

23 June 2020

Muhibbah Engineering (M)

1QFY20 Below Expectations

By Lum Joe Shen | lumjs@kenanga.com.my

1QFY20 earnings only accounted for 4%/3% of our/consensus full-year forecast due to unexpected loss in its construction division and weaker-than-expected contributions from its Cambodian airports which were hit by Covid-19. Cut FY20E/FY21E earnings by 65%/30% but maintain OUTPERFORM with lower TP of RM1.15, given the extremely attractive valuations.

Below expectations. 1QFY20 CNP of RM3.1m missed expectations, accounting for only 4%/3% of our/consensus full-year forecast. The negative variance stemmed from: (i) unexpected loss in the construction segment, dragged by overseas division, and (ii) lower-than-expected contributions from its Cambodian airports, hit by Covid-19. No dividends announced as expected.

QoQ, earnings improved to RM3.1m (from a loss of RM50.1m) solely because of huge provisions made for project claims and variation orders from its construction division in the last quarter.

YoY, CNP was down 92% mainly due to weaker associate contributions (-67%) from its 21%-owned Cambodian airports which saw passenger traffic plunging to 1.9m (-42%). Note that Cambodia imposed entry bans to 6 countries (Spain, Italy, France, Germany, the United States and Iran) from 17th March till 20th May 2020. Its construction division which registered losses before tax (to the tune of RM11m, after accounting for eliminations) also contributed to the overall drop.

2QFY20 earnings will be even worse as this period was the peak of Covid-19 travel restrictions which could possibly see its Cambodian airports reporting losses. Even now, tourists are deterred from travelling into Cambodia given the multiple SOPs and restrictions imposed i.e. compulsory testing for Covid-19 upon arrival. Current order-book of RM1.3b provides visibility for a year.

Earnings cut. Post results, we cut our FY20E/FY21E CNP by 65%/30% after factoring: (i) losses of RM20m/RM10m for its construction division (vs. initial profit of RM17m/18m), and (ii) lower passenger traffic of 5m/8m (from 7.5m/10m) for its Cambodian airports due to Covid-19, respectively.

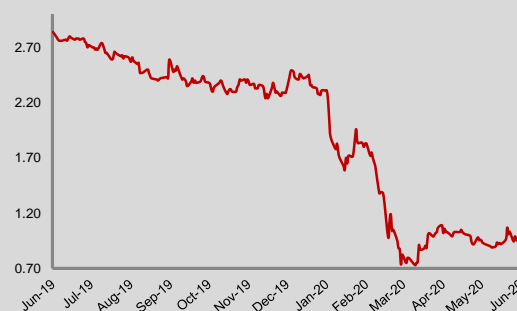
Valuation too attractive to ignore. Despite the huge slash in earnings coupled with the fact that MUHIBAH's airports are direct victims of the Covid-19 pandemic, we find its valuations just too attractive to ignore at this juncture. Hence, we **maintain OUTPERFORM** but with a lower SoP-based TP of RM1.15 (from RM1.20 previously) on lowered BV for its construction segment.

In our SoP, we have: (i) ascribed a -2.5SD PBV (lowest in our universe) to its construction division due to the volatile profits, (ii) fully omitted Phnom Penh airport from the concession valuation, and (iii) only value FAVCO at RM1.84 (vs current share price of RM2.29). Yet, our conservative TP of RM1.15 still provides 20% upside from current level.

OUTPERFORM ↔

Price : RM0.955
Target Price : RM1.15 ↓

Share Price Performance



KLCI 1,511.24
YTD KLCI chg -4.9%
YTD stock price chg -61.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MUHI MK Equity
Market Cap (RM m)	461.7
Shares Outstanding	483.4
52-week range (H)	2.84
52-week range (L)	0.72
3-mth avg daily vol:	5,643,029
Free Float	57%
Beta	1.2

Major Shareholders

Mac Ngan Boon	19.5%
Fil Limited	7.0%
Lembaga Tabung Haji	5.0%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	1608.9	1272.4	1284.6
EBIT	30.8	46.8	62.5
PBT	133.2	61.9	147.0
Net Profit (NP)	118.8	27.3	74.6
Core NP	45.1	27.3	74.6
Consensus (CNP)	n.a.	104.5	117.6
Earnings Revision	n.a.	-65%	-30%
EPS (sen)	7.9	5.7	15.5
EPS growth (%)	-73.9	-27.9	173.6
NDPS (sen)	2.5	1.0	2.0
NTA/Share (RM)	2.3	2.4	2.5
PER (x)	12.2	16.9	6.2
Price/NTA (x)	0.4	0.4	0.4
Net Gearing (x)	-0.1	0.2	0.2
Dividend Yield (%)	2.7	1.1	2.1

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Risks to our call include: (i) lower-than-expected order-book replenishment target, (ii) delays in construction progress, and (iii) sharp spike in raw material costs.

Results Highlight						
FYE Dec (RM m)	1Q20	4Q19	QoQ	1Q19	YoY	
Turnover	333.5	550.2	-39%	272.4	22%	
EBITDA	29.5	-3.3	993%	22.2	33%	
Depreciation	-19.2	-22.0	-13%	-12.0	59%	
EBIT	10.3	-25.3	141%	10.1	1%	
Interest inc/(exp)	-2.4	-7.4	-68%	-1.5	61%	
Associates/JV	16.5	29.5	-44%	50.8	-67%	
Pretax profit	22.1	-14.2	255%	59.5	-63%	
Taxation	-2.9	-20.1	-86%	-5.1	-43%	
Deferred tax	0.0	0.0	n.a.	0.0	n.a.	
Profit after tax	19.2	-34.3	156%	54.4	-65%	
Minority interest	14.1	21.2	-33%	21.4	-34%	
PATAMI	5.1	-55.5	109%	33.0	-85%	
Exceptional Items	2.0	-5.4		-5.5		
Core PATAMI	3.1	-50.1	106%	38.5	-92%	
DPS (sen)	0.0	2.5		0.0		
EBIT margin	3%	-5%		4%		
Pretax margin	7%	-3%		22%		
NP margin	6%	-6%		20%		
CNP margin	1%	-9%		14%		
EPS (sen)	1.1	-11.5		6.8		
Core EPS(sen)	0.6	-10.4		8.0		
BV/share (RM)	2.4	2.3		2.4		
Net gearing (x)	0.1	-0.1		0.5		
Effective tax	13%	-142%		9%		

Source: Company, Kenanga Research

Segmental Breakdown						
External Revenue	1Q20	4Q19	QoQ	1Q19	YoY	
Construction	251.8	534.9	-53%	235.1	7%	
Cranes	147.2	225.2	-35%	159.7	-8%	
Concession	86.1	108.3	-21%	0.0	n.a.	
Eliminations	-54.4	-186.8	-71%	-110.8	-51%	
Total	430.6	681.5	-37%	284.0	52%	
Pre-tax Segmentation						
Construction	3.3	0.7	363%	11.8	-72%	
Cranes	16.1	46.7	-66%	18.5	-13%	
Concession	17.0	27.1	-37%	50.3	-66%	
Eliminations	-14.3	-88.8	-84%	-21.1	-32%	
Total	22.1	-14.2	255%	59.5	-63%	
Pre-tax margins						
Construction	1%	0%		5%		
Cranes	11%	21%		12%		
Concession	20%	25%		n.a.		

Source: Company, Kenanga Research

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Sum-of-parts valuations				
Divisions	Stake	Effective Value	Value/Share (RM/share)	Assumptions
Construction	100%	98	0.20	0.375x FY21 PBV (-2.5SD) based on historical 3 years
FAVCO	59%	244	0.50	FY21 PER of 8x (+0.5SD)
Concession/ Societe Concessionaire De l' Aeroport	21%	214	0.44	DCF only for Sihanoukville and Siam Reap Airport starting 2022 (Wacc at 10%). Assumed Phnom Penh forced to close with compensation suffice to only cover outstanding debt - hence omitted from our valuations.
	Total	557	1.15	

Source: Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE														
GAMUDA BHD	3.56	8,948.2	Y	07/2020	10.9	14.6	18.1	1.0	1.0	6.6%	3.4%	4.30	OP	
GEORGE KENT (MALAYSIA) BHD	0.660	349.3	Y	01/2020	8.8	6.8	5.3	0.7	0.7	6.7%	2.4%	0.510	UP	
HOCK SENG LEE BERHAD	1.08	593.5	Y	12/2020	10.8	9.1	7.5	0.7	0.7	3.5%	0.9%	1.25	OP	
IJM CORP BHD	1.76	6,387.8	Y	03/2020	15.3	22.7	19.9	0.7	0.6	2.3%	1.7%	2.00	MP	
KERJAYA PROSPEK GROUP BHD	1.09	1,338.0	Y	12/2020	9.0	8.0	6.6	1.4	1.2	10.2%	2.8%	1.45	OP	
KIMLUN CORP BHD	0.740	251.5	Y	12/2020	4.1	3.7	3.8	0.4	0.3	3.8%	6.4%	1.00	OP	
MITRAJAYA HOLDINGS BHD	0.200	168.2	Y	12/2020	N.A.	N.A.	N.A.	0.2	0.3	-3.9%	n.a.	0.200	MP	
MUHIBBAH ENGINEERING (M) BHD	0.955	461.7	Y	12/2020	12.2	16.9	6.2	0.4	0.4	2.3%	1.0%	1.15	OP	
SUNWAY CONSTRUCTION GROUP BHD	1.89	2,436.9	Y	12/2020	19.0	19.9	15.8	3.9	3.7	10.9%	1.3%	2.45	OP	
WCT HOLDINGS BHD	0.510	711.9	Y	12/2020	5.7	8.1	7.8	0.2	0.2	0.2%	n.a.	0.550	MP	
Simple Average					10.3	10.7	9.8	1.0	0.9	4.3%	2.5%			

Source: Bloomberg, Kenanga Research

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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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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 E-mail: research@kenanga.com.my

