Corporate Update

Malaysia Marine & Heavy Engineering Holdings Berhad

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

4 Stars | SHARIAH Compliant | FTSE4Good

Maintain BUY

Revised Target Price **RM0.51** (from RM0.70)

Strong Fundamentals in FY25 amid Headwinds

Maintain BUY. Malaysia Marine & Heavy Engineering's (MMHE) 1QFY25 earnings came in below our expectations and consensus' at 11% and 14% respectively (1Q earnings estimates stands at 16-20% of FY). However, given the strong fundamentals for its business, we maintain our **BUY** call for MMHE. We revised the target price to RM0.51 from RM0.70 to accommodate the amendment in our revenue forecast.

PATAMI added +41%yoy. 1QFY25 PATAMI added +41%yoy to RM14.9m, contributed by positive results by both segments. Conversely, revenue dropped -54%yoy to RM453.1m, attributable to lower activities from ongoing projects which are nearing completion and new projects still in early stages.

Offshore facilities demand remains stable. Heavy Engineering's (HE) 1QFY25 revenue declined by -63.2%yoy to RM320.2m, due to several ongoing projects nearing completion, resulting in lower activity and revenue, while the newer projects are still at early stages. Meanwhile EBIT surged >100%yoy to RM2.2m from RM0.3m in 1QFY24, due to successful close-out of post-sail-away projects upon the achievement of key milestones, positively impacting HE's financial performance.

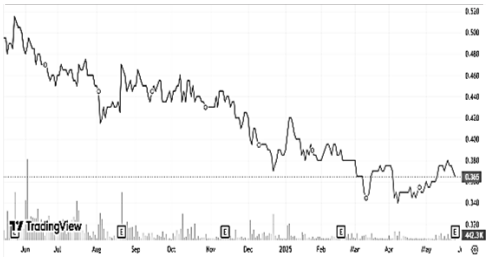
LNGC demand on the rise. Marine's 1QFY25 revenue gained +15.2%yoy to RM132.9m, while EBIT increased by +26%yoy to RM17.4m. These are due to higher conversion activities. 1QFY25 saw 18 vessels completed repairs and maintenance, including one LNGC.

Strong orderbook to sustain growth. MMHE's HE orderbook for FY25 slipped by a marginal -0.2%yoy to RM5.3b at this juncture, largely due to project completions (Kasawari EPCIC at 62% completion and MTJDA EPCI at 90% completion), but slightly offset by new projects, including the EPC OSS HVDC platform for TenneT's 2GW Programme (4%) and EPCIC of wellhead platforms for Vestigo Petroleum (14%). New order intake for FY25 consisted of the Vestigo contract worth RM343m. We opine that the robust orderbook for FY25 would help sustain the group's operations in the long term.

Prospects expected to be stable amid headwinds. The HE and marine sectors faced downside risks stemming from: (i) the potential changes in macroeconomic conditions and volatile oil market, (ii) escalation of geopolitical tensions and trade wars, (iii) supply chain disruption from rising raw material costs and shortages due to tariffs, and (iv) intense competition for HE and Marine service pricing. Nevertheless, we opine that the upstream division will continue to support MMHE's HE operations, despite the cautious spending in tandem with the lower oil prices. Additionally, the growing interest in renewables bode well for the segment, provided that policies and regulations on renewables remain intact. For Marine, we believe the trade tensions with China could reroute businesses to MMHE's shipyard. Adherence to ESG compliance is also boosting demand for vessel upgrades, giving a promising outlook for the segment.

RETURN STATISTICS	
Price @ 27 May 2025 (RM)	0.37
Expected share price return (%)	+37.8
Expected dividend yield (%)	+0.0
Expected total return (%)	+37.8

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	7.1	4.3
3 months	0.0	2.8
12 months	-23.5	-18.7

INVESTMENT STATISTICS

FYE Dec (Rm'm)	2025E	2026F	2027F
Revenue	2,761	2,957	3,192
EBIT	189	194	199
PBT	102	109	118
Core PATAMI	103	113	125
Core EPS	6.3	6.7	7.3
DPS	0.0	0.0	0.5
Dividend Yield (%)	0.0	0.0	1.0

KEY STATISTICS	
FBM KLCI	1,526.16
Issue shares (m)	1600.00
Estimated free float (%)	15.63
Market Capitalisation (RM'm)	600.00
52-wk price range	RM0.33 - RM0.52
3-mth average daily volume (m)	0.27
3-mth average daily value (RM'm)	0.10
Top Shareholders (%)	
MISC Bhd	66.5
Technip Energies M Sdn Bhd	8.50
Lembaga Tabung Angkatan Tentera	3.09

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Revised earnings estimates. In consideration that 1QFY25 earnings came in below expectations, in addition to normalising our revenue forecasts according to the revenue estimates in the HE segments, we revised our FY25-27 earnings forecast downwards by -30%/-25%/-23%. Likewise, we **revised our target price to RM0.51** from RM0.70, pegging on a PER of 8.1x to the revised EPS25 of 6.3sen. The PER is a discount of SD -1.0 from MMHE's average PER of 13x.

The discount reflects several risk factors: (i) the unstable energy market, which could reduce demand for dry-docking and fabrication services; (ii) the potential impact of tariffs and sanctions on global supply chains; and (iii) geopolitical tensions and trade barriers that may influence raw material costs. Despite these concerns, we remain positive on MMHE's outlook in FY25, supported by stable upstream activities and higher demand for vessel maintenance and retrofits. Furthermore, demand for energy transition projects continues to grow, with a projected compound annual growth rate (CAGR) of +9% from 2024 to 2030. Increasing emphasis on upstream decarbonisation is also likely to spur new technologies and regulatory support, strengthening the sector's long-term resilience. As such, we reiterate our **BUY** recommendation on MMHE.

MALAYSIA MARINE & HEAVY ENGINEERING'S 1QFY25 RESULTS REVIEW

FYE Dec (RM'm)	Quarterly					Cumulative		
	1Q24	4Q24	1Q25	QoQ (%)	YoY (%)	3M24	3M25	YoY (%)
Revenue	984.5	817.6	453.1	(44.6)	(54.0)	984.5	453.1	(54.0)
Other operating income	4.5	16.7	(4.3)	(125.9)	(195.6)	4.5	(4.3)	(195.6)
Operating profit/(loss)	14.4	26.7	15.4	(42.5)	6.4	14.4	15.4	6.4
Finance cost	(3.5)	(4.7)	(2.7)	(25.5)	(23.9)	(3.5)	(2.7)	(23.9)
Profit before taxation	10.9	22.0	12.7	(42.5)	16.2	10.9	12.7	16.2
Taxation	(0.5)	(0.7)	(0.4)	(99.5)	(10.7)	(0.5)	(0.4)	(10.7)
Profit after taxation	10.4	21.4	12.2	(42.7)	17.4	10.4	12.2	17.4
Minority interests	-	(0.0)	-	(100.0)	nm	-	-	nm
PATAMI/LATAMI	**10.5**	**21.4**	**14.9**	**(30.5)**	41.0	**10.5**	**14.9**	41.0
Normalised PATAMI/(LATAMI)	**10.5**	**21.4**	**14.9**	**(30.5)**	41.0	**10.5**	**14.9**	41.0
EPS Basic(sen)	0.7	1.3	0.8	(38.5)	14.3	0.7	0.8	14.3
				+/(-) ppts	+/(-) ppts			+/(-) ppts
Operating profit margin (%)	1.5	3.3	3.4	0.1	131.1	1.5	3.4	1.9
PATAMI margin (%)	1.1	2.6	(343.3)	(346.0)	(32,172.6)	1.1	3.3	2.2
Tax rate (%)	(4.5)	3.0	3.4	0.5	(176.9)	(4.5)	(3.4)	1.0
Segmental Revenue:								
Heavy Engineering	869.1	708.1	320.2	(54.8)	(63.2)	869.1	320.2	(63.2)
Marine	115.4	109.5	132.9	21.4	15.2	115.4	132.9	15.2
Segmental EBIT:								
Heavy Engineering	0.3	22.6	2.2	(90.2)	682.0	0.3	2.2	682.0
Marine	13.8	7.0	17.4	147.6	26.0	13.8	17.4	26.0
				+/(-) ppts	+/(-) ppts			+/(-) ppts
EBIT margin %								
Heavy Engineering	0.0	3.2	0.7	(2.5)	0.7	0.0	0.7	0.7
Marine	12.0	6.4	13.1	6.7	1.1	12.0	13.1	1.1

Source: Company, MIDFR

FINANCIAL SUMMARY

Profit or Loss (RM'm)	2023A	2024A	2025E	2026F	2027F
Revenue	3309.4	3608.6	3769.4	3777.3	3795.5
EBIT	-467.7	141.0	2760.9	2957.1	3192.3
PBT	-483.1	123.3	110.6	114.2	121.0
Taxation	-1.1	-2.2	102.2	108.9	117.9
PAT	-484.2	121.0	100.2	106.9	115.9
MI	0.0	0.0	0.1	0.1	0.1
PATAMI	-484.2	121.1	100.3	107.0	116.0
Core PATAMI	-466.0	163.1	103.1	113.2	124.9
EPS (sen)	-30.3	7.6	6.3	6.7	7.3
PER (x)	-2.3	9.3	8.1	7.6	7.0
DPS (sen)	1.5	0.0	0.0	0.0	0.5
Dividend yield (%)	2.9	0.0	0.0	0.0	1.0

Cash Flow (RM'm)	2023A	2024A	2025E	2026F	2027F
PBT	-483.1	123.3	110.6	114.2	121.0
Depreciation	67.8	70.3	70.4	71.8	70.4
OP pre-WC changes	86.9	186.8	176.9	185.8	192.9
Change in NWC	-249.7	-62.7	-47.1	-49.6	-42.0
Operating cash flow	**-162.8**	**124.1**	**129.8**	**136.2**	**150.9**
Capital expenditure	-82.2	-111.9	-115.4	-104.3	-113.2
Investing cash flow	**-68.2**	**-99.9**	**-101.7**	**-90.5**	**-98.7**
Debt raised/(repaid)	68.0	-68.0	41.1	41.9	53.8
Dividends paid	-24	0	0	0	0
Financing cash flow	**-8.4**	**-124.2**	**3.5**	**1.6**	**10.9**
Net cash flow	**-239.5**	**-100.0**	**31.6**	**47.4**	**63.1**
Beginning cash flow	**-239.5**	**557.6**	**457.6**	**477.0**	**524.4**
Ending cash flow	**557.6**	**457.6**	**477.0**	**524.4**	**587.4**

Growth (%)	2023A	2024E	2025F	2026F	2027F
Revenue growth	100.3	9.0	4.5	0.2	0.5
PBT growth	-1,133.6	491.8	-10.3	3.3	5.9
PATAMI growth	-816.3	500.2	-17.1	6.6	8.5
Core PATAMI growth	-817.3	500.0	-36.8	9.8	10.3

Profitability Ratios (%)	2023A	2024E	2025F	2026F	2027F
EBIT margin	-14.1	3.9	73.2	78.3	84.1
PBT margin	-14.6	3.4	2.9	3.0	3.2
PATAMI margin	-14.6	3.4	2.7	2.8	3.1
Core PATAMI margin	-14.1	4.5	2.7	3.0	3.3
ROA	-12.8	4.6	2.8	3.0	3.2
ROE	-36.8	11.8	7.3	7.8	8.2

Balance Sheet (RM'm)	2023A	2024E	2025F	2026F	2027F
PPE	1,507.7	1,535.0	1,566.0	1,588.3	1,609.6
ROU assets	195.4	187.5	190.5	189.4	188.2
Non-current assets	**1,797.9**	**1,816.6**	**1,852.0**	**1,873.3**	**1,893.3**
Trade receivables	1291.0	1253.7	1295.9	1350.3	1414.8
Cash & bank balances	557.6	457.6	477.0	524.4	587.4
Current assets	**1851.5**	**1713.9**	**1776.9**	**1878.8**	**2008.4**
Long-term debt	261.3	221.9	253.5	267.9	256.8
Non-current liabilities	**268.5**	**228.4**	**258.5**	**272.9**	**262.8**
Short-term debt	105.7	39.3	53.1	66.7	79.1
Trade payables	1981.00	1879.92	1886.55	1954.35	2015.44
Current liabilities	**2113.5**	**1921.7**	**1952.5**	**2032.4**	**2106.9**
Share capital	1,618.3	1,618.3	1,618.3	1,618.3	1,619.3
Reserves	-352.1	-231.1	-202.1	-173.5	-90.2
Equity	**1,267.3**	**1,380.4**	**1,417.9**	**1,446.8**	**1,532.0**

Liquidity Ratios (x)	2023A	2024E	2025F	2026F	2027F
Current ratio	0.9	0.9	0.9	0.9	1.0
Quick ratio	0.3	0.2	0.2	0.3	0.3

Leverage Ratios (x)	2023A	2024E	2025F	2026F	2027F
Debt-to-equity	1.9	1.6	1.6	1.6	1.5
Interest coverage	30.4	1.2	27.5	27.7	27.5

Efficiency Ratios (days)	2023A	2024E	2025F	2026F	2027F
Cash conversion cycle	-48	-72	-131	-118	-101
DIO	0.3	0.3	0.4	0.4	0.4
DSO	142.4	126.8	125.5	130.5	136.1
DPO	190.7	199.4	257.1	248.7	237.6

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	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

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