Muhibbah Engineering Berhad

(5703 | MUHI MK) Main | Construction

In the red again

Downgrade to SELL

(previously NEUTRAL)

Unchanged Target Price: RM0.47

KEY INVESTMENT HIGHLIGHTS

- **Muhibbah Engineering Berhad (MEB)'s slips into core net loss of -RM18.4m in FY22**
- **Weak results due to completion of previous projects, new projects at early stage and higher taxes paid**
- **Order book of RM1.58b provides earnings visibility until FY24**
- **Cambodia airports concession to benefit from Chinese tourists boom**
- **Downgrade to SELL with an unchanged TP of RM0.47. Strong run up in share price since January after China's reopening**

Below Expectations. Muhibbah Engineering Berhad (MEB) slipped into the red in 4QFY22 with a core net loss of -RM18.4m, on the back of a lower revenue of RM261.1m, which declined -13.9%yoy. For the cumulative FY22, the group recorded a core net loss of -RM16.2m, which was no where near estimates that projected a figure in the black. This was mainly due to the higher tax amount payable, which rose +23.5% to -RM16.6m for the year.

Weaker YTD performance. MEB's consolidated revenue for FY22 was -11.9% lower at RM885.8m, mainly due to the completion of previous construction projects while newer jobs are still at early stages. Another factor was the impact on its crane production earlier this year when operational staff and workers were quarantined due to Covid-19. The group's PBT was noticeably higher by +17.1%, lifted by stronger results from its airports concession in Cambodia which saw a surge in passenger movements alongside the reopening of economies globally. MEB's concessions recorded RM1.8m in PBT in FY22, as compared to a loss before tax of RM26.9m in FY21. The passenger traffic in its Cambodia airports surged from 269,558 pax in FY21 to 2.4m pax in FY22.

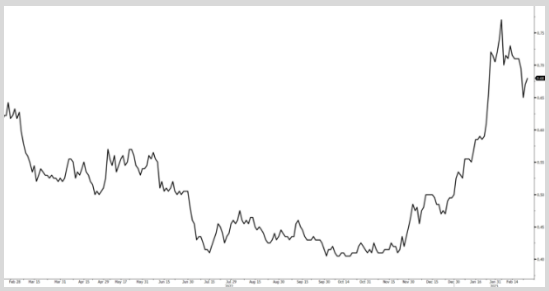
Order book. Meanwhile, the group's current outstanding order book stands at RM1.58b, with earnings visibility up to FY24. About 63.7% or RM1,009m of these come from infrastructure construction jobs while the remaining 36.3% come from its crane and automation divisions. MEB secured three projects recently; the RM172.6m project from the Penang Development Corp for a development at the Technoplex Industrial Area, a RM116.4m project to develop student accommodation and facilities at Universiti Teknologi Petronas in Perak and a RM322m contract for several works, including the construction of a light weight structure for Petronas off Terengganu's shores.

Earnings estimates. We are keeping our FY23 top and bottom lines' estimates for now as we expect the new projects to boost MEB's figures moving forward.

Target price. As such**,** we are retaining our **TP** of **RM0.47,** which we derive by pegging a projected forward PER of 7x to the group's FY23E EPS of 6.76 sen.

RETURN STATISTICS	
Price @ 23rd Feb 2022	**0.68**
Expected share price return (%)	**-30.9**
Expected dividend yield (%)	**0**
Expected total return (%)	**-30.9**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	15.3	18.6
3 months	36.0	62.3
12 months	9.3	18.9

KEY STATISTICS	
FBM KLCI	1,457.65
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)	494.33
52-wk price range (RM)	RM0.39 - RM0.78
Beta vs FBM KLCI (x)	0.93
3-mth average daily volume (m)	2.32
3-mth average daily value (RM'm)	1.43
Top Shareholders (%)	
Mac Ngan Boon	21.13
FIL Ltd	5.66
Fidelity Funds Asean	4.45

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Downgrade to SELL. There has been a sharp increase in MEB's share price since the beginning of FY23, especially after the announcement of China's border reopening. The group's airports concession in Cambodia will undoubtedly benefit from the expected surge in Chinese tourists but we believe the share price may have run too far ahead of its fundamentals. In view of this and the 36% surge in MEB's share price year-to-date, we are recommending investors to take profit. Hence, we are downgrading our call to **SELL** (from NEUTRAL).

INVESTMENT STATISTICS

Annual Standardized All in RM'm unless stated otherwise	**2020A**	**2021A**	**2022F**	**2023F**	**2024F**
Revenue	1,189.6	1,004.9	885.8	1,120.1	1,356.3
Cost of Sales	(1,234.3)	(944.1)	(853.7)	(1,060.6)	(1,284.2)
Net Finance Costs	(10.1)	(13.1)	(19.2)	(9.5)	(11.6)
Operating Profit	(67.9)	47.6	19.1	47.3	60.5
Associates	10.8	(30.2)	1.3	3.5	5.0
Profit Before Tax	(57.1)	17.4	20.4	47.3	134.9
Tax Expense	(26.5)	(15.7)	(16.6)	(25.8)	(31.1)
Reported Net Profit	(123.3)	(3.4)	(17.8)	33.6	71.9
Core Net Profit	(137.8)	(8.9)	(16.2)	33.6	71.9
Basic EPS	(25.5)	(0.7)	(2.8)	6.8	14.5
Diluted EPS	(25.5)	1.1	(2.8)	14.4	14.4
DPS	2.5	3.	0	1.5	1.5
Dividend Yield	2.8%	4.1%	-	3.2%	3.2%

Source: Company, MIDFR

MUHIBBAH ENGINEERING BHD: 4QFY22 RESULTS SUMMARY

All in RM'm unless stated otherwise	**Quarterly Results**					**Cumulative**		
Income Statement	**Q422**	**Q322**	**Q421**	**QoQ**	**YoY**	**FY22**	**FY21**	**YoY**
Revenue	261.09	253.05	303.35	**3%**	**-13.9%**	885.76	1,004.86	**-11.9%**
Gross Profit	(252.40)	(245.40)	(290.03)	**-3%**	**13.0%**	(853.65)	(944.09)	**9.6%**
Net Finance Costs	(5.12)	(3.93)	(5.07)	**-30%**	**-0.9%**	(13.01)	(13.12)	**0.8%**
Operating Profit	3.57	3.71	8.25	**-4%**	**-56.7%**	19.10	47.64	**-59.9%**
Associates	3.06	0.76	(9.03)	**>+100%**	**>+100%**	1.31	(30.22)	**>+100%**
Profit Before Tax	6.64	4.47	(0.78)	**48%**	**>+100%**	20.41	17.42	**17.1%**
Tax Expense	(10.25)	(1.77)	(5.79)	**<-100%**	**-77.0%**	(16.55)	(15.68)	**-5.6%**
Minority Interest	14.75	3.98	4.54	**>+100%**	**>+100%**	21.69	5.09	**>+100%**
Reported Net Profit	(18.37)	(1.28)	(11.12)	**<-100%**	**-65.3%**	(17.84)	(3.35)	**<-100%**
Core Net Profit/(Loss)	(18.39)	(1.44)	(0.91)	**<-100%**	**<-100%**	(16.18)	(8.88)	**-82.1%**
Basic EPS (sen)	(2.53)	(0.18)	(2.31)	**<-100%**	**-9.5%**	(0.71)	(2.41)	**<-100%**

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