

30 August 2019

Muhibbah Engineering (M)

Within Expectations

By Adrian Ng | adrian.ng@kenanga.com.my

1H19 CNP of RM66.4m came in within expectations, making up 42%/41% of our/consensus full-year estimates. No dividends were declared, as expected. No changes to our FY19-20E earnings. Maintain OP with an unchanged SoP-driven Target Price of RM3.20.

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Results' highlights. YoY, 1H19 revenue saw a tremendous improvement of 50%, thanks to its construction and crane divisions, which registered growth of 90% and 27%, respectively. However, its 1H19 CNP fell 24%, due to higher effective tax rate of 11% (+3ppt) and higher minority interest contribution (+16%) which we believe a higher proportion of earnings contribution came from its crane division. **QoQ**, 2Q19 CNP fell 27% despite higher revenue (+109%) due to: (i) higher effective tax rate of 14% (+5ppt), (ii) higher interest expense (+255%), and (iii) lower contribution from its associate, i.e. Cambodian Airports (-38%).

Company outlook. MUHIBAH's outstanding order-book currently stands at c.RM1.6b (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 which we believe will maintain the traffic growth momentum going forward.

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

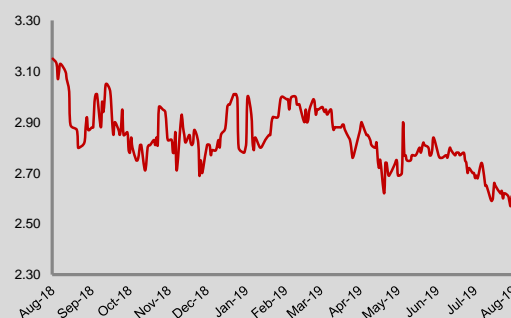
Maintain OUTPERFORM with an unchanged SoP-driven Target Price of RM3.20, which implies 9.3x FY20E PER. We deem the valuation as reasonable as it is within the range of our ascribed multiple of 6.0-11.0x for contractors within our coverage universe.

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

OUTPERFORM ↔

Price : RM2.47
Target Price : RM3.20 ↔

Share Price Performance



KLCI	1,595.18
YTD KLCI chg	-5.6%
YTD stock price chg	-11.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MUHI MK EQUITY
Market Cap (RM m)	1,193.9
Shares Outstanding	483.4
52-week range (H)	3.20
52-week range (L)	2.41
3-mth avg daily vol:	363,430
Free Float	63%
Beta	1.0

Major Shareholders

Mac Ngan Boon	20.9%
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
Net Profit (NP)	144.8	157.4	164.8
Core NP	161.4	157.4	164.8
Consensus (CNP)	N.A.	164.0	169.0
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)	7.3	7.5	7.2
Price/NTA (x)	1.1	1.0	0.9
Net Gearing (x)	0.4	0.4	0.2
Dividend Yield (%)	3.1	2.9	2.8

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Results Highlight								
	2Q19	1Q19	QoQ	2Q18	YoY	1H19	1H18	YoY
FYE Dec (RM'm)								
Turnover	568.9	272.4	109%	311.6	83%	841.3	560.7	50%
EBITDA	47.4	27.7	72%	17.1	177%	75.1	75.7	-1%
Depreciation	-19.0	-12.0	57%	0.0	n.m.	-31.0	-16.6	87%
EBIT	28.5	15.6	82%	17.1	66%	44.1	59.1	-25%
Interest inc/(exp)	-5.3	-1.5	255%	-4.7	12%	-6.8	-8.4	-19%
Associates	31.8	50.8	-38%	35.5	-11%	82.6	81.5	1%
Exceptional items	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Forex gain/(loss)	2.9	-5.5	n.m.	2.1	41%	-2.6	-18.7	-86%
Pretax profit	57.8	59.5	-3%	50.0	16%	117.3	113.5	3%
Taxation	-8.2	-5.1	62%	-5.5	49%	-13.3	-9.6	38%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	49.6	54.4	-9%	44.5	12%	104.0	103.8	0%
Minority interest	-18.8	-21.4	-12%	-11.5	64%	-40.2	-34.7	16%
PATAMI	30.9	33.0	-7%	33.0	-6%	63.9	69.2	-8%
Core PATAMI	28.0	38.5	-27%	30.9	-10%	66.4	87.9	-24%
EPS (sen)	6.4	6.8		6.8		13.2	14.3	
Core EPS(sen)	5.8	8.0		6.4		13.8	18.2	
BV/share (RM)	2.5	2.4		2.2		2.5	2.4	
Net gearing (x)	0.5	0.5		0.4		0.5	0.5	
EBIT margin	5%	6%		5%		5%	11%	
Pretax margin	10%	22%		16%		14%	20%	
Net margin	5%	14%		10%		8%	16%	
Eff. Tax rate	14%	9%		11%		11%	8%	

Source: Company, Kenanga Research

Sum-of-parts-Muhibbah					
Segment	Stake	Valuation		FY20E	(RMm)
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
Total SoP value					2,357.4
No of shares					480.3
Fair Value after 35% holding discount (sen)					3.20

Source: Company, Kenanga Research

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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.			
STOCKS UNDER COVERAGE																	
GAMUDA BHD	3.55	8,778.5	Y	07/2019	-20.8%	0.3%	-17.1%	-13.9%	10.7	12.9	15.0	1.2	1.1	8.7%	3.4%	3.75	MP
GEORGE KENT (MALAYSIA) BHD	1.04	560.2	Y	01/2020	14.4%	-0.2%	-23.1%	38.3%	7.4	9.7	7.0	1.2	1.1	11.9%	3.5%	1.15	MP
HOCK SENG LEE BERHAD	1.35	741.8	Y	12/2019	18.7%	15.6%	23.0%	18.0%	13.8	11.2	9.5	1.0	0.9	8.2%	1.8%	1.40	MP
IJM CORP BHD	2.22	8,057.4	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	1.41	1,738.4	Y	12/2019	28.3%	-4.4%	11.5%	1.9%	12.7	11.3	11.1	1.8	1.6	14.9%	2.1%	1.20	UP
KIMLUN CORP BHD	1.26	428.1	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	6.7	6.8	6.6	0.6	0.6	9.0%	3.4%	1.35	MP
MITRAJAYA HOLDINGS BHD	0.280	249.1	Y	12/2019	-14.7%	-9.7%	-94.7%	210.5%	5.6	106.6	34.3	0.3	0.3	0.3%	0.0%	0.200	UP
MUHIBBAH ENGINEERING (M) BHD	2.47	1,193.9	Y	12/2019	-5.8%	3.8%	-2.5%	4.7%	7.3	7.5	7.2	1.1	1.0	13.4%	2.9%	3.20	OP
SUNWAY CONSTRUCTION GROUP BHD	2.00	2,578.7	Y	12/2019	-6.1%	27.1%	-12.2%	27.7%	18.5	21.1	16.5	4.3	3.9	19.4%	2.7%	1.45	UP
WCT HOLDINGS BHD	1.00	1,409.9	Y	12/2019	6.4%	14.1%	-13.8%	19.3%	11.0	12.8	10.7	0.4	0.4	3.4%	0.0%	0.815	UP
Simple Average					4.9%	4.3%	-11.9%	31.1%	11.3	21.7	13.5	1.3	1.2	9.4%	2.2%		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.380	227.3	Y	12/2019	N.A.	N.A.	N.A.	N.A.	15.5	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.120	45.7	Y	06/2019	N.A.	N.A.	N.A.	N.A.	88.0	N.A.	N.A.	0.2	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	1.21	597.0	Y	12/2019	19.3%	37.9%	15.5%	36.2%	9.8	8.4	0.0	1.2	1.2	15.1%	4.8%	1.80	BUY
GADANG HOLDINGS BHD	0.695	506.0	Y	05/2020	7.4%	11.6%	45.5%	12.3%	11.6	8.0	0.0	0.6	N.A.	9.5%	2.2%	0.783	SELL
JAKS RESOURCES BHD	0.755	485.6	Y	12/2019	68.9%	-47.0%	655.6%	-21.2%	32.1	4.2	0.0	0.5	0.5	13.6%	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.	1.1	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	2.98	494.3	Y	06/2020	-3.5%	4.5%	31.1%	4.3%	18.9	14.4	0.1	1.6	1.5	10.7%	6.0%	2.86	NEUTRAL
PESONA METRO HOLDINGS	0.220	152.9	Y	12/2019	12.1%	9.5%	165.4%	13.7%	18.5	7.0	0.0	0.8	N.A.	11.7%	4.5%	0.310	BUY
PROTASCO BHD	0.260	126.6	Y	12/2019	-4.5%	3.4%	381.8%	6.0%	N.A.	10.0	0.0	0.4	0.4	3.8%	4.6%	0.225	SELL
TRC SYNERGY BHD	0.500	240.2	Y	12/2019	15.8%	23.6%	70.8%	29.9%	11.5	6.7	0.0	0.6	0.6	8.5%	6.4%	0.750	BUY

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

