

in light of the Russian energy embargo and a colder winter season. Short to medium-term risks for MMHE remain to be hiking steel prices and a longer winter that could risk its dry-docking 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, (iii) priority in effective cost management and efficient project delivery, and (iv) pursuit in sustainable and digital solutions as part of its ESG milestone.

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)	144.1	173.4	260.6
Pretax Profit (RM'm)	(401.3)	(274.1)	59.6	88.9	176.1
Net Profit (RM'm)	**(401.3)**	**(274.1)**	**59.6**	**88.9**	**176.1**
Normalised net profit (RM'M)	**(98.0)**	**(265.1)**	**59.6**	**88.9**	**176.1**
EPS (sen)	(25.1)	(16.8)	3.7	5.6	11.0
EPS (%)	10.3	(0.3)	(1.2)	0.5	1.0
PER (x)	(2.4)	(3.6)	16.4	11.0	5.5

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		
	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY(%)	9MFY21	9MFY22	YoY (%)
Revenue	389.3	400.6	409.3	2.2	5.1	1,035.3	1,227.7	18.6
Other operating income	9.8	21.2	16.4	(22.8)	67.5	17.5	53.5	206.3
Operating profit/(loss)	(20.2)	25.8	19.1	(26.1)	(194.5)	(148.3)	51.1	(134.5)
Impairment loss	-	-	-	-	-	(7.9)	-	(100.0)
Finance cost	(3.4)	(3.6)	(3.6)	(0.4)	-	(9.2)	(10.7)	16.1
Profit before taxation	(23.6)	22.2	15.5	(30.2)	(165.7)	(165.4)	40.4	(124.4)
Taxation	-	(0.1)	0.2	-	-	-	0.1	-
Profit after taxation	(23.6)	22.1	15.7	(28.7)	(166.7)	(165.4)	40.5	(124.5)
Minority interests	0.3	0.1	(0.2)	(320.0)	(173.9)	(2.8)	(0.1)	(94.9)
PATAMI/LATAMI	**(23.9)**	**22.0**	**15.9**	**(27.4)**	**(166.8)**	**(162.6)**	**40.6**	**(125.0)**
Normalised PATAMI/(LATAMI)	(23.6)	22.1	15.7	(28.7)	(166.7)	(157.6)	40.5	(125.7)
EPS Basic(sen)	(1.5)	1.4	1.0	(28.6)	(166.7)	(10.1)	2.5	(124.8)
Operating profit margin (%)	(5.2)	6.4	4.7	(1.8)	9.8	(14.3)	4.2	18.5
PATAMI margin (%)	(6.1)	5.5	-	(5.5)	6.1	(15.7)	3.3	19.0
Tax rate (%)	-	0.6	(1.5)	(2.1)	(1.5)	-	0.2	0.2
				+/-ppts				+/-ppts
Segmental								
Revenue								
Heavy Engineering	330.6	309.9	320.1	3.3	(3.2)	863.5	988.4	14.5
Marine	58.7	90.7	89.1	(1.8)	51.8	171.8	239.3	39.3
Operating Profit								
Heavy Engineering	(13.1)	1.1	1.4	25.2	(110.8)	(118.6)	5.5	(104.6)
Marine	(9.1)	19.0	17.0	(10.6)	(285.9)	(31.7)	39.6	(224.9)

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