

# Flash Note



Refer to important disclosures at the end of this report

AllianceDBS Research, Malaysia Equity

3 Sep 2018

## Muhibbah Engineering (MUHI MK) : BUY

Mkt. Cap: US\$366m | 3m Avg. Daily Val: US\$0.35m

Last Traded Price (30 Aug 2018): RM3.13

Price Target 12-mth: RM3.65 (17% upside) (Prev RM3.65)

Shariah Compliant: Yes

### Analyst

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### Cambodian airport driving growth

- In-line 2Q18 results
- Robust passenger volume growth of 24% for 1H18 continued to underpin earnings
- Expansion of Cambodia airport on the cards
- Maintain BUY and SOP-based TP of RM3.65

#### Forecasts and Valuation

FY Dec (RMm)	2017A	2018F	2019F	2020F
Revenue	1,397	1,465	1,428	1,541
EBITDA	299	314	322	353
Pre-tax Profit	219	227	234	263
Net Profit	132	144	158	170
Net Pft (Pre Ex.)	132	144	158	170
Net Pft Gth (Pre-ex) (%)	24.7	9.1	10.3	7.0
EPS (sen)	27.3	29.8	32.9	35.2
EPS Pre Ex. (sen)	27.3	29.8	32.9	35.2
EPS Gth Pre Ex (%)	25	9	10	7
Diluted EPS (sen)	27.3	29.8	32.9	35.2
Net DPS (sen)	6.97	5.96	6.57	7.03
BV Per Share (sen)	217	240	267	295
PE (X)	11.5	10.5	9.5	8.9
PE Pre Ex. (X)	11.5	10.5	9.5	8.9
P/Cash Flow (X)	3.2	10.8	11.7	17.9
EV/EBITDA (X)	7.5	7.2	7.0	6.5
Net Div Yield (%)	2.2	1.9	2.1	2.2
P/Book Value (X)	1.4	1.3	1.2	1.1
Net Debt/Equity (X)	0.2	0.1	0.1	0.1
ROAE (%)	13.0	13.0	13.0	12.5

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

### What's New

**Within expectations.** 2Q18 recorded a headline net profit of RM33m (-13% y-o-y, -9% q-o-q), bringing 1H18 net profit to RM69m (+3% y-o-y). This was in line with our and consensus expectations.

**Group pretax profit flattish but bottomline lifted by lower effective tax rate.** For 1H18, its group pretax was flattish at RM113m. In terms of the segmental breakdown, construction contributed RM32m, cranes RM19m, concessions RM77m and there was group elimination of RM15m. Its current construction orderbook as at 23 August 2018 stands at RM1.6bn.

1H18 net profit for its crane manufacturing arm, Favelle Favco fell 60% to RM13m on the back of an 28% decline in 1H18 revenue to RM192m. The poorer numbers were due to unrealised forex losses and lower sales. Its crane manufacturing orderbook as at 23 August 2018 stood at RM427m. The purchase of industrial automation companies has been completed on 3 July 2018 and is expected to lift 2H18 earnings.

**Steady growth in associate/JV earnings.** 1H18 associate earnings jumped 8% y-o-y to RM81m. The strong growth stemmed largely from robust traffic volume growth for its Cambodian airport concessions. Total passenger volume for 1H18 increased by 24% y-o-y to 5.2m.

**Another round of expansion for airports.** Given the strong growth seen for its Cambodian airports, there will likely be another round of expansion for Phnom Penh and



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Sihanoukville. This may amount to US\$20-30m per annum for a few years, depending on the eventual passenger arrivals and cargo throughput. Given the strong operating cashflows, we expect this to be financed internally. The expansion for Phnom Penh will be more for catering to additional cargo while that for Sihanoukville will involve building an additional runway.

### Quarterly / Interim Income Statement (RMm)

FY Dec	2Q2017	1Q2018	2Q2018	% chg yoy	% chg qoq
Revenue	468	249	312	(33.4)	25.1
Other Oper. (Exp)/Inc	(442)	(228)	(292)	(33.9)	28.3
<b>Operating Profit</b>	<b>25.4</b>	<b>21.2</b>	<b>19.2</b>	<b>(24.4)</b>	<b>(9.5)</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	42.3	46.0	35.5	(16.1)	(22.7)
Net Interest (Exp)/Inc	(4.2)	(3.7)	(4.7)	(14.2)	(28.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
<b>Pre-tax Profit</b>	<b>63.6</b>	<b>63.5</b>	<b>50.0</b>	<b>(21.4)</b>	<b>(21.3)</b>
Tax	(9.8)	(4.1)	(5.5)	(44.1)	33.8
Minority Interest	(15.9)	(23.2)	(11.5)	27.9	(50.6)
<b>Net Profit</b>	<b>37.8</b>	<b>36.2</b>	<b>33.0</b>	<b>(12.8)</b>	<b>(8.8)</b>
Net profit bef Except.	37.8	36.2	33.0	(12.8)	(8.8)
EBITDA	67.7	67.2	54.7	(19.2)	(18.6)
<b>Margins (%)</b>					
Opg Profit Margins	5.4	8.5	6.2		
Net Profit Margins	8.1	14.5	10.6		

Source of all data: Company, AllianceDBS

### Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	09 Oct 17	2.84	3.60	BUY
2:	21 Nov 17	2.77	3.60	BUY
3:	30 Nov 17	2.80	3.60	BUY
4:	01 Mar 18	3.10	3.60	BUY
5:	14 May 18	3.02	3.42	BUY
6:	31 May 18	2.95	3.42	BUY
7:	24 Jul 18	2.95	3.65	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Tjen San CHONG

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**DISCLOSURE**

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**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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