Malaysia Marine & Heavy Engineering

***Maintain* BUY**

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

FY22 sees highest profit recorded since FY17

***Revised* Target Price: RM0.81**

(previously RM0.61)

KEY INVESTMENT HIGHLIGHTS

- **Profit surged >100%yoy and revenue up by +3.6%yoy**
- **Earnings exceeded expectation**
- **Resilient balance sheet with total assets at RM3.4b**
- **Orderbook at RM6.3b; RM11b worth tenders submitted**
- **FY23-24 earnings forecast revised +9%, +2% respectively**
- **Maintain BUY with revised TP of RM0.81 per share**

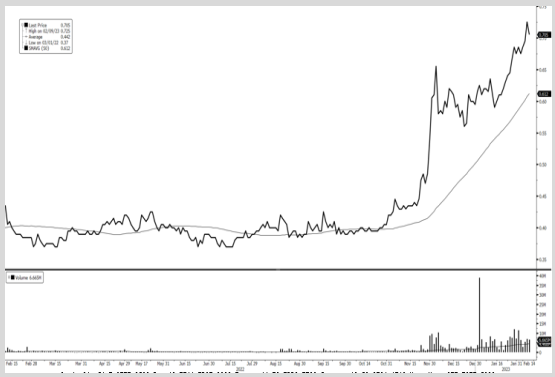
Profit spiked >100%. Malaysia's Marine & Heavy Engineering (MMHE) profit surged >100%yoy to RM27.1m in 4QFY22 from a loss of -RM107.8m in 4QFY21, and +70.2%qoq from 3QFY22. For the full FY22, MMHE earned a total RM67.8m, up by >100%yoy from a loss of -RM270.4m in FY21, which came above our one-year forecast by +14%. Meanwhile, revenue grew +3.6%yoy but declined -1.9%qoq to RM424m. For the full FY22, MMHE's revenue totalled RM1.65b, up by +12.6%yoy.

Heavy Engineering. This segment reported a decline in revenue by -7.9%yoy but increased +2%qoq to RM326.4m. Profit improved by +84.4% to a deficit of -RM14.2m, but declined >100%qoq from RM1.4m in 3QFY22. For FY22, revenue rose +8%yoy to RM1.31b, while profit improved +95.8%yoy to a deficit of -RM8.7m. The increase in revenue was mainly attributed to higher progress of ongoing projects. The segment posted lower operating loss as the impact of additional cost provisions recognised for ongoing projects had lessened. The improved performance for this segment was also contributed by the recovery of Covid-19 claims and reversal of cost provisions for post sail-away projects.

Marine. For this segment, revenue gained +25.8%yoy and +9.5%qoq to RM97.6m. Profit surged >100%yoy from a deficit of -RM17.7m in 3QFY22 and added +29.8%qoq to RM22m. For FY22, revenue increased +35.1%yoy to RM336.9m, while profit surged >100%yoy to RM61.6m from a deficit of -RM49.4m in FY21. Higher revenue was a result of higher dry-docking activities, since the reopening of borders in April CY22. Improvement for this segment was contributed by better margins and reversal of impairment loss on trade receivables as doubtful debts were recovered in FY22.

RETURN STATISTICS	
Price @ 10th February 2023 (RM)	0.71
Expected share price return (%)	+14.1
Expected dividend yield (%)	2.0
Expected total return (%)	**+16.1**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	14.6	15.5
3 months	18.5	59.3
12 months	62.1	72.6

KEY STATISTICS	
FBM KLCI	1,474.59
Syariah compliant	Yes
FSGBM Index	Yes
ESG Grading Band	☆☆☆☆
Issues shares (m)	1600.00
Estimated free float (%)	14.36
Market Capitalisation (RM'm)	1,128.00
52-wk price range	RM0.36 - RM0.72
Beta vs FBM KLCI (x)	0.81
3-mth average daily volume (m)	4.43
3-mth average daily value (RM'm)	2.75
Top Shareholders (%)	
MISC Bhd	66.50
Technip Energies M Sdn Bhd	8.50
Urusharta Jamaah Sdn Bhd	4.98

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Balance sheet. MMHE's total assets stands at RM3.36b in FY22. The total drops about RM32m as compared to 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 RM34.4m contributing to lower borrowings, and (iii) higher shareholders' funds. The group's balance sheet remained robust, with an estimated DER of 0.2x and NTA per share of RM1.11.

Orderbook update. As of December CY22, MMHE's orderbook totalled up to RM6.29b – a rise from FY21 orderbook by RM4.12b – with 99.1% in Heavy Engineering and 0.9% in Marine. The group's new order intake in Heavy Engineering totalled up to RM4.85b as of December CY22, which included the EPCIC and FEED for the Kasawari Carbon Capture & Storage (CCS) project awarded by PETRONAS Carigali in 1QFY22 and 4QFY22 respectively, as well as the EPC services for the Rosmari-Marjoram Gas Project that was awarded in 3QFY22 by Shell. MHHE's Heavy Engineering segment had submitted approximately RM10b to RM11b worth of tenders. The group had also completed repair and maintenance of 87 vessels of various types including 11 LNG carriers (LNGC) for its Marine segment.

TABLE 1: Malaysia Marine & Heavy Engineering's Major Projects in FY22

Heavy Engineering		
Projects	**Progress**	**Expected Completion**
EPCIC Kasawari Gas Development	75.5% (+2.4%qoq as of Dec 2022); jacket loadout in progress	1Q 2023
EPCIC Jerun Development	53.5% (+0.5%qoq as of Dec 2022)	3Q 2023
FEED for Kasawari CCS Project	100% (+0.01%qoq as of Dec 2022)	Completed
Marine		
Notable Projects	**Scope**	**Completion**
Seri Bakti (Eaglestar)	Dry-docking, Repair	June 2022
Seri Begawan (Eaglestar)	Dry-docking, Repair	December 2022
Seajacks Scylla (Seajacks)	Afloat Repair, Installation of Equipment on Deck	January 2022
C. Progress (SK Shipping)	Dry-docking, Repair	June 2022
Asian Pioneer COT (Kurniai Senpaku)	Dry-docking, Repair, BWTS Installation	August 2022
Charles Darwin (Jan De Nul Group)	Pipe Renewal, Evaporator Unit Renewal, Pipe Modification	October 2022

Source: Company, MIDFR

Supported energy price presents more opportunities. Crude oil and natural gas prices are expected to continue being supported by China's reopening of its economy with the relaxation of its zero-Covid policy as well as the ongoing Russian-Ukraine war, subsequently increase the demand for energy products and energy security. Additionally, the growth in renewable energy and increasing decarbonisation efforts provided a great commercial opportunity to the group, particularly in its pursuit in its initiatives on offshore wind farm, which include the construction of the wind farm structure and substation platforms. The group's Marine segment is also continuously reaping the benefit of the lifted border restrictions as well as a demand for more upgrading and retrofitting jobs following the compliance with Energy Efficiency Existing Ship Index (EEXI) and Carbon Intensity Indicator (CII) imposed by the International Maritime Organisation (IMO) from 1 January 2023 onwards.

External risks remains but cautiously positive. Despite the robust outlook on heavy engineering subsector, the challenges remain to be: (i) disruptions to demand and pricing due to a potential global economic recession, and (ii) supply chain interruptions due to ongoing geopolitical tensions and high inflationary pressures. Meanwhile, the marine subsector faces possible manpower constraints that could affect the timely execution of its dry-docking operations; in addition to higher competition amongst shipyards after the recent lifting of China's border restrictions. Nevertheless, remain cautiously positive for both of MMHE's Heavy Engineering and Marine operations.

Dividend for FY22. MMHE announced its first interim dividend for FY22 since FY18, amounting to 1.5 sen per share.

Revised FY23-24 earnings forecast. In consideration of the group's robust FY22 performance which came in above our expectations, as well as positive prospects in the Heavy Engineering and Marine sectors, we revise our FY23 and FY24 earnings estimates up by +9% and +2% respectively. As such, we **revised our target price to RM0.81** (from RM0.61); pegging on a PER of 13.7x to a revised EPS23 of 5.9sen. The PER is based on the Heavy Engineering and Marine subsectors' 5-year average PER.

Maintain BUY. All in, we maintain to a **BUY** recommendation on MMHE with the **revised target price of RM0.81.** We continue to be positive with the group's future prospects; more adeptly with its plans to reactivate its East Yard within this year. Considering that MMHE is now in collaboration with Silverstream Technologies and Bureau Veritas Solutions – two of the most prominent firms with services and products for newbuild and retrofit vessels – in addition to its endeavours in offshore wind farms and carbon capture and storage (CCS), we believe its Heavy Engineering business will continue to strive in FY23. The lifting of border restrictions and the near-ending of winter had also assisted in its Marine business, although competition among shipyards may pose a challenge. Nevertheless, we like MMHE for its: (i) robust balance sheet and healthy cash flow, (ii) strong orderbook backlog for current and future projects, (iii) continuous ventures into renewable energy solutions, and (iv) pursuit in fulfilling its ESG milestones.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	2021A	2022A	2023E	2024F	2025F
Revenue (RM'm)	**1,467.3**	**1,651.6**	**1,893.3**	**2,013.3**	**2,072.3**
EBITDA (RM'm)	(164.5)	145.4	173.8	258.7	294.4
Pretax Profit (RM'm)	(274.1)	46.7	89.3	174.2	209.9
Net Profit (RM'm)	**(274.1)**	**67.6**	**96.8**	**179.2**	**212.4**
Normalised net profit (RM'M)	**(265.1)**	**67.6**	**96.8**	**179.2**	**212.4**
EPS (sen)	(16.8)	4.2	5.9	11.1	13.1
EPS (%)	(0.3)	(1.3)	0.4	0.9	0.2
PER (x)	(4.8)	19.2	13.7	7.3	6.2
Dividend Per Share (sen)	-	1.5	1.6	1.8	1.5
Dividend Yield (%)	-	1.9	2.0	2.2	1.9

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		
	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY(%)	FY21	FY22	YoY (%)
Revenue	432.0	409.3	424.0	3.6	(1.9)	1,467.3	1,651.7	12.6
Other operating income	(1.7)	16.4	7.5	(54.4)	(532.3)	15.7	61.0	287.4
Operating profit/(loss)	(103.9)	19.1	9.8	(48.7)	(109.4)	(252.2)	60.9	(124.2)
Impairment loss	(1.1)	-	-	-	-	(9.0)	-	(100.0)
Finance cost	(3.7)	(3.6)	(3.4)	(2.8)	-	(12.9)	(14.2)	9.6
Profit before taxation	(108.7)	15.5	6.3	(59.2)	(105.8)	(274.1)	46.7	(117.0)
Taxation	-	0.2	20.8	-	#DIV/0!	-	20.9	#DIV/0!
Profit after taxation	(108.7)	15.7	27.1	72.5	(125.0)	(274.1)	67.6	(124.7)
Minority interests	(0.9)	(0.2)	0.0	(104.3)	(101.0)	(3.7)	(0.1)	(96.4)
PATAMI/LATAMI	**(107.8)**	**15.9**	**27.1**	**70.2**	**(125.2)**	**(270.4)**	**67.8**	**(125.1)**
Normalised PATAMI/(LATAMI)	(107.6)	15.7	27.1	72.5	(125.2)	(265.1)	67.6	(125.5)
EPS Basic(sen)	(6.7)	1.0	1.7	70.0	(125.4)	(16.8)	4.2	(125.0)
				+/-ppts				+/-ppts
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

Source: Company, MIDFR

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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