Muhibbah Engineering (M) Berhad

(5703 | MUHI MK) Main | Construction

Improving Prospects

Upgrade to NEUTRAL
(previously SELL)

***Revised* Target Price: RM0.61**
(previously RM0.47)

KEY INVESTMENT HIGHLIGHTS

- **Core earnings rose 2.5x to RM2.3m but still below expectations**
- **Improvement in each operating segment, best performer was cranes and automation segment with +88.6% growth in PBT**
- **Order book of RM1.71b provides earnings visibility up to FY25**
- **Upgrade to NEUTRAL with a revised TP of RM0.61**

Below expectations. Muhibbah Engineering (M) Berhad (Muhibbah) achieved a +16.3%yoy higher revenue at RM203.7m in 1QFY23. Core earnings came in 2.5x better at RM2.3m. This however, still came in below ours and consensus estimates, making up 6.8% and 8.1% of full year estimates.

Stronger performance in each sector. Compared to the same corresponding quarter last year, there was a marked improvement in each of its segments. The infrastructure construction division recorded a +68.9%yoy improvement in PBT to RM4.5m while the cranes and automation division grew its PBT by +88.6%yoy to RM14.6m. Its share of concession profits also rebounded into the positive region to RM9.2m from a loss of -RM5.1m in 1QFY22, on the back of a strong growth of 6.5x to 1.3m passengers for its concession of airports in Cambodia.

Order book. The current outstanding order book for group is RM1.71b, comprising RM1.01b in infrastructure construction and RM699m in cranes, providing it earnings visibility up to FY25. Muhibbah secured RM611m of oil and gas and building construction projects over the last six months. It foresees a higher demand for offshore platform structures, cranes and automation of systems, including offshore support vessels from the global market.

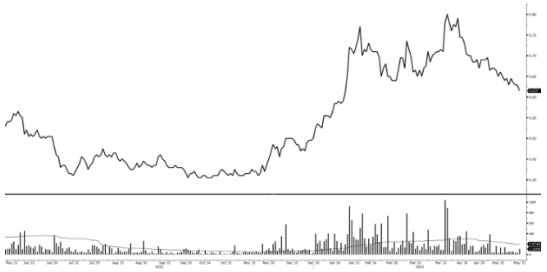
Earnings estimates. We are slashing our FY23 revenue estimates by -7.1% to RM1.04b and core earnings by -18.2% to RM27.5m and trim our FY24F core earnings estimates by -43.4% to RM40.7m.

Target price. We are revising our **TP** to **RM0.61** from RM0.47**.** This is based on pegging a forward PER of 10.9x based on its two-year mean to its FY24F EPS of 5.6 sen as we roll forward our valuation base year.

Upgrade to NEUTRAL. We expect Muhibbah to benefit from the improving demand of oil and gas offshore projects, which is one of the core businesses of the group. The expectations of improving construction job flows would also bode well for the group, on top of its improving results from its Cambodia airports concession post-China reopening. All factors considered, we upgrade our recommendation to **NEUTRAL** from SELL previously.

RETURN STATISTICS	
Price @ 29th May 2023 (RM)	0.615
Expected share price return (%)	-0.81
Expected dividend yield (%)	0.00
Expected total return (%)	**-0.81**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	21.1	17.7
3 months	11.3	26.6
12 months	78.7	70.1

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	1,043.8	1,356.3	1,397.0
Operating Profit	46.6	60.5	62.3
Profit Before Tax	47.3	134.9	154.9
Core PATAMI	27.5	40.7	55.9
Core EPS	3.8	5.6	7.7
DPS	0	0	0
Dividend Yield	0%	0%	0%

KEY STATISTICS

FBM KLCI	1,404.93
Issue shares (m)	725.17
Estimated free float (%)	66.06
Market Capitalisation (RM'm)	447.07
52-wk price range	RM0.39-RM0.81
3-mth average daily volume (m)	1.95
3-mth average daily value (RM'm)	1.39
Top Shareholders (%)	
Mac Ngan Boon	17.01
FIL Ltd	5.66
Fidelity Funds Asean	4.08

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MUHIBBAH ENGINEERING: 1QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results				
Income Statement	**1Q23**	**4Q22**	**1Q22**	**QoQ**	**YoY**
Revenue	203.72	261.09	175.19	-22%	16.3%
Gross Profit	(197.61)	(252.40)	(167.25)	22%	-18.2%
Net Finance Costs	(3.48)	(5.12)	(2.02)	32%	-72.4%
Other Opex	0.00	0.00	0.00	-	-
Operating Profit	2.62	3.57	5.92	-27%	-55.7%
Associates	10.15	3.06	(4.58)	231%	321.7%
Profit Before Tax	12.77	6.64	1.35	93%	849.7%
Tax Expense	(4.27)	(10.25)	(1.67)	58%	-156.3%
Minority Interest	6.46	14.75	(0.79)	-56%	920.1%
Reported Net Profit	2.04	(18.37)	0.47	111%	336.8%
Core Net Profit	2.27	(18.39)	0.92	112%	147.7%
Basic EPS	0.28	(2.53)	0.10	111%	180.0%
Diluted EPS	0.28	(2.53)	0.10	111%	180.0%

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	1,004.86	1,018.30	1,043.80	1,356.33	1,397.02
Operating profit	47.64	19.1	46.65	60.53	62.33
Profit before tax	17.42	20.4	47.30	134.87	154.87
Tax	(15.68)	(16.6)	(24.59)	(31.31)	(32.52)
PATAMI	(3.35)	(17.8)	27.47	40.69	55.88
Core PATAMI	(8.88)	(16.2)	27.47	40.69	55.88

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	1052.3	1027.8	1058.6	1079.8	1069.0
Non-current assets	**1875.1**	**1838.3**	**2030.0**	**2051.2**	**2040.4**
Cash	628.4	450.5	405.5	385.2	394.8
Trade debtors	532.0	450.2	544.0	525.0	589.0
Current assets	1811.5	1542.4	1591.2	1551.9	1625.5
Trade creditors	486.0	416.2	502.9	485.4	544.5
Short-term debt	379.3	429.9	386.9	348.2	313.4
Current liabilities	**1772.8**	**1506.3**	**1730.3**	**1676.5**	**1688.4**
Long-term debt	161.4	130.9	120.0	115.0	110.0
Non-current liabilities	**242.6**	**212.3**	**201.4**	**196.4**	**191.4**
Share capital	306.6	306.6	306.6	306.6	306.6
Retained earnings	780.1	795.7	823.2	863.9	919.8
Equity	**1671.2**	**1662.0**	**1689.5**	**1730.2**	**1786.1**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	17.4	31.0	47.3	134.9	154.9
Depreciation & amortisation	15.1	13.3	31.8	32.4	32.1
Changes in working capital	-2.7	8.9	25.3	28.5	28.8
Operating cash flow	**35.0**	**26.1**	**61.0**	**64.8**	**64.8**
Capital expenditure	-40.5	-30.0	-35.0	-35.0	-35.0
Investing cash flow	**-26.3**	**-21.6**	**-26.6**	**-26.6**	**-26.6**
Debt raised/(repaid)	-180.0	-170.0	-153.0	-137.7	-123.9
Financing cash flow	**59.1**	**33.2**	**50.2**	**65.5**	**79.3**
Net cash flow	**60.7**	**29.6**	**84.6**	**103.7**	**117.5**
Beginning cash flow	**441.6**	**284.7**	**314.4**	**399.0**	**502.7**
Ending cash flow	**502.3**	**314.4**	**399.0**	**502.7**	**620.1**

Profitability Margins	2021A	2022A	2023E	2024F	2025F
Operating profit margin	4.7%	2.7%	4.5%	4.5%	4.5%
PBT margin	1.7%	3.0%	4.5%	9.9%	11.1%
PAT margin	-0.3%	1.5%	2.6%	3.0%	4.0%
Core PAT margin	-0.9%	1.5%	2.6%	3.0%	4.0%

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