

# Result Snapshot

# TH Heavy Engineering

Bloomberg: RH MK | Reuters: THE.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

30 May 2014

**BUY RM0.90** KLCI : 1,876.62

Price Target : 12-Month RM 1.25

## Analyst

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## Result Summary

FY Dec (RM m)	1Q 2014	1Q 2013	4Q 2013	% Chg y-o-y	% Chg q-o-q
<b>P&amp;L Items</b>					
Turnover	142.1	56.1	61.0	153.4	132.9
Gross Profit	12.9	20.2	(6.8)	(36.2)	nm
Opg Profit	(6.3)	10.9	(18.6)	nm	66.1
EBITDA	4.9	13.2	(16.4)	(62.4)	nm
Net Profit	1.7	6.0	(17.5)	(71.3)	nm
<b>Other Data</b>					
Gross Margin (%)	9.1	36.0	(11.1)		
Opg Margin (%)	(4.4)	19.5	(30.5)		
Net Margin (%)	1.2	10.7	(28.7)		

## Financial Summary

FY Dec (RM m)	2013A	2014F	2015F	2016F
Turnover	260	585	965	1,133
Operating Profit	1	81	152	173
EBITDA	11	93	168	193
Net Pft (Pre Ex.)	8	51	104	122
EPS (sen)	0.8	4.1	8.2	9.7
EPS Pre Ex. (sen)	0.8	4.1	8.2	9.7
EPS Gth (%)	(70)	431	101	18
EPS Gth Pre Ex (%)	(70)	431	101	18
Net DPS (sen)	0.0	0.0	1.2	1.9
BV Per Share (sen)	31.8	37.6	44.6	52.4
PE (X)	116.2	21.9	10.9	9.3
PE Pre Ex. (X)	116.2	21.9	10.9	9.3
EV/EBITDA (X)	115.4	14.9	7.9	6.7
Net Div Yield (%)	0.0	0.0	1.4	2.2
P/Book Value (X)	2.8	2.4	2.0	1.7
Net Debt/Equity (X)	0.5	0.4	0.2	0.1
ROAE (%)	2.4	12.1	20.0	20.0

## At A Glance

Issued Capital (m shrs)	1,020.8
Mkt. Cap (RMm/US\$m)	913.6 / 284.6
Avg. Daily Vol.('000)	5,375

## Price Relative



Source: Company, AllianceDBS

## Long term positive

- **1Q14 profit missed expectations due to weaker-than expected fabrication margins**
- **But expect earnings to pick up from 2Q onwards driven by higher progress billings for new jobs**
- **Long term positive: RM2.7bn FPSO contract will provide recurring income**
- **BUY with RM1.25 TP**

## Highlights

**Slow start.** TH Heavy Engineering (THHE) booked RM1.7m net profit in 1Q14, turning around from RM17.5m loss in 4Q13 but lower than the RM6m profit booked a year ago. Revenue grew by >100% y-o-y and q-o-q as the group has been carrying out procurement activities for two new contracts in hand. Margins are normally low in the early stage of new contracts, but they were still below our expectations.

**DB30 pipe lay barge saved bottomline.** On a positive note, there was a surprise RM8.2m associate income (RM5m in 4Q13) in the quarter, which helped THHE to breakeven. This was from the group's 30% stake in the DB30 pipe lay barge.

## Our View

**Trim FY14F profit after weak 1Q results.** We trim FY14F earnings by 15.4% after factoring in weaker fabrication margins for this year. But we expect earnings to pick up the rest of this year led by higher progress billings for the Kinabalu contract (awarded Feb 2014) and Bertam contract (awarded Nov 2013).

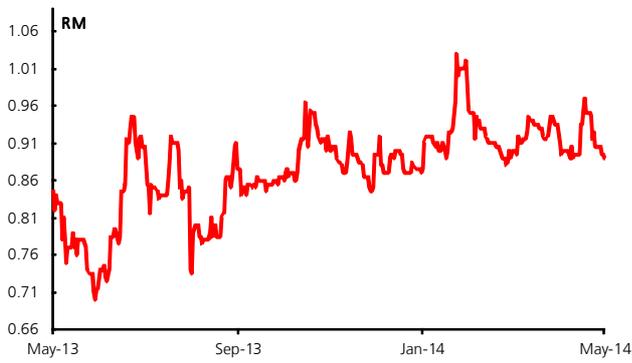
**Long term positives: FPSO contract, RM2.98bn orderbook.** THHE's earnings had been unexciting for the last three quarters due to a lumpy orderbook and cost overruns at their yard (provided for in 4Q13). However, the longer term outlook remains positive premised on the recently awarded RM2.7bn FPSO contract (7+10 years) and a growing fabrication orderbook (currently RM283m). THHE has been actively tendering for works with strategic partner McDermott International and fabrication contract awards could pick up in 2H14, which would improve FY15 earnings visibility.

## Recommendation

**Maintain BUY, TP RM1.25.** Our TP is pegged to 15x FY15F P/E, in line with industry valuation for mid-cap oil & gas stocks. Near term catalysts include securing more fabrication contracts in 2H14.

**Target Price & Ratings History**

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S.No.	Date	Closing Price	Target Price	Rating
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*Note: Share price and Target price are adjusted for corporate actions.*

Source: AllianceDBS

**DISCLOSURE****Stock rating definitions**

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

**Commonly used abbreviations**

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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