

03 June 2019

# Muhibbah Engineering (M)

Within Expectations

By Adrian Ng | [adrian.ng@kenanga.com.my](mailto:adrian.ng@kenanga.com.my)

**1Q19 CNP of RM38.5m came in within expectations, making up 24% of our/consensus full-year estimates. No dividends declared as expected. No changes to our FY19-20E earnings. Maintain OP with an unchanged SoP-driven Target Price of RM3.20.**

**Within expectations.** 1Q19 CNP of RM38.5m came in within expectations, making up 24% of our/consensus full-year estimates. No dividends declared as expected.

**Results highlight.** YoY, 1Q19 CNP declined by 32%, despite higher revenue (+9%) which we believe was due to its construction division registering minimal profit for the period due to higher costs. Positively, its associate continued to grow, by 11%, thanks to its Cambodian airports. QoQ, 1Q19 CNP fell 15% underpinned by weaker revenue (-36%) due to lower revenue recognition from its construction and cranes division which we believe could be due to slower billings.

**Company outlook.** MUHIBAH's outstanding order-book currently stands at c.RM1.7b (construction: c.RM1.1b, cranes: RM0.5b) providing at least two years of visibility. As for its associate, i.e. Cambodian Airports, we believe its traffic growth will remain robust in the teens driven by traffic from China To recap; Cambodian Airports registered passenger traffic growth of 10%, YoY. Going forward, we expect they would be able to maintain the traffic growth momentum, driven by traffic from China.

**Earnings estimates.** Post results, no changes to our FY19-20E earnings.

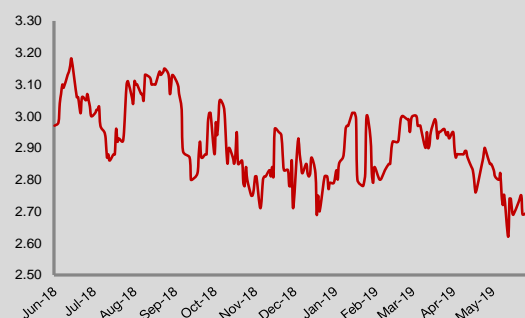
**Maintain OUTPERFORM** with an unchanged SoP-driven Target Price of RM3.20, which implies 9.3x FY20E PER. We deem the valuation as reasonable as it is within the range of our ascribed multiple of 6.0-11.0x for contractors within our universe.

**Risks include:** (i) higher/lower than expected order-book replenishment target, (ii) expedited/delays in construction progress, and (iii) stable/sharp spike in raw material costs.

## OUTPERFORM ↔

Price : **RM2.75**  
Target Price : **RM3.20** ↔

### Share Price Performance



KLCI 1,650.76  
YTD KLCI chg -2.4%  
YTD stock price chg -1.4%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MUHI MK EQUITY
Market Cap (RM m)	1,325.6
Shares Outstanding	482.0
52-week range (H)	3.20
52-week range (L)	2.60
3-mth avg daily vol:	359,288
Free Float	65%
Beta	1.0

### Major Shareholders

Mac Ngan Boon	19.4%
Fil Limited	8.9%
Lembaga Tabung Haji	6.9%

### Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	1543.1	1453.0	1508.0
EBIT	148.3	124.0	128.7
PBT	262.1	254.7	266.6
<b>Net Profit (NP)</b>	<b>144.8</b>	<b>157.4</b>	<b>164.8</b>
<b>Core NP</b>	<b>161.4</b>	<b>157.4</b>	<b>164.8</b>
Consensus (CNP)	N.A.	162.3	167.1
Earnings Revision	N.A.	0%	0%
EPS (sen)	33.6	32.8	34.3
EPS growth (%)	31.5	-2.5	4.7
NDPS (sen)	7.5	7.0	7.0
NTA/Share (RM)	2.3	2.6	2.8
PER (x)	8.2	8.4	8.0
Price/NTA (x)	1.2	1.1	1.0
Net Gearing (x)	0.4	0.4	0.2
Dividend Yield (%)	2.7	2.6	2.6



03 June 2019

<b>Results Highlight</b>						
	<b>1Q19</b>	<b>4Q18</b>	<b>QoQ</b>	<b>1Q18</b>	<b>YoY</b>	
<b>FYE Dec (RM'm)</b>						
<b>Turnover</b>	<b>272.4</b>	<b>425.1</b>	<b>-36%</b>	<b>249.1</b>	<b>9%</b>	
<b>EBITDA</b>	<b>27.7</b>	<b>79.1</b>	<b>-65%</b>	<b>58.5</b>	<b>-53%</b>	
Depreciation	-12.0	-27.4	-56%	-16.6	-27%	
<b>EBIT</b>	<b>15.6</b>	<b>51.7</b>	<b>-70%</b>	<b>42.0</b>	<b>-63%</b>	
Interest inc/(exp)	-1.5	-1.7	-10%	-3.7	-60%	
Associates	50.8	28.2	81%	46.0	11%	
Exceptional items	0.0	0.0	n.m.	0.0	n.m.	
Forex gain/(loss)	-5.5	-7.2	-24%	-20.8	-74%	
<b>Pretax profit</b>	<b>59.5</b>	<b>71.0</b>	<b>-16%</b>	<b>63.5</b>	<b>-6%</b>	
Taxation	-5.1	-6.2	-18%	-4.1	23%	
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	
<b>Profit after tax</b>	<b>54.4</b>	<b>64.8</b>	<b>-16%</b>	<b>59.4</b>	<b>-8%</b>	
Minority interest	-21.4	-26.9	-21%	-23.2	-8%	
<b>PATAMI</b>	<b>33.0</b>	<b>37.9</b>	<b>-13%</b>	<b>36.2</b>	<b>-9%</b>	
<b>Core PATAMI</b>	<b>38.5</b>	<b>45.1</b>	<b>-15%</b>	<b>56.9</b>	<b>-32%</b>	
EPS (sen)	6.8	7.9		7.5		
Core EPS(sen)	8.0	9.4		11.8		
BV/share (RM)	2.4	2.3		2.1		
Net gearing (x)	0.5	0.4		0.4		
EBIT margin	6%	12%		17%		
Pretax margin	22%	17%		25%		
Net margin	14%	11%		23%		
Eff. Tax rate	9%	9%		6%		

Source: Company, Kenanga Research

<b>Sum-of-parts-Muhibbah</b>						
<b>Segment</b>	<b>Stake</b>	<b>Valuation</b>		<b>FY20E</b>	<b>(RMm)</b>	
Concessions (Airport and Road Maintenance)	Various	Various			2,003.5	
Infrastructure Construction	100.0%	P/E	7	13.5	94.5	
Crane	59.3%	P/E	6	8.9	259.4	
<b>Total SoP value</b>					<b>2,357.4</b>	
<b>No of shares</b>					<b>480.3</b>	
<b>Fair Value after 35% holding discount (sen)</b>					<b>3.20</b>	

Source: Company, Kenanga Research

03 June 2019

### Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
<b>STOCKS UNDER COVERAGE</b>																	
GAMUDA BHD	3.49	8,616.3	Y	07/2019	-20.8%	0.3%	-27.7%	1.3%	10.5	14.6	14.4	1.1	1.1	7.7%	3.4%	2.85	UP
GEORGE KENT (MALAYSIA) BHD	1.09	587.1	Y	01/2020	14.4%	-0.3%	4.9%	33.1%	7.8	7.4	5.6	1.3	1.1	16.0%	4.5%	1.15	UP
HOCK SENG LEE BERHAD	1.37	752.8	Y	12/2019	18.7%	15.6%	31.6%	10.3%	14.0	10.6	9.6	1.0	0.9	8.8%	1.9%	1.40	MP
IJM CORP BHD	2.22	8,049.7	Y	03/2020	22.8%	2.0%	11.0%	2.2%	19.3	17.4	17.0	0.8	0.8	4.7%	2.2%	1.80	UP
KERJAYA PROSPEK GROUP BHD	1.23	1,516.8	Y	12/2019	28.3%	-4.4%	11.5%	1.9%	11.0	9.9	9.7	1.6	1.4	14.9%	2.4%	1.20	MP
KIMLUN CORP BHD	1.38	458.0	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	7.3	7.4	7.2	0.7	0.7	9.0%	2.6%	1.35	MP
MITRAJAYA HOLDINGS BHD	0.340	302.5	Y	12/2019	-4.7%	-7.3%	-40.7%	-11.7%	6.8	11.5	13.0	0.4	0.4	3.3%	4.4%	0.200	UP
MUHIBBAH ENGINEERING (M) BHD	2.75	1,325.6	Y	12/2019	-5.8%	3.8%	-2.5%	4.7%	8.2	8.4	8.0	1.2	1.1	13.4%	2.6%	3.20	OP
SUNWAY CONSTRUCTION GROUP BHD	1.96	2,532.4	Y	12/2019	-6.1%	21.9%	-12.2%	22.3%	18.2	20.7	16.9	4.2	3.9	19.4%	2.8%	1.40	UP
WCT HOLDINGS BHD	0.950	1,312.4	Y	12/2019	6.4%	14.1%	-13.8%	19.3%	10.5	12.1	10.2	0.4	0.4	3.4%	0.0%	0.815	UP
<b>Simple Average</b>					<b>5.9%</b>	<b>4.1%</b>	<b>-3.9%</b>	<b>8.6%</b>	<b>11.4</b>	<b>12.0</b>	<b>11.2</b>	<b>1.3</b>	<b>1.2</b>	<b>10.1%</b>	<b>2.7%</b>		
<b>CONSENSUS ESTIMATES</b>																	
AHMAD ZAKI RESOURCES BERHAD	0.415	248.2	Y	12/2019	N.A.	N.A.	N.A.	N.A.	16.9	N.A.	N.A.	0.9	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.175	66.7	Y	06/2019	N.A.	N.A.	N.A.	N.A.	128.3	N.A.	N.A.	0.3	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	1.31	646.1	Y	12/2019	24.2%	27.3%	27.6%	27.4%	10.6	8.3	0.0	1.3	1.4	16.0%	4.4%	1.72	BUY
GADANG HOLDINGS BHD	0.860	569.1	Y	05/2019	11.8%	15.6%	-33.0%	15.9%	5.9	8.8	0.0	0.8	N.A.	8.8%	2.7%	0.890	NEUTRAL
JAKS RESOURCES BHD	0.745	479.1	Y	12/2019	74.4%	-48.7%	655.6%	-21.2%	31.7	4.2	0.0	0.5	0.5	12.6%	0.0%	0.875	BUY
MUDAJAYA GROUP BHD	0.275	162.2	Y	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.3	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	2.53	419.6	Y	06/2019	224.3%	-2.7%	135.7%	-6.5%	27.0	11.5	0.1	1.3	1.3	11.5%	7.4%	2.56	NEUTRAL
PESONA METRO HOLDINGS	0.235	163.3	Y	12/2019	12.1%	9.5%	131.5%	-0.5%	19.8	8.6	0.0	1.0	N.A.	10.3%	4.3%	0.260	BUY
PROTASCO BHD	0.255	124.2	Y	12/2019	-1.4%	7.9%	365.8%	31.2%	N.A.	9.4	0.0	0.4	0.4	3.6%	5.5%	0.220	SELL
TRC SYNERGY BHD	0.650	312.3	Y	12/2019	18.3%	16.0%	67.3%	24.4%	15.0	9.0	0.0	0.7	0.7	8.2%	3.7%	0.690	BUY

Source: Bloomberg, Kenanga Research

03 June 2019

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)



Chan Ken Yew  
Head of Research