Corporate Update| Thursday, 08 December 2022

Muhibbah Engineering Berhad

(5703 | MUHI MK) Main | Construction

New Job from Carigali

Downgrade to NEUTRAL
(from BUY)

Unchanged Target Price: RM0.47

KEY INVESTMENT HIGHLIGHTS

- **Secures RM322 job from Petronas Carigali in offshore Terengganu**
- **EPCC+1, Duyong brownfield modification and host tie-in services**
- **Works commence immediately, to be completed in 22 months**
- **Assuming 60% stake in consortium, MEB adds RM193.2m to outstanding order book**
- **Downgrade to NEUTRAL due to recent run up in share price TP remains unchanged at RM0.47**

New job. Muhibbah Engineering Berhad (MEB) has secured a RM322m job from Petronas Carigali Sdn Bhd, related to the Gansar Project, about 190km from the Terengganu shore.

Contract details. The job scope is for the provision of engineering, procurement, construction and commissioning plus installation (EPCC+1) of Light Weight Structure (LWS), Duyong brownfield modification and host tie-in services. Works will commence immediately and it is expected to be completed in 22 months, or in Oct-24.

Financial impact. MEB's is the lead partner for the consortium that won the project. While no details of the consortium were disclosed, we assume MEB's stake to be 60%, therefore adding RM193.2m to the group's order book. At a reasonable profit margin of about 5%, this contributes about RM9.7m to the group throughout the period.

Order book. This new win brings the group's current outstanding order book to RM1.29b, with earnings visibility up to FY24. 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.

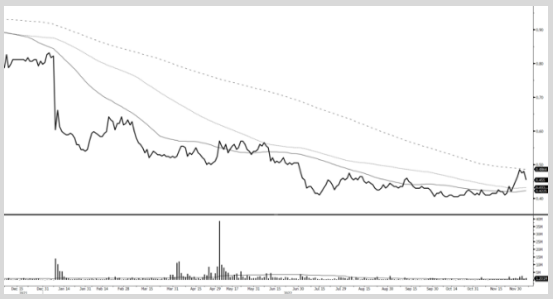
Earnings estimates. We are maintaining our earnings estimates.

Target price. We are making no revisions to our TP of RM0.47 as we peg a projected forward PER of 7x to the group's FY23 EPS of 6.76 sen.

Downgrade to NEUTRAL. We are downgrading our recommendation on MEB from BUY to **NEUTRAL**, considering the recent run-up in share price. MEB has been affected by weaker margins in recent quarters, similar to many other construction players, due to elevated costs related to building material costs and foreign labour, but this will of course improve gradually in quarters to come. We believe FY23 would be a good time for MEB to capture the potential increase in job flows, especially in the oil and gas space.

RETURN STATISTICS	
Price @ 7th Dec 2022	**0.455**
Expected share price return (%)	**+3.30**
Expected dividend yield (%)	**+5.32**
Expected total return (%)	**+8.62**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	9.6	7.8
3 months	9.6	7.6
12 months	-42.2	-41.0

KEY STATISTICS	
FBM KLCI	1,466.88
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)	330.76
52-wk price range (RM)	RM0.39 - RM0.83
Beta vs FBM KLCI (x)	0.89
3-mth average daily volume (m)	0.56
3-mth average daily value (RM'm)	0.24
Top Shareholders (%)	
Mac Ngan Boon	21.13
FIL Ltd	5.84
Fidelity Funds Asean	4.45

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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

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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