

Malaysia Marine Heavy Engr (MMHE MK)

1Q22 results in line

BUY

Share Price MYR 0.42
 12m Price Target MYR 0.85 (+105%)
 Previous Price Target MYR 0.85

Maintain BUY and MYR0.85 TP

1Q22 results were in line, on improved overall YoY performance (FCFs, net cash), with tangible signs of recovery. We expect the company to be on a much stronger footing in FY22, on expectation of stronger orderbook replenishment and a healthy tender pipeline, that should contribute to an 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 1Q22 results

MMHE reported improved EBIT/ headline net profit of MYR6m/ MYR3m respectively in 1Q22 (vs. -MYR102m/ -MYR104m in 1Q21), which included a net MYR8m one-off gain; largely from the reversal of warranty provisions for a post sail-away project (MYR9m). Excluding that, MMHE reported a marginal net loss of MYR5m in the quarter. That said, this is an encouraging start, with a: (i) sustained recovery at its marine repair ops (revenue: +51% YoY; EBIT: +MYR4m vs. -MYR18m in 1Q21), on higher works conducted (16 vessels).

Rising cash level and tender pipeline

Financially, its higher net cash level (+24% to MYR492m @ MYR0.31/shr) and +ve FCF reflect improved cost/ cashflow management controls. The tender pipeline too has continued to improve, to MYR18b-19b now (vs. MYR14b in 4Q21), tell-tale signs of revived capex spending in the industry. The reopening of borders, removal of compulsory quarantine requirement and lifting of restrictions on the entry of foreign technical experts will further aid its operations recovery.

An improving 2022 outlook

Our earnings estimates are unchanged. There is a realistic chance for MMHE to secure MYR1b-2b worth of new orders this FY (order backlog: MYR1.9b @ Mar 2021). 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	9.2	8.6	8.0
P/BV (x)	0.4	0.4	0.4	0.4	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	1.2	0.5	nm
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	2	24	31
MKE vs. Consensus (%)	-	-	3,048.1	222.0	169.4

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Company Description

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

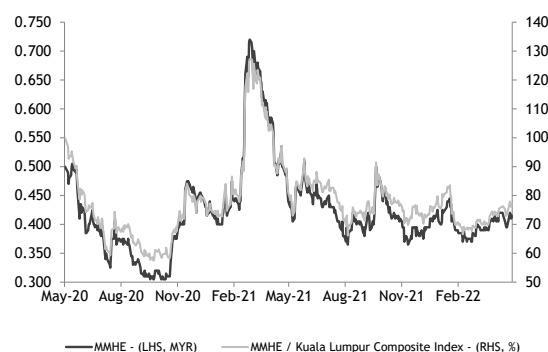
Statistics

52w high/low (MYR)	0.51/0.37
3m avg turnover (USDm)	0.0
Free float (%)	18.1
Issued shares (m)	1,600
Market capitalisation	MYR664.0M USD151M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	6	(8)
Relative to index (%)	5	10	(6)

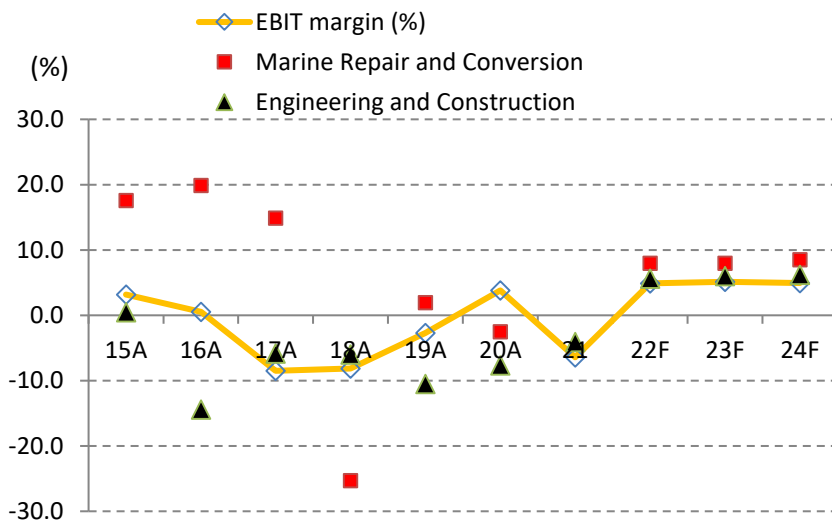
Source: FactSet

Figure 1: Summary results

FY Dec (MYR'm)	Quarterly results				
	1Q22	1Q21	% YoY	4Q21	% QoQ
Turnover	417.8	343.6	21.6	432.0	(3.3)
EBIT	6.3	(101.9)	NM	(111.7)	NM
Int. expense	(3.6)	(2.7)	33.8	(3.7)	(2.0)
Associates	0.0	0.0	NM	(12.9)	NM
Exceptional item	7.8	(66.1)	NM	(81.3)	NM
Pretax profit	2.7	(104.6)	NM	(108.7)	NM
Tax	0.0	0.0	NM	0.0	NM
Minority interest	0.0	0.2	(86.6)	0.9	(96.7)
Net profit	2.7	(104.4)	NM	(107.8)	NM
Core net profit	(5.1)	(38.2)	(86.6)	(26.4)	(80.6)
EBIT margin (%)	1.5	(29.7)	31.2	(25.9)	27.4
Tax rate (%)	0.0	0.0	0.0	0.0	(0.0)
Turnover breakdown	417.8	343.6	21.6	432.0	(3.3)
- Marine repair & conversion	59.4	39.4	50.7	77.6	(23.4)
- Heavy engineering	358.4	304.2	17.8	354.5	1.1
EBIT	6.3	(101.9)	NM	(111.7)	NM
- Marine repair & conversion	3.7	(17.7)	NM	(177.4)	NM
- Heavy engineering	2.9	(85.1)	NM	69.2	(95.8)
- Others					
Margins (%)	1.5	(29.7)	31.2	(25.9)	27.4
- Marine repair & conversion	6.2	(44.8)	51.0	(228.7)	NM
- Heavy engineering	0.8	(28.0)	28.8	19.5	(18.7)

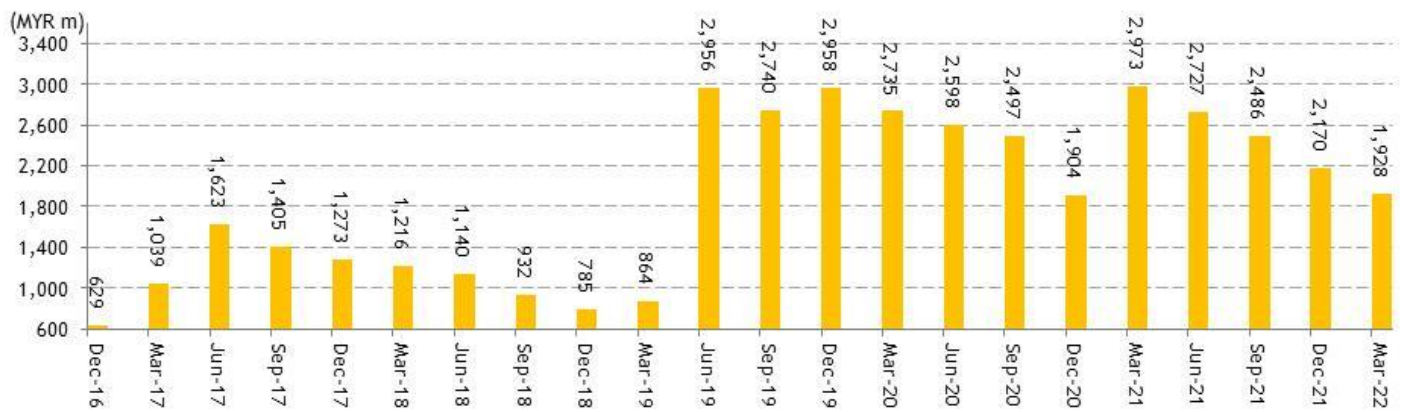
Sources: Company, Maybank IBG Research

Figure 2: EBIT margins



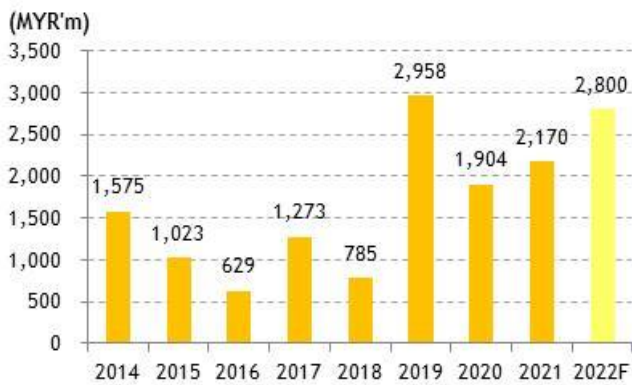
Source: Company, Maybank IBG Research

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



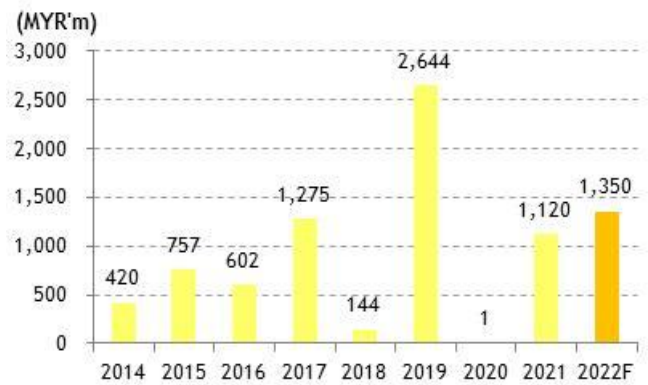
Sources: Company

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-Mar 2022.

Similarly, there was negligible movement among the GLCs. UrusHarta Jemaah's shareholding level was at 5.2% (unch).

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



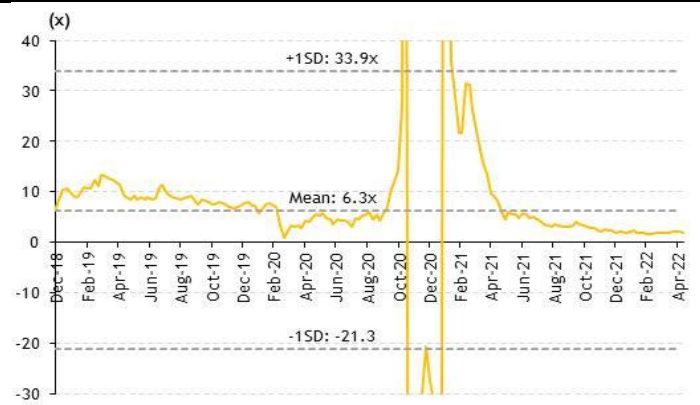
Sources: Company

1-year forward PBV



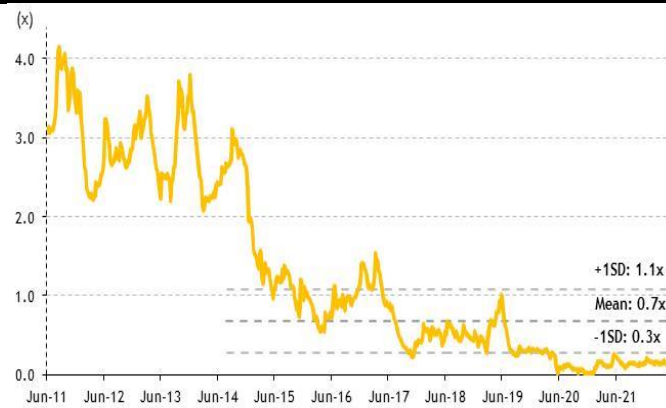
Source: Company, Maybank IBG Research

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	9.2	8.6	8.0
Core P/E (x)	11.4	nm	9.2	8.6	8.0
P/BV (x)	0.4	0.4	0.4	0.4	0.3
P/NTA (x)	0.4	0.4	0.4	0.4	0.3
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	nm	nm	20.8	16.0	25.1
EV/EBITDA (x)	2.6	nm	1.2	0.5	nm
EV/EBIT (x)	5.4	nm	2.3	0.9	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 IBG Research

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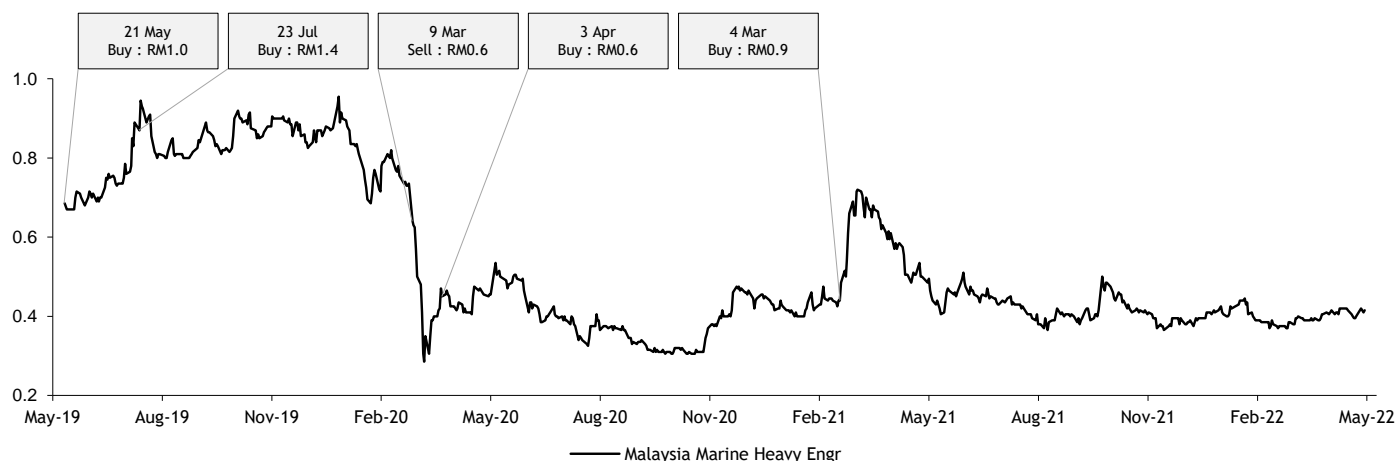
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