

MMHE Holdings Berhad

1H19 Narrowed Losses

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Narrowed 1H19 losses are deemed broadly within expectations, in anticipation of a stronger 2H from increased dry-docking activities and greater job progressions from heavy engineering. After recently winning Kasawari EPCIC, its order-book hit a multi-year high of RM3b, while prospects of further job wins are still likely, and may potentially act as re-rating catalysts if materialised. Maintain **OUTPERFORM** with TP of RM1.05.

Broadly within expectations. MHB posted 1H19 losses of RM38.8m (narrowed 81% YoY, 29% QoQ), against our full-year profit forecast of RM14.5m and consensus loss forecast of RM1.5m. Nonetheless, we deem the results to be broadly in line with expectations in anticipation of a stronger 2H19, driven by increased dry-docking activities coupled with expected improvements in its heavy engineering division. No dividends were announced, as expected.

Narrowing losses. MHB managed to narrow 2Q19 losses to RM9.5m, from RM49.5m in 2Q18 and RM29.4m 1Q19. The narrower losses were mainly helped by (i) turnaround in its marine segment, on the back of improvement in dry docking activities, coupled with (ii) lowered losses for its heavy engineering segment, in tandem with the higher revenue, on the back of greater project progression. Cumulatively, thinner YoY losses recorded for 1H19 were also due to turnaround in the marine segment, similarly from higher dry-docking activities, masking increased costs for its heavy engineering.

Order book at multi-year high. On the back of recently winning the engineering, procurement, construction, installation and commissioning (EPCIC) works for the Kasawari Gas Development project, MHB's order book jumped to a multi-year high of ~RM3b (from RM864m in the previous quarter), providing revenue visibility for well over the next 3-4 years. Further potential job wins could still come from: (i) tender book of RM3.2b, with bids for jobs both locally and overseas, (ii) long-term agreement (LTA) with Saudi Aramco, in partnership with TechnipFMC, and (iii) conversion works for the Limbayong FPSO, with expected award in early 2020. Meanwhile, for this year, we are expecting a stronger 2H, underpinned by (i) further increment in dry docking activities, given the imminent implementation of IMO2020, coupled with (ii) possible profit recognition from Bokor CPP (currently at 58.6% progression, expected completion in 3Q20) to drive the heavy engineering segment.

Maintain OUTPERFORM, with an unchanged TP of RM1.05 pegged to 0.7x FY20E PBV – roughly in-line with its 5-year mean valuations. Our call is premised on its solid jobs visibility from its strong multi-year high order-book of RM3b, while its losing streak is likely to have already bottomed-out with it potentially reversing into profitability, as seen in the recent quarterly results. Meanwhile, additional contract wins could act as further re-rating catalysts and MHB is also one of the few names within the O&G sector with a net-cash balance sheet.

Risks to our call include: (i) poorer-than-expected dry docking activities, (ii) higher-than-expected costs overrun in heavy engineering, (iii) project execution and earnings delivery.

OUTPERFORM ↔

Price: **RM0.855**
Target Price: **RM1.050** ↔

Share Price Performance



KLCI 1,626.76
YTD KLCI chg -3.8%
YTD stock price chg 56.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MMHE MK Equity
Market Cap (RM m)	1,368.0
Shares outstanding	1,600.0
52-week range (H)	0.97
52-week range (L)	0.50
3-mth avg daily vol:	855,748
Free Float	18%
Beta	1.4

Major Shareholders

MISC Bhd	66.5%
Technip Geoproduction	8.5%
Urusharta Jamaah	6.6%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Revenue	974.4	876.0	1,252.4
EBIT	(126.2)	2.5	35.5
PBT	(124.1)	4.5	46.2
Net Profit (NP)	(122.7)	14.5	34.7
Core NP	(122.6)	14.5	34.7
Consensus (CNP)		(1.5)	50.8
Earnings Revision (%)		-	-
Core EPS (sen)	N.M.	0.9	2.2
CNP growth (%)	N.M.	N.M.	139.0
DPS (sen)	0.0	0.0	0.0
BV/Share (RM)	1.5	1.5	1.5
Core PER (x)	N.M.	94.3	39.5
PBV (x)	0.6	0.6	0.6
Net-gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	0.0	0.0	0.0



05 August 2019

Income Statement								
	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
FY Dec (RM'm)	FY19	FY19		FY18		FY19	FY18	
Revenue	276.4	203.1	36.1%	223.0	23.9%	479.6	411.3	16.6%
Other operating income	8.1	4.6	78.2%	29.2	-72.1%	12.7	31.8	-60.0%
Operating profit	(8.6)	(29.3)	-70.7%	(49.5)	-82.6%	(37.9)	(74.3)	-49.0%
Finance cost	(0.2)	(0.2)	1.5%	0.0	N.A.	0.0	0.0	N.A.
Joint ventures	0.0	0.0	N.A.	(0.2)	N.A.	0.0	(0.8)	N.A.
Profit before taxation	(8.8)	(29.5)	-70.2%	(49.7)	-82.3%	(38.3)	(75.1)	-49.0%
Taxation	(0.4)	(0.3)	46.7%	(0.1)	256.2%	(0.6)	(0.4)	51.6%
Non-controlling interests	(0.3)	0.4	N.M.	0.3	N.M.	0.1	0.7	N.M.
Net profit	(9.5)	(29.4)	-67.7%	(49.5)	-80.9%	(38.8)	(74.8)	-48.0%
Core net profit	(9.5)	(29.4)	-67.7%	(49.5)	-80.9%	(38.8)	(74.7)	-48.0%
Operating margin	-3.1%	-14.4%		-22.2%		-7.9%	-18.1%	
PBT margin	-3.2%	-14.5%		-22.3%		-8.0%	-18.3%	
Net margin	-3.4%	-14.5%		-22.2%		-8.1%	-18.2%	
Core net margin	-3.4%	-14.5%		-22.2%		-8.1%	-18.2%	
Effective tax rate	-4.3%	-0.9%		-0.2%		-1.6%	-0.6%	

Source: Company

Segment Breakdown								
	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
FY Dec (RM'm)	FY19	FY19		FY18		FY19	FY18	
Revenue								
Heavy engineering	151.9	125.4	21.1%	137.8	10.3%	277.3	249.0	11.4%
Marine	124.6	77.7	60.3%	85.3	46.0%	202.2	162.3	24.6%
Segmental Results								
Heavy engineering	(19.8)	(23.9)	-17.0%	(23.7)	-16.6%	(43.7)	(36.5)	19.5%
Marine	8.6	(7.5)	N.M.	(25.6)	N.M.	1.2	(32.8)	N.M.
Other	2.7	2.1	29.5%	0.2	N.M.	4.7	(4.4)	N.M.
Segmental Margins								
Heavy engineering	-13.0%	-19.0%		-17.2%		-15.7%	-14.7%	
Marine	6.9%	-9.6%		-30.0%		0.6%	-20.2%	

Source: Company

05 August 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.			
BUMI ARMADA BERHAD	0.220	1,292.8	N	12/2019	14.3%	-19.8%	38.4%	2.2%	5.7	4.1	4.0	0.4	0.4	9.3%	0.0%	0.180	UP
DAYANG ENTERPRISE HLDGS BHD	1.44	1,389.3	Y	12/2019	22.2%	4.4%	-33.9%	9.1%	8.5	12.8	11.7	1.2	1.2	9.5%	0.0%	1.35	MP
DIALOG GROUP BHD	3.41	19,226.6	Y	06/2019	-22.9%	14.8%	10.1%	13.5%	44.8	40.7	35.9	5.5	5.3	13.2%	1.0%	3.80	OP
MALAYSIA MARINE AND HEAVY EN	0.855	1,368.0	Y	12/2019	-10.1%	43.0%	845.5%	139.3%	N.A.	94.3	39.4	0.6	0.6	0.6%	0.0%	1.05	OP
MISC BHD	7.21	32,183.6	Y	12/2019	0.8%	-2.9%	21.2%	10.1%	24.3	20.1	18.2	0.9	0.9	4.6%	4.2%	6.65	MP
PANTECH GROUP HOLDINGS BHD	0.505	378.7	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.6	8.5	8.0	0.7	0.6	7.6%	3.2%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	7.43	59,440.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	11.9	17.1	14.9	2.0	1.8	11.1%	2.9%	7.70	MP
PETRONAS DAGANGAN BHD	23.66	23,505.1	Y	12/2019	-5.6%	2.0%	33.0%	2.2%	28.1	21.1	20.7	4.0	3.8	18.4%	3.3%	24.95	MP
SAPURA ENERGY BHD	0.290	4,622.4	Y	01/2020	5.9%	20.7%	1875.6%	258.5%	N.A.	95.8	26.7	0.3	0.3	0.4%	0.0%	0.430	OP
SERBA DINAMIK HOLDINGS	4.10	6,020.9	Y	12/2019	18.6%	9.7%	12.2%	8.0%	15.7	14.0	13.0	2.9	2.5	19.4%	2.2%	4.80	OP
UZMA BHD	0.625	200.0	Y	06/2019	-24.3%	-0.1%	-86.0%	193.1%	3.9	27.8	9.5	0.4	0.4	1.5%	0.0%	0.760	MP
WAH SEONG CORP BHD	0.690	531.6	Y	12/2019	-47.7%	-7.7%	-18.8%	-18.1%	8.4	10.4	12.7	0.6	0.6	5.4%	0.0%	0.620	UP
YINSON HOLDINGS BHD	7.00	7,562.3	Y	01/2020	0.1%	70.2%	-7.1%	55.9%	28.8	31.0	19.9	4.4	4.0	13.5%	0.9%	7.75	OP

Source: Bloomberg, Kenanga Research

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05 August 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.**

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