

30 November 2021

Muhibbah Engineering (M)

9MFY21 Within Our Expectation

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9MFY21 CNL of RM16.3m is within our, but below consensus overly optimistic, projection. No dividends as expected. With Cambodia allowing vaccinated travellers to visit the country without the need to quarantine since 15th Nov, we believe Muhibbah's Cambodian airports are poised for an imminent rebound. Separately, its construction division's profitability continued to perform poorly with order-book still deteriorating amidst absence of replenishments. All in, with current share price providing a bargain over its Cambodian airports, we maintain OP with unchanged TP of RM1.25.

Within our expectation but below consensus'. 3QFY21 core net loss (CNL) of RM16.3m dragged 9MFY21 deeper into the red at RM21.5m loss – within our CNL projection of RM20m but below consensus' optimistic profit projection of RM20m. Despite anticipating a better 4Q on easier restrictions, the rebound should be marginal initially as passenger traffic at its Cambodian Airport will only rise gradually after the country opens up to vaccinated travellers from 15th Nov-21. Its construction segment's profitability should remain muted given the low outstanding order-book. No dividends as expected.

QoQ, 3QFY21 CNL of RM16.3m plunged into the red against 2QFY21 CNP of RM0.6m mainly due to lower revenue (-33%) on the back of recurring fixed costs, affected by the FMCO. **YoY**, 9MFY21 CNL of RM21.5m narrowed from RM51m loss registered in 9MFY20 mainly due to stronger PBT contributions at its construction division, attributable to better margin mix projects.

Higher passenger traffic in Cambodia in the near future. Since 15 Nov 2021, the Cambodian government has eased travel restrictions and allowed fully vaccinated travellers to visit the country without quarantine. We are positive on this news and anticipate an exponential rise in passengers starting from FY22.

Construction division continued to deteriorate. Meanwhile, the group's outstanding order-book has shrunk further to RM0.89b (-6% QoQ; -19% YoY) due to weak contract replenishments. Out of this order-book sum, RM0.586b is from the crane division while the rest are from construction division. Note, order-book has been on a downtrend since 2018 and currently provides <1x revenue cover.

Maintain OP with unchanged SoP-TP of RM1.25 as current share price provides a deep bargain for its Cambodian airports in anticipation for the recovery ahead.

In our SoP/share of RM1.25 valuation, we have: (i) ascribed a -2.5SD PBV (lowest in our universe) to its construction division due to its volatile earnings and depleting order-book, and (ii) fully omitted Phnom Penh airport from the concession valuation as we understand there is a Chinese party having an airport built within the vicinity (prior to Covid-19) which could challenge its status as the sole airport concessionaire in Cambodia. However, there has been no update on this new airport since the Covid-19 pandemic started. **Should we impute Phnom Penh airport into our valuations, SoP-TP would be enhanced by RM0.85.**

OUTPERFORM ↔

Price : RM0.83
Target Price : RM1.25 ↔

Share Price Performance



KLCI	1,510.57
YTD KLCI chg	-7.2%
YTD stock price chg	-17.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MUHI MK Equity
Market Cap (RM m)	401.3
Shares Outstanding	483.4
52-week range (H)	1.21
52-week range (L)	0.80
3-mth avg daily vol:	907,270
Free Float	65%
Beta	1.3

Major Shareholders

Mac Ngan Boon	15.4%
Fil Limited	8.8%
Fidelity Funds Asean	6.7%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	1189.6	962.0	1133.3
EBIT	-49.5	37.3	28.3
PBT	-67.3	-20.2	62.5
Net Profit (NP)	-83.6	-19.8	24.0
Core NP	-72.3	-19.8	24.0
Consensus (CNP)	n.a.	20.3	53.1
Earnings Revision	n.a.	-176%	-39%
EPS (sen)	-25.5	-4.1	5.0
EPS growth (%)	-424.8	-83.8	-221.1
NDPS (sen)	0.0	0.0	0.0
NTA/Share (RM)	2.2	2.2	2.2
PER (x)	-3.3	-20.1	16.6
Price/NTA (x)	0.4	0.4	0.4
Net Gearing (x)	0.0	0.4	0.3
Dividend Yield (%)	0.0	0.0	0.0

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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)	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
Turnover	194.0	289.5	-33%	227.8	-15%	701.5	832.4	-16%
EBITDA	33.3	37.1	-10%	11.9	181%	115.9	34.7	234%
Depreciation	-19.7	-22.3	-12%	-23.1	-15%	-57.5	-52.9	9%
EBIT	13.7	14.8	-8%	-11.3	221%	58.4	-18.2	420%
Interest inc/(exp)	0.6	1.8	-68%	1.6	-65%	1.5	-6.4	124%
Associates/JV	-5.0	-9.6	-48%	-1.3	285%	-21.2	4.7	-553%
Pretax profit	2.5	9.1	-73%	-15.2	116%	18.2	-24.1	176%
Taxation	-4.1	-4.4	-6%	-9.4	-56%	-9.9	-16.3	-39%
Deferred tax	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Profit after tax	-1.6	4.8	-134%	-24.6	-93%	8.3	-40.4	121%
Minority interest	-2.9	3.6	-181%	3.5	-182%	0.5	22.4	-98%
PATAMI	1.3	1.2	9%	-28.2	105%	7.8	-62.8	112%
Exceptional Items	0.0	0.6		2.5		11.6	-12.1	
Core PATAMI	-16.3	0.6	-3044%	-30.7	-47%	-21.5	-50.7	-58%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
For better comparison, we adjust key liners to their core:-								
Core EBITDA	15.8	36.5	-57%	9.4	68%	86.7	46.8	85%
Core EBIT	-3.9	14.2	-128%	-13.8	-72%	29.1	-6.1	577%
Core PBT	-15.1	8.5	-277%	-17.7	-15%	-11.0	-12.0	-8%
Core PAT	-19.2	4.2	-563%	-27.1	-29%	-20.9	-28.2	-26%
Core PATAMI	-16.3	0.6	-3044%	-30.7	-47%	-21.5	-50.7	-58%
EBIT margin	7%	5%		-5%		8%	-2%	
Pretax margin	1%	3%		-7%		3%	-3%	
NP margin	-1%	2%		-11%		1%	-5%	
CNP margin	-8%	0%		-13%		-3%	-6%	
EPS (sen)	0.3	0.2		-5.8		1.6	-13.0	
Core EPS(sen)	-3.4	0.1		-6.3		-4.4	-10.5	
BV/share (RM)	2.3	2.3		2.2		2.3	2.2	
Net gearing (x)	0.1	0.0		-0.1		0.1	-0.1	
Effective tax	165%	48%		-62%		54%	-68%	

Source: Company, Kenanga Research

Segmental Breakdown								
External Revenue (include JV)	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
Construction	129.5	230.1	-44%	204.8	-37%	511.6	710.6	-28%
Cranes	135.6	153.2	-11%	130.4	4%	417.2	376.9	11%
Concession	52.0	29.5	76%	28.8	80%	111.0	142.1	-22%
Eliminations	-65.8	-87.2	-25%	-97.8	-33%	-200.3	-227.5	-12%
Total	251.3	325.6	-23%	266.2	-6%	839.6	1,002.1	-16%
Pre-tax Segmentation								
Construction	-8.0	33.5	-124%	-18.7	-57%	25.9	-27.8	193%
Cranes	15.1	19.2	-21%	13.3	14%	47.0	40.9	15%
Concession	-4.5	-7.1	-37%	0.9	-625%	-18.8	10.1	-285%
Eliminations	-0.1	-36.5	-100%	-10.6	-99%	-36.0	-47.3	-24%
Total	2.5	9.1	-72%	-15.2	117%	18.2	-24.1	176%
Pre-tax margins								
Construction	-6%	15%		-9%		5%	-4%	
Cranes	11%	13%		10%		11%	11%	
Concession	-9%	-24%		3%		-17%	7%	

Source: Company, Kenanga Research

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Sum-of-parts valuations					
Divisions	Stake (%)	Value (RM m)	Effective Value (RM m)	Value/Share (RM/share)	Assumptions
Construction	100%	178	37	0.08	0.2x FY21 PBV (-2.5SD) based on historical 3 years
FAVCO	59%	502	297	0.61	FY21 PER of 11x
Concession/ Societe Concessionaire De l' Aeroport	21%		270	0.56	DCF only for Sihanoukville and Siam Reap airports 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	605	1.25	

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	2.81	7,063.0	Y	07/2022	11.8	11.7	12.7	0.8	0.8	6.8%	2.1%	2.80	MP	
HOCK SENG LEE BERHAD	0.980	538.5	Y	12/2021	16.9	13.4	10.2	0.7	0.6	4.8%	1.5%	0.950	MP	
IJM CORP BHD	1.79	6,387.9	Y	03/2022	17.8	35.2	21.7	0.7	0.7	9.9%	11.7%	1.90	OP	
KERJAYA PROSPEK GROUP BHD	1.17	1,447.7	Y	12/2021	16.0	15.4	9.2	1.5	1.3	9.1%	2.3%	1.50	OP	
KIMLUN CORP BHD	0.800	282.7	Y	12/2021	17.9	18.7	5.8	0.4	0.4	2.2%	2.1%	1.25	OP	
MUHIBBAH ENGINEERING (M) BHD	0.830	401.3	Y	12/2021	N.A.	N.A.	16.6	0.4	0.3	-1.7%	1.2%	1.25	OP	
SUNWAY CONSTRUCTION GROUP BHD	1.54	1,985.6	Y	12/2021	24.1	22.6	15.6	3.1	2.9	13.3%	2.6%	1.52	MP	
WCT HOLDINGS BHD	0.565	800.7	Y	12/2021	N.A.	34.0	9.0	0.3	0.2	2.3%	0.0%	0.620	MP	
Simple Average					17.4	21.6	12.6	1.0	0.9	5.8%	3.0%			

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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