Muhibbah Engineering Berhad

(5703 | MUHI MK) Main | Construction

Short-term challenges

Maintain BUY

Revised Target Price: RM0.47
(previously RM0.57)

KEY INVESTMENT HIGHLIGHTS

- **Muhibbah Engineering Berhad (MEB)'s slips into core net loss of -RM1.4m in 3QFY22**
- **Results way below ours and consensus estimates**
- **Drag in earnings mainly caused by lower progress claims from projects nearing completion and new projects**
- **Much room to improve order book replenishment**
- **Earnings estimates revised lower to reflect weaker margins, performance expected to improve gradually**
- **Maintain BUY with TP revised lower to RM0.47**

Below Expectations. Muhibbah Engineering Berhad (MEB) slipped into the red in 3QFY22 with a core net loss of -RM1.4m, although its revenue gained +30.4%yoy to RM253.1m. For the cumulative 9MFY22, core earnings came in below expectations at RM2.2m, which made up only 7.2% of our full year estimates and 12.8% of the consensus.

Weaker YTD performance. MEB's revenue for the nine-month period was -11%yoy lower at RM624.7m, leading to a decline in PBT by -24.3%yoy to RM13.8m. This was attributable to lower construction revenue as most of the group's major projects were now at completion stage. On the flip side, its newer projects are still at early stages. Its production of cranes was also affected, due to the quarantine of some of the operational staff and workers due to Covid-19 in 1HFY22. MEB's PBT margin was also slightly lower at 1.8% as compared to 2.2% during the same period last year, weighed by higher components and shipping costs.

Improving quarterly revenue. MEB's revenue for 3QFY22 rose for the second consecutive quarter by +24.7%qoq to RM311.8m on the back of stronger contributions from infrastructure construction and ship repair services, which helped to cushion the lower revenue from its cranes division. PBT dipped -43.8%qoq to RM4.5m, mainly due to a provision for impairment on financial assets of RM7.2m from the infrastructure construction and cranes divisions.

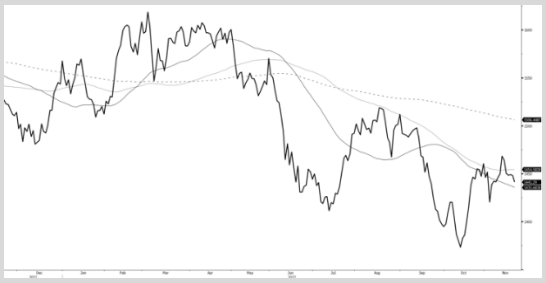
Order book. The group's current outstanding order book stands at RM1.1b, with earnings visibility up to 1QFY24. About 41.7% or RM459m of this come from infrastructure construction jobs while the remaining 58.3% come from crane orders. We believe there is still much room for securing jobs as the outstanding order book has yet to return to pre-pandemic levels, which were usually RM1.5b to RM2b.

Earnings estimates. We are revising our core earnings estimates for FY22 lower by -50% to RM15.3m and our FY24F core earnings by -29% to RM33.6m to account for the weaker than expected margins.

Target price. As such**,** we are lowering our **TP** to **RM0.47** (previously RM0.57) as we peg a projected forward PER of 7x to the group's FY23

RETURN STATISTICS	
Price @ 22nd Nov 2022	**0.41**
Expected share price return (%)	**+14.6**
Expected dividend yield (%)	**+5.3**
Expected total return (%)	**+19.9**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.0	0.4
3 months	-1.2	-1.6
12 months	-53.7	-50.9

KEY STATISTICS	
FBM KLCI	1,441.29
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)	298.5
52-wk price range (RM)	0.39 – 0.89
Beta vs FBM KLCI (x)	0.83
3-mth average daily volume (m)	0.52
3-mth average daily value (RM'm)	0.22
Top Shareholders (%)	
Mac Ngan Boon	21.13
FIL Ltd	5.84
Fidelity Funds Asean	4.45

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EPS of 6.76 sen.

Maintain BUY. There is undoubtedly no excitement in terms of MEB's performance due to its weaker margins in recent quarters but we expect this to improve gradually in coming quarters with the declining trend of building material prices. We believe FY23 would be a good time for MEB to capture the potential increase in job flows when the infrastructure projects start rolling in, which will benefit both its construction and cranes divisions. MEB's share price has been hammered by about -50% year-to-date in line with its weaker than expected performance, but we believe there is still a slight upside to it. 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	1,120.13	1,356.33
Cost of Sales	(1,234.25)	(944.09)	(964.17)	(1,060.59)	(1,284.23)
Net Finance Costs	(10.09)	(13.12)	(8.70)	(9.48)	(11.57)
Operating Profit	(67.87)	47.64	27.54	47.27	60.53
Associates	10.80	(30.22)	3.50	0.06	74.34
Profit Before Tax	(57.08)	17.42	31.04	47.33	134.87
Tax Expense	(26.51)	(15.68)	(15.77)	(25.76)	(31.12)
Reported Net Profit	(123.26)	(3.35)	15.27	33.60	71.90
Core Net Profit	(137.79)	(8.88)	15.27	33.60	71.90
Basic EPS	(25.50)	(0.67)	3.07	6.76	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%	5.3%	5.3%	5.3%

Source: Company, MIDFR

MUHIBBAH ENGINEERING BHD: 3QFY22 RESULTS SUMMARY

All in RM'm unless stated otherwise	**Quarterly Results**					**Cumulative**		
Income Statement	**Q322**	**Q222**	**Q321**	**QoQ**	**YoY**	**9M22**	**9M21**	**YoY**
Revenue	253.05	196.43	193.99	**29%**	**30.4%**	624.67	701.51	**-11%**
Gross Profit	(245.40)	(188.59)	(184.07)	**-30%**	**-33.3%**	(601.24)	(654.06)	**8%**
Net Finance Costs	(3.93)	(1.95)	(2.43)	**-102%**	**-61.6%**	(7.90)	(8.05)	**2%**
Operating Profit	3.71	5.89	7.49	**-37%**	**-50.4%**	15.53	39.39	**-61%**
Associates	0.76	2.07	(4.99)	**-63%**	**115.2%**	(1.75)	(21.19)	**92%**
Profit Before Tax	4.47	7.95	2.49	**-44%**	**79.4%**	13.77	18.20	**-24%**
Tax Expense	(1.77)	(2.86)	(4.12)	**38%**	**57.0%**	(6.30)	(9.89)	**36%**
Minority Interest	3.98	3.75	(2.91)	**6%**	**236.8%**	6.94	0.55	**1171%**
Reported Net Profit	(1.28)	1.34	1.28	**-195%**	**-199.7%**	0.53	7.77	**-93%**
Core Net Profit	(1.44)	0.38	(5.60)	**-477%**	**74.2%**	2.20	(7.97)	**128%**
Basic EPS	(0.18)	0.20	0.26	**-190%**	**-169.2%**	0.00	0.00	**-93%**

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