Malaysia Marine & Heavy Engineering Holdings Berhad

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

Slow Start to FY23

***Maintain* BUY**

***Unchanged* Target Price: RM0.81**

KEY INVESTMENT HIGHLIGHTS

- **MMHE's 1QFY23 revenue up +19%yoy to RM496m, earnings up +30%yoy to RM3.5m (below expectation)**
- **Reopening of China and OPEC+ supply cut would increase CAPEX**
- **Risks from geopolitical tensions and looming recession, strong competition with China's shipyards remain**
- **Maintain BUY with TP of RM0.81**

Maintain BUY, unchanged TP:RM0.81. Malaysian Marine & Heavy Engineering (MMHE)'s 1QFY23 results were below our expectation. However, we are maintaining our **BUY** call on MMHE with an unchanged **TP of RM0.81**, as we believe (1) earnings would recover as Covid-19 claims that dragged the earnings would be temporary, (2) increase in demand for LNG in light of El Nino's global onset and, (3) the upcoming summer season would translate into more dry-docking activities for MMHE's shipyards.

We like MMHE for its (i) healthy cash flow, (ii) strong orderbook backlog, and (iii) continuous ventures into renewable energy solutions.

Revenue up +19%yoy. MMHE's 1QFY23 revenue gained +19%yoy and 17%qoq to RM496m from higher revenue for ongoing projects, and increased activities in dry-docking and repair.

Earnings up +30%yoy. MMHE's 1QFY23 earnings rose +30%yoy, but down -87%qoq to RM3.5m. This was attributable to improved profit margins, offset by the partial recovery of Covid-19 claims.

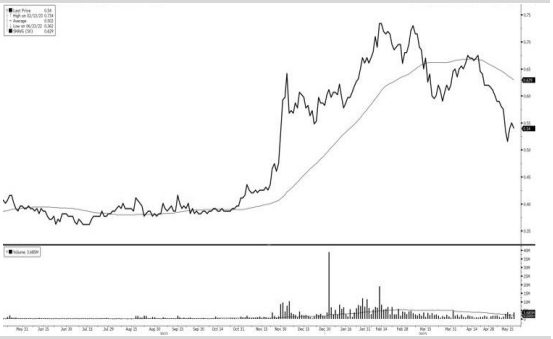
Stable oil price, higher CAPEX. We continue to view MMHE positively. We opine that the reopening of China's economy and the supply cut by OPEC+ will support the oil prices into a stable range of USD75-85pb. This would allow major companies to increase its CAPEX, subsequently require constructions, repair and maintenance, as well as dry-docking services.

Risks of recession and geopolitics. MMHE maintains a cautious stance for its Heavy Engineering segment, with the major risk being the global recession and geopolitical tensions; both with the potential to impede business prospects. However, with the growing demand for renewable energy and decarbonization opportunities, we believe the group are well-equipped to sustain and expand its orderbook via this subsector.

Shipping regulations setback. Meanwhile, the Marine segment is expected to face competition from Chinese shipyards. Dry-docking are also becoming limited as older LNG carriers are decommissioned due to their inability to comply with the Energy Efficiency Existing Ship Index (EEXI) and Carbon Intensity Indicator (CII) requirements set by the International Maritime Organization (IMO).

RETURN STATISTICS	
Price @ 18th May 2023 (RM)	0.54
Expected share price return (%)	+50.0
Expected dividend yield (%)	2.0
Expected total return (%)	**+52.0**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-19.4	-19.2
3 months	-12.9	-24.0
12 months	30.1	41.7

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	1,893	2,013	2,072
Operating Profit	174	259	294
Profit Before Tax	89	174	210
Core PATAMI	97	179	212
Core EPS	5.9	11.1	13.1
DPS	1.6	1.8	1.5
Dividend Yield	2.0%	2.2%	1.9%

KEY STATISTICS	
FBM KLCI	1,428.0
Issue shares (m)	1,600.0
Estimated free float (%)	13.6
Market Capitalisation (RM'm)	864.0
52-wk price range	RM0.36-RM0.77
3-mth average daily volume (m)	2.3
3-mth average daily value (RM'm)	1.5
Top Shareholders (%)	
MISC Bhd	66.5
Technip Energies M Sdn Bhd	8.5
Urusharta Jamaah Sdn Bhd	5.0

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No changes to estimates. We are making no changes to our earnings estimates as we believe it is within our trajectory.

Target price. Our target price is pegged 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.

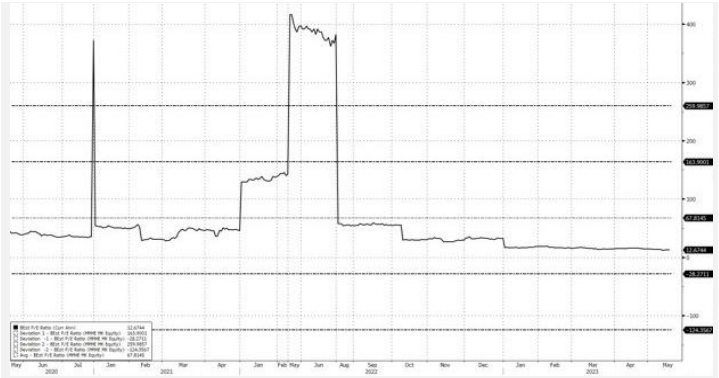
TABLE 1: MMHE RESULT SUMMARY

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results					Cumulative		
	4QFY21	4QFY22	1QFY23	QoQ (%)	YoY(%)	1QFY22	1QFY23	YoY (%)
Revenue	417.8	424.0	496.2	17.0	18.8	417.8	496.2	18.8
Operating profit/(loss)	6.3	9.8	7.0	(28.8)	10.3	6.3	7.0	10.3
Profit before taxation	2.7	6.3	3.5	(44.1)	31.3	2.7	3.5	31.3
Normalised PATAMI/(LATAMI)	2.7	27.1	3.5	(87.0)	31.3	2.7	3.5	31.3
EPS Basic(sen)	0.2	1.7	0.2	(88.2)	-	0.2	0.2	-
Operating profit margin (%)	1.5	2.3	1.4	(0.9)	(0.1)	1.5	1.4	(0.1)
PATAMI margin (%)	0.7	6.4	-	(6.4)	(0.7)	0.7	0.7	0.1
				+/-ppts				*+/-ppts*
Segmental Revenue								
Heavy Engineering	358.4	326.4	404.2	23.8	12.8	358.4	404.2	12.8
Marine	59.4	97.6	92.1	(5.7)	55.0	59.4	92.1	55.0
Segmental EBIT								
Heavy Engineering	2.9	(14.2)	(8.7)	(38.5)	(399.3)	2.9	(8.7)	(399.3)
Marine	3.7	22.0	12.9	(41.4)	251.0	3.7	12.9	251.0
EBIT Margin (%)								
Heavy Engineering	0.8	(4.3)	(2.2)	2.2	(3.0)	0.8	(2.2)	(3.0)
Marine	6.2	22.6	14.0	(8.6)	7.8	6.2	14.0	7.8

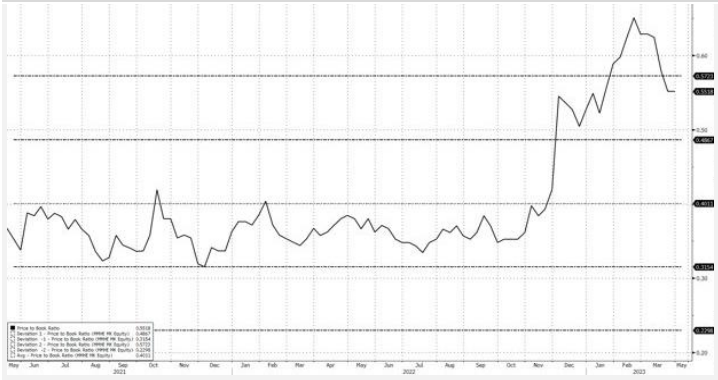
Source: Company, MIDFR

FORWARD BAND

BEst PE Ratio



BEst P/Bk Ratio



Source: Bloomberg, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	1,467.3	1651.7	1,893.3	2,013.3	2,072.3
EBITDA	(164.5)	145.4	173.8	258.7	294.4
D&A	-9.0	0	0	0	0
Net interest	-3.7	-0.1	0	0	0
Profit before tax	-274.1	46.7	89.3	174.2	209.9
Tax	0.0	20.9	21.0	22.0	22.0
PATAMI	-270.4	67.8	96.8	179.2	212.4
Core PATAMI	-265.1	67.6	96.8	179.2	212.4

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	1,524.8	1,493.4	1,509.1	1,501.3	1,505.2
Intangible assets	202.7	200.4	201.0	201.4	202.1
Non-current assets	1,830.2	1,788.7	1,804.3	1,796.5	1,800.4
Cash	709.9	797.0	684.3	703.2	709.1
Trade debtors	831.9	748.0	855.9	910.1	936.8
Current assets	1,559.9	1,569.5	1,561.8	1,636.1	1,669.6
Trade creditors	1,307.4	1,241.3	1,245.0	1,248.0	1,252.0
Short-term debt	34.5	36.2	37.0	37.8	38.2
Current liabilities	1,347.6	1,284.9	1,262.7	1,265.0	1,265.0
Long-term debt	335.1	299.0	300.0	305.0	305.0
Non-current liabilities	335.1	303.7	304.0	306.0	308.0
Share capital	1,618.3	1,618.3	1,618.3	1,618.3	1,618.3
Retained earnings	88.4	156.1	91.7	91.7	91.7
Equity	1,965.7	1,707.4	1,769.5	2,521.6	2,525.0

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	-274.1	46.7	89.3	174.2	209.9
Depreciation & amortisation	79.0	71.6	79.9	80.0	79.0
Changes in working capital	167.7	38.5	29.0	40.1	67.8
Operating cash flow	157.2	172.5	43.0	43.0	157.2
Capital expenditure	-48.1	-40.5	-60.2	-60.2	**60.0**
Investing cash flow	37.8	3.4	-46.1	-46.1	**-46.0**
Financing cash flow	-107.1	-49.7	-20.0	- 20.0	**-20.0**
Net cash flow	2-2.9	-226.6	-125.6	-25.2	-25.0
Beginning cash flow	638.9	865.4	991.0	965.9	**966.0**
Ending cash flow	865.4	991.0	965.9	940.7	941.0

Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	-17.2%	3.7%	9.2%	12.8%	14.2%
PBT margin	-18.7%	2.8%	4.7%	8.7%	10.1%
PAT margin	-18.4%	4.1%	5.1%	8.9%	10.2%
Core PAT margin	105.1%	111.0%	55.7%	69.3%	72.1%

Source: Bloomberg, 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