

Malaysia Marine Heavy Engr (MMHE MK)

FY21 results came in line

Maintain BUY and MYR0.85 TP

FY21 results came in line. 4Q21 ops continued to be disrupted by the prolonged border restrictions and seasonal weakness. While the YoY operating underperformance is well-flagged, its cash levels and order backlog have improved YoY, a positive. Focus should be on FY22, on expectation of a stronger order & tender pipeline and earnings turnaround. MMHE is cash rich and undeservedly undervalued. Our TP is unchanged, based on 0.8x EV/ order backlog (mean valuation) expectation of MYR1.2b.

Snapshot of 4Q21 results

MMHE remained in the red for the 4th consecutive quarter, with a sequentially higher core net loss of MYR26m (+6% QoQ) in 4Q21. The setback was expected, for its heavy engineering (HE) and marine repairs (MR) ops continued to be disrupted by the prolonged border restrictions and seasonal weakness (lower dry-docking activities). We estimate MMHE recognised substantial exceptional loss (-e.MYR81m) in 4Q21, on additional cost provisions at its existing HE projects.

Rising cash level, order backlog and tender pipeline

While the YoY operating underperformance is well-flagged, its net cash levels (+45% to MYR463m @ MYR0.29/shr) and order backlog (+14% to MYR2.2b) have improved YoY, reflecting the improved cost/ cashflows management controls and revived capex spending in the industry, in lieu of the oil price strength. Consequently, the tender pipeline too has improved to MYR14b now (vs. MYR10b in 3Q21). 85% of that are international bids.

A better FY22 outlook

Our earnings estimates are unchanged. MMHE is optimistic of an improved 2022. There is a realistic chance for MMHE to secure MYR1-2b worth of new orders this FY (order backlog: MYR2.2b @ Dec 2021), based on the tender pipeline (MYR14b). Winning some of these projects will be a positive. Our model imputes a realistic MYR1.4b new order intake in FY22 (vs. MYR1.1b in FY21).

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,567	1,467	1,629	1,650	1,836
EBITDA	126	(15)	160	167	175
Core net profit	63	(116)	72	77	84
Core EPS (sen)	4.0	(7.3)	4.5	4.8	5.2
Core EPS growth (%)	nm	nm	nm	6.7	8.1
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	11.4	nm	8.9	8.4	7.8
P/BV (x)	0.4	0.4	0.4	0.3	0.3
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	(18.3)	(14.7)	4.2	4.3	4.4
ROAA (%)	2.0	(3.6)	2.1	2.1	2.2
EV/EBITDA (x)	2.6	nm	1.1	0.4	nm
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	47	52	na
MKE vs. Consensus (%)	-	-	53.6	48.9	na

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BUY

Share Price	MYR 0.41
12m Price Target	MYR 0.85 (+110%)
Previous Price Target	MYR 0.85

Company Description

MMHE is involved in the offshore fabrication and marine repair services operations

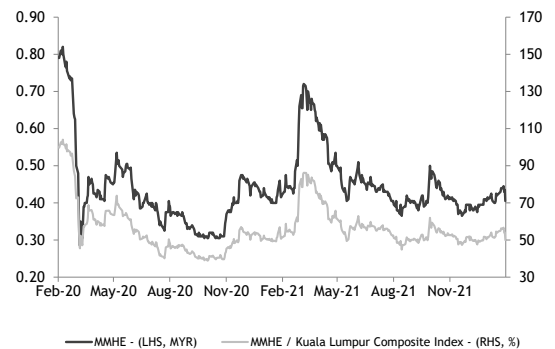
Statistics

52w high/low (MYR)	0.72/0.37
3m avg turnover (USDm)	0.0
Free float (%)	18.1
Issued shares (m)	1,600
Market capitalisation	MYR648.0M USD155M

Major shareholders:

MISC Bhd.	66.5%
TechnipFMC Plc	8.5%
Urusharta Jamaah Sdn. Bhd.	5.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	(1)	(4)
Relative to index (%)	(1)	(5)	(2)

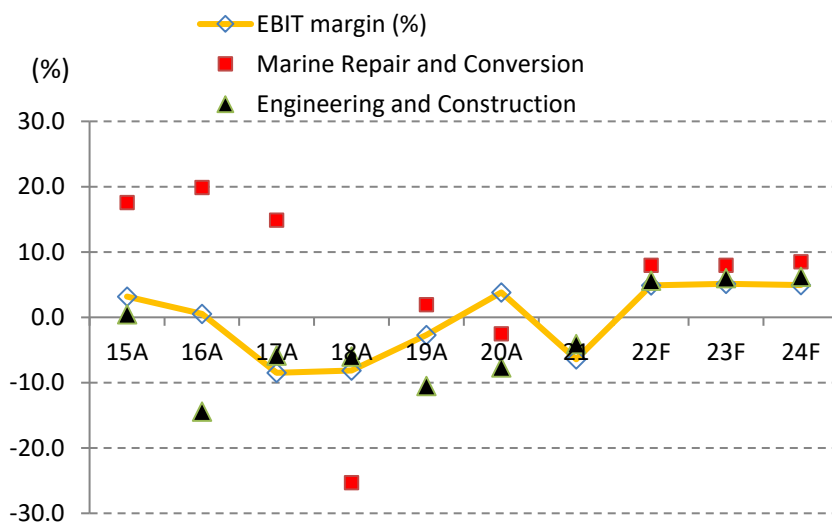
Source: FactSet

Figure 1: Summary results

FY Dec (MYR'm)	Quarterly results					Cumulative results		
	4Q21	4Q20	% YoY	3Q21	% QoQ	FY21	FY20	% YoY
Turnover	432.0	695.5	(37.9)	389.3	11.0	1,467.3	1,566.8	(6.3)
EBIT	(111.7)	152.1	NM	9.8	NM	(94.3)	60.0	NM
Int. expense	(3.7)	0.0	NM	(3.4)	7.5	(12.9)	0.0	NM
Associates	(12.9)	(0.2)	NM	0.0	NM	(12.9)	(0.2)	NM
Exceptional item	(81.3)	(57.1)	42.5	1.1	NM	(154.0)	(460.2)	NM
Pretax profit	(108.7)	(9.2)	NM	(23.6)	NM	(274.1)	(401.3)	(31.7)
Tax	0.0	0.3	(92.3)	0.0	NM	0.0	0.0	0.0
Minority interest	0.9	0.4	NM	(0.3)	NM	3.7	4.5	(16.7)
Net profit	(107.8)	(8.6)	NM	(23.9)	NM	(270.4)	(396.8)	(31.9)
Core net profit	(26.4)	48.5	NM	(25.0)	5.8	(116.4)	63.4	NM
<i>EBIT margin (%)</i>	<i>(25.9)</i>	<i>21.9</i>	<i>(47.7)</i>	<i>2.5</i>	<i>(28.4)</i>	<i>(6.4)</i>	<i>3.8</i>	<i>(10.3)</i>
<i>Tax rate (%)</i>	<i>0.0</i>	<i>3.5</i>	<i>(3.5)</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
	4Q21	4Q20	% YoY	3Q21	% QoQ	FY21	FY20	% YoY
Turnover breakdown	432.0	695.5	(37.9)	389.3	11.0	1,467.3	1,566.8	(6.3)
- Marine repair & conversion	77.6	100.7	(23.0)	58.7	32.1	249.4	362.2	(31.2)
- Heavy engineering	354.5	594.8	(40.4)	330.6	7.2	1,218.0	1,204.5	1.1
EBIT	(111.7)	152.1	NM	9.8	NM	(94.3)	60.0	NM
- Marine repair & conversion	(177.4)	21.2	NM	(9.1)	NM	(209.1)	(9.1)	NM
- Heavy engineering	69.2	(24.0)	NM	(13.1)	NM	(49.4)	(92.3)	(46.5)
- Others	(3.6)	154.9	NM	32.0	NM	164.3	161.4	1.8
	4Q21	4Q20	% YoY	3Q21	% QoQ	FY21	FY20	% YoY
Margins (%)	(25.9)	21.9	(47.7)	2.5	(28.4)	(6.4)	3.8	(10.3)
- Marine repair & conversion	(228.7)	21.1	NM	(15.5)	NM	(83.9)	(2.5)	(81.4)
- Heavy engineering	19.5	(4.0)	23.6	(4.0)	23.5	(4.1)	(7.7)	3.6

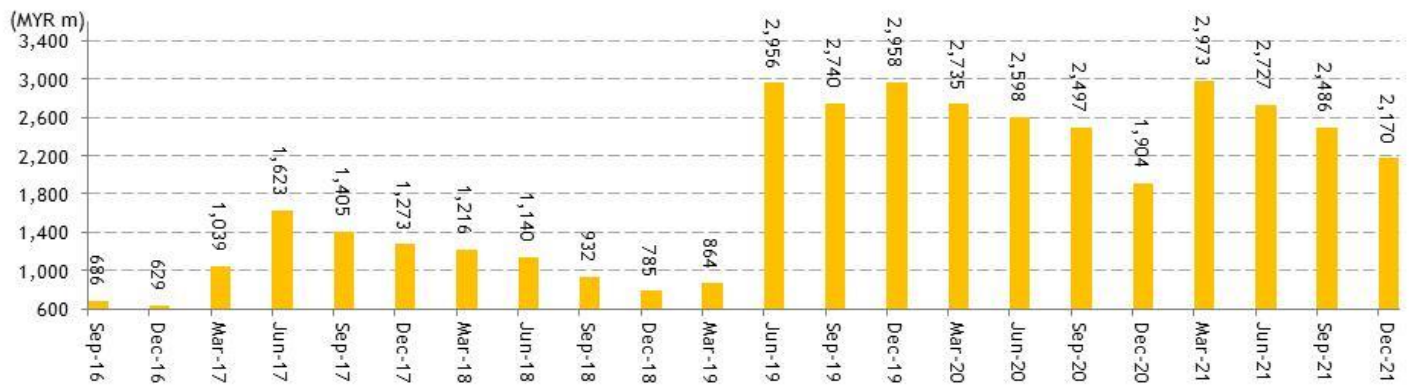
Sources: Company, Maybank IBG Research

Figure 2: EBIT margins



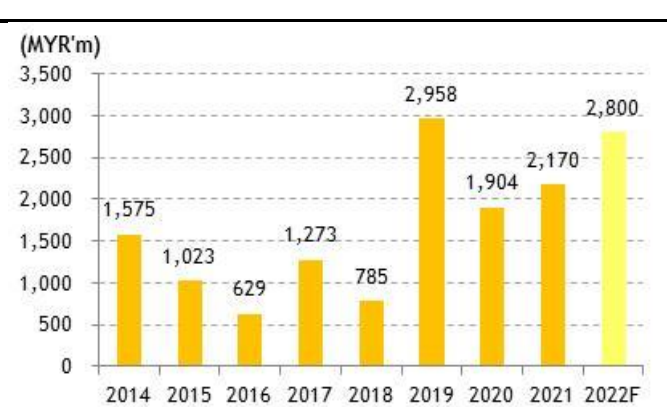
Source: Company, Maybank IBG Research

Figure 3: Heavy engineering order backlog (MYR'm)



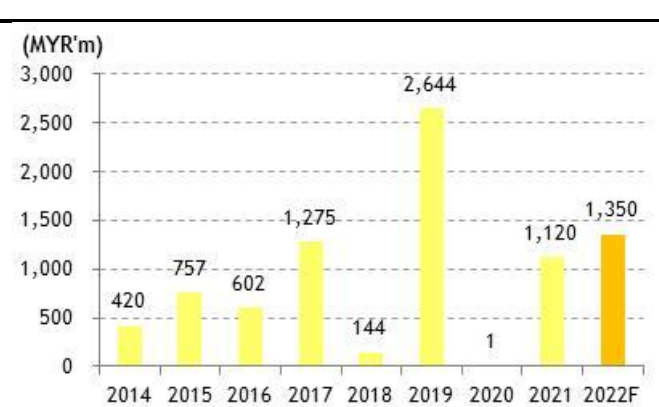
Sources: Company

Figure 4: Order backlog



Source: Company, Maybank IBG Research

Figure 5: Order intake



Source: Company, Maybank IBG Research

Shareholding update

Foreign shareholding (ex-Technip's 8.5%) level was relatively unchanged QoQ, at 0.5% end-Dec 2021.

Similarly, there was negligible movement among the GLCs: (i) PNB: 1.5% (unch) and (ii) UrusHarta Jemaah: 5.2% (+0.5-ppts) and (iii) LTAT 2.2% (unch).

Figure 6: MMHE: Foreign shareholding (%) ex Technip's 8.5% strategic stake



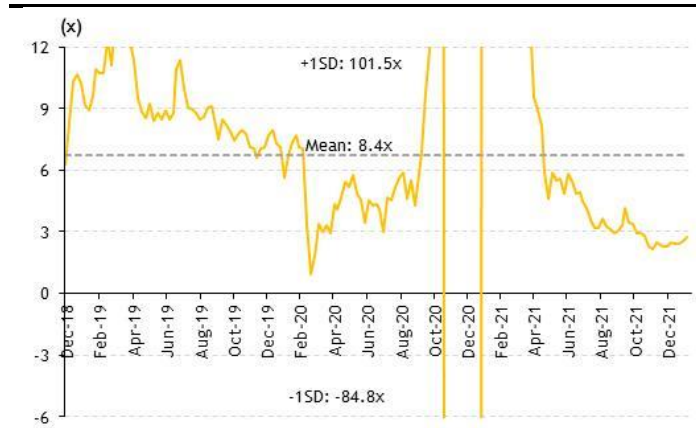
Sources: Company

1-year forward PBV



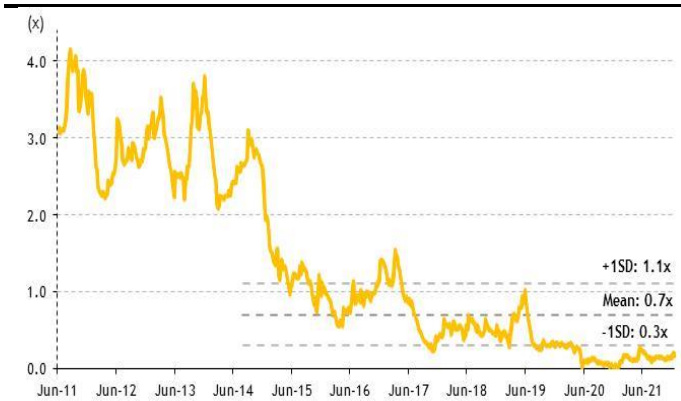
Source: Company, Maybank IBG Research

1-year forward EV/ EBITDA



Source: Company, Maybank IBG Research

1-year forward EV/ order backlog



Source: Company, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	nm	nm	8.9	8.4	7.8
Core P/E (x)	11.4	nm	8.9	8.4	7.8
P/BV (x)	0.4	0.4	0.4	0.3	0.3
P/NTA (x)	0.4	0.4	0.4	0.3	0.3
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	nm	nm	21.4	16.4	25.7
EV/EBITDA (x)	2.6	nm	1.1	0.4	nm
EV/EBIT (x)	5.4	nm	2.1	0.8	nm

INCOME STATEMENT (MYR m)

Revenue	1,566.8	1,467.3	1,629.2	1,650.5	1,836.5
EBITDA	126.2	(15.3)	160.3	166.8	174.7
Depreciation	(66.2)	(79.0)	(80.5)	(82.1)	(83.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	60.0	(94.3)	79.8	84.7	90.9
Net interest income / (exp)	(0.9)	(12.9)	(7.4)	(7.4)	(7.4)
Associates & JV	(0.2)	(12.9)	0.0	0.0	0.0
Exceptionals	(460.2)	(154.0)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	(401.3)	(274.1)	72.4	77.3	83.5
Income tax	0.0	0.0	0.0	0.0	0.0
Minorities	4.5	3.7	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(396.8)	(270.4)	72.4	77.3	83.5
Core net profit	63.4	(116.4)	72.4	77.3	83.5

BALANCE SHEET (MYR m)

Cash & Short Term Investments	651.1	709.9	848.4	954.5	1,120.9
Accounts receivable	591.7	831.8	923.6	935.6	1,041.1
Inventory	4.9	3.6	10.6	10.7	11.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,579.2	1,524.8	1,504.2	1,482.1	1,458.3
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	8.9	8.9	8.9	8.9	8.9
Other assets	310.6	311.1	311.1	311.1	311.1
Total assets	3,146.3	3,390.1	3,606.7	3,703.0	3,952.2
ST interest bearing debt	19.9	34.5	34.5	34.5	34.5
Accounts payable	904.3	1,307.4	1,451.7	1,470.6	1,636.3
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	228.5	335.1	335.1	335.1	335.1
Other liabilities	28.0	6.0	6.0	6.0	6.0
Total Liabilities	1,180.6	1,682.7	1,826.9	1,845.9	2,011.6
Shareholders Equity	1,961.0	1,706.5	1,778.9	1,856.1	1,939.7
Minority Interest	4.7	1.0	1.0	1.0	1.0
Total shareholder equity	1,965.7	1,707.4	1,779.8	1,857.1	1,940.6
Total liabilities and equity	3,146.3	3,390.1	3,606.7	3,703.0	3,952.2

CASH FLOW (MYR m)

Pretax profit	(401.3)	(274.1)	72.4	77.3	83.5
Depreciation & amortisation	66.2	79.0	80.5	82.1	83.8
Adj net interest (income)/exp	(1.0)	0.0	0.0	0.0	0.0
Change in working capital	154.3	164.5	45.5	6.8	59.1
Cash taxes paid	0.0	0.0	0.0	0.0	0.0
Other operating cash flow	1.2	17.0	0.0	0.0	0.0
Cash flow from operations	136.1	(13.7)	198.4	166.2	226.4
Capex	(230.4)	(48.1)	(60.0)	(60.0)	(60.0)
Free cash flow	(94.3)	(61.8)	138.4	106.2	166.4
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	69.5	121.2	0.0	0.0	0.0
Other invest/financing cash flow	2.0	(0.6)	0.0	0.0	0.0
Effect of exch rate changes	(1.0)	0.0	0.0	0.0	0.0
Net cash flow	(23.9)	58.9	138.4	106.2	166.4

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	55.2	(6.3)	11.0	1.3	11.3
EBITDA growth	167.9	nm	nm	4.0	4.7
EBIT growth	nm	nm	nm	6.1	7.4
Pretax growth	nm	nm	nm	6.7	8.1
Reported net profit growth	nm	nm	nm	6.7	8.1
Core net profit growth	nm	nm	nm	6.7	8.1
Profitability ratios (%)					
EBITDA margin	8.1	nm	9.8	10.1	9.5
EBIT margin	3.8	nm	4.9	5.1	4.9
Pretax profit margin	nm	nm	4.4	4.7	4.5
Payout ratio	0.0	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	nm	nm	4.4	4.7	4.5
Revenue/Assets (x)	0.5	0.4	0.5	0.4	0.5
Assets/Equity (x)	1.6	2.0	2.0	2.0	2.0
ROAE (%)	(18.3)	(14.7)	4.2	4.3	4.4
ROAA (%)	2.0	(3.6)	2.1	2.1	2.2
Liquidity & Efficiency					
Cash conversion cycle	(60.7)	(111.1)	(164.5)	(173.0)	(165.7)
Days receivable outstanding	125.9	174.6	193.9	202.8	193.7
Days inventory outstanding	1.1	1.1	1.9	2.8	2.6
Days payables outstanding	187.7	286.8	360.3	378.5	362.1
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	1.3	1.2	1.2	1.3	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	2.7	2.0	2.0	2.0	2.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	65.9	na	10.8	11.5	12.3
Debt/EBITDA (x)	2.0	nm	2.3	2.2	2.1
Capex/revenue (%)	14.7	3.3	3.7	3.6	3.3
Net debt/ (net cash)	(402.7)	(340.3)	(478.7)	(584.9)	(751.3)

Source: Company; Maybank

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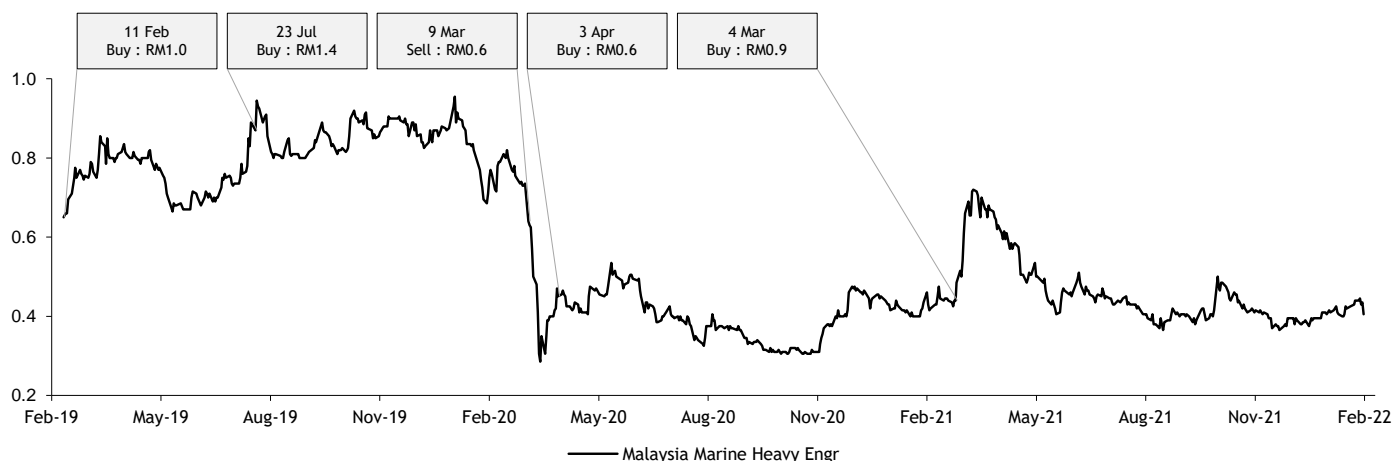
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