

## Malaysia Marine Heavy Engr (MMHE MK)

# FY22 skewed by tax credit in 4Q22

### Maintain BUY and MYR0.85 TP

While FY22 core earnings came in below our expectation, at 86% of our FY estimate, we are positive on its: (i) earnings/ operational turnaround and (ii) 1<sup>st</sup> DPS payout since FY17. We expect a stronger FY23, from earnings growth to improving orders and tenders pipeline. Overall, we remain positive on MMHE - net cash, undeservedly undervalued. Our TP is unchanged, based on 0.8x EV/MYR1.2b order backlog.

### Snapshot of 4Q22 results; declared 1.5 sen DPS

Headline net profit of MYR27m (+70% QoQ) in 4Q22 comprised largely of a MYR21m tax credit from its Investment Tax Allowance's (ITA) revised tax assessment for FY08-11 (one-off). That aside, MMHE reported core net profit of MYR8m (-51% QoQ), which took FY22 core earnings to MYR49m; 86% of our initial FY estimate. The QoQ weakness was due to lower recovery of Covid-10 claims and lower reversal of cost provisions. Overall, business and financial matters (earnings turnaround, improved cost management increased tenders pipeline and orderbook, higher workflows due to reduced restrictions post pandemic - travelling) have recovered YoY. MMHE declared an interim DPS of 1.5 sen (going ex on 24 Feb 2023) in 4Q22; its 1<sup>st</sup> dividend payout since FY17.

### Optimism ahead

Our earnings estimates are unchanged. We remain positive of its operational outlook and financial strength. Its order backlog is now at its record high of MYR6.3b (vs. MYR6.1b in FY10), earning it a 3-year workflow visibility. Operationally, it is preparing to re-active its East yard (for smaller projects; jackets and offshore wind farm structures), a tell-tale sign that jobs opportunity are on the rise. Its West yard is now targeted for big structures (CPP). With a MYR10b-11b tenders pipeline, we do not rule out a MYR2b new order intake this FY, a conservative target vis-à-vis its FY22's achievement of MYR4.9b.

### Improving financials, dividends in FY23!?

Financially, MMHE's constant net cash position (MYR462m or MYR0.29/shr as of Dec 2022) and +ve FCFs (MYR93m in FY22) are key attributes of its cost/cashflow management controls. While it reaffirms itself for another dividend payout in FY23, we have not imputed this into our model yet, taking a more conservative stand on this for now.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	1,467	1,652	1,684	1,871	2,109
EBITDA	(15)	134	163	169	181
Core net profit	(116)	49	77	84	96
Core EPS (sen)	(7.3)	3.0	4.8	5.2	6.0
Core EPS growth (%)	nm	nm	59.0	8.0	14.6
Net DPS (sen)	0.0	1.5	0.0	0.0	0.0
Core P/E (x)	nm	19.6	14.6	13.5	11.8
P/BV (x)	0.4	0.5	0.6	0.6	0.6
Net dividend yield (%)	0.0	2.5	0.0	0.0	0.0
ROAE (%)	(14.7)	3.9	4.3	4.5	4.9
ROAA (%)	(3.6)	1.4	2.3	2.4	2.5
EV/EBITDA (x)	nm	3.7	3.7	2.7	1.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	60	48	na
MIBG vs. Consensus (%)	-	-	29.9	74.4	na

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# BUY

Share Price	MYR 0.71
12m Price Target	MYR 0.85 (+21%)
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)	0.73/0.37
3m avg turnover (USDm)	0.7
Free float (%)	18.0
Issued shares (m)	1,600
Market capitalisation	MYR1.1B
	USD260M

### Major shareholders:

MISC Bhd.	66.5%
TechnipFMC plc	8.5%
Urusharta Jamaah Sdn. Bhd.	5.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	15	62	62
Relative to index (%)	15	59	73

Source: FactSet

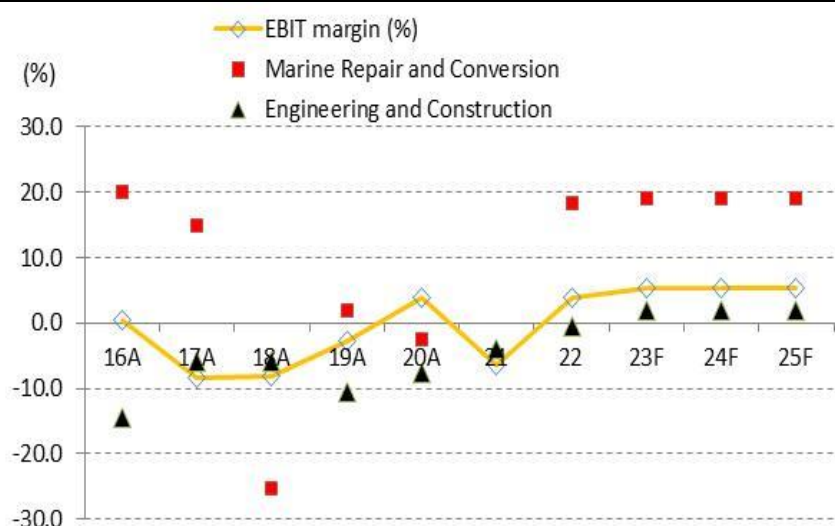


Figure 1: Summary results

FY Dec (MYR'm)	Quarterly results					Cumulative		
	4Q22	4Q21	% YoY	3Q22	% QoQ	FY22	FY21	% YoY
Turnover	424.0	432.0	(1.9)	409.2	3.6	1,651.6	1,467.3	12.6
EBIT	11.5	(111.7)	NM	19.1	(39.5)	62.7	(94.3)	NM
Int. expense	(3.4)	(3.7)	(6.6)	(3.6)	(2.8)	(14.2)	(12.9)	9.6
Associates	0.0	(12.9)	NM	0.0	NM	0.0	(12.9)	NM
Exceptional item	(1.5)	(81.3)	(98.1)	(0.1)	NM	(1.8)	(154.0)	(98.9)
Pretax profit	6.3	(108.7)	NM	15.5	(59.2)	46.7	(274.1)	NM
Tax	20.8	0.0	NM	0.2	NM	20.9	0.0	NM
Minority interest	(0.0)	0.9	NM	0.2	NM	0.1	3.7	(96.4)
Net profit	27.1	(107.8)	NM	15.9	70.2	67.8	(270.4)	NM
Core net profit	7.8	(26.4)	NM	16.0	(51.1)	48.6	(116.4)	NM
EBIT margin (%)	2.7	(25.9)	28.6	4.7	(1.9)	3.8	(6.4)	10.2
Tax rate (%)	(328.8)	0.0	NM	(1.5)	NM	(44.7)	0.0	(44.7)
Turnover breakdown	4Q22	4Q21	% YoY	3Q22	% QoQ	FY22	FY21	% YoY
- Marine repair & conversion	97.6	77.6	25.8	89.1	9.5	336.9	249.4	35.1
- Heavy engineering	326.4	354.5	(7.9)	320.1	2.0	1,314.8	1,218.0	8.0
EBIT	11.5	(111.7)	NM	19.1	(39.5)	62.7	(94.3)	NM
- Marine repair & conversion	22.0	(177.4)	NM	17.0	29.8	61.6	(209.1)	NM
- Heavy engineering	(14.2)	69.2	NM	1.4	NM	(8.7)	(49.4)	(82.4)
- Others	3.7	(3.6)	NM	0.7	NM	9.7	164.3	(94.1)
Margins (%)	4Q22	4Q21	% YoY	3Q22	% QoQ	FY22	FY21	% YoY
- Marine repair & conversion	22.6	(228.7)	NM	19.0	3.5	18.3	(83.9)	NM
- Heavy engineering	(4.3)	19.5	(23.9)	0.4	(4.8)	(0.7)	(4.1)	3.4

Sources: Company, Maybank IBG Research

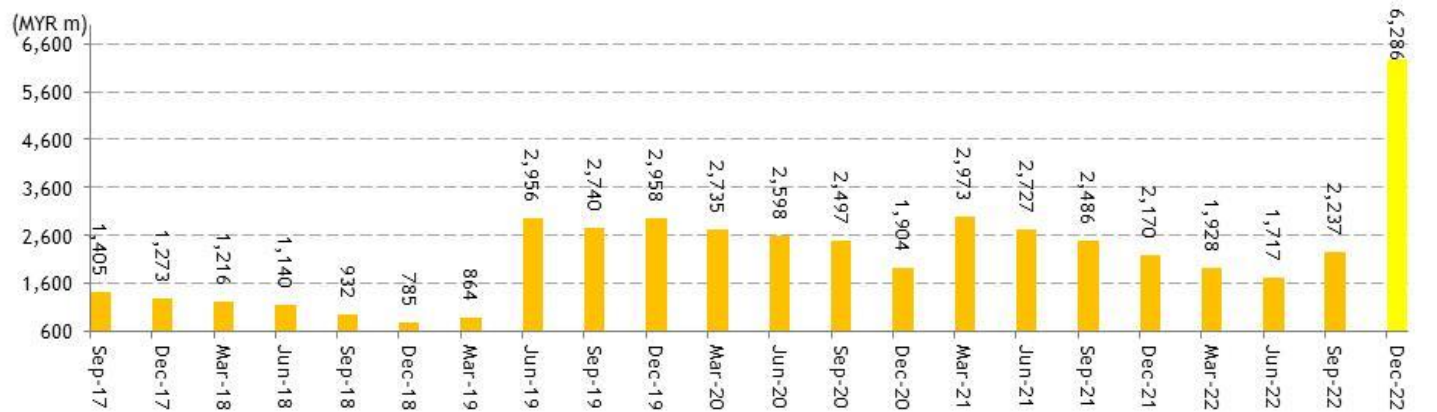
Figure 2: EBIT margins



Source: Company, Maybank IBG Research

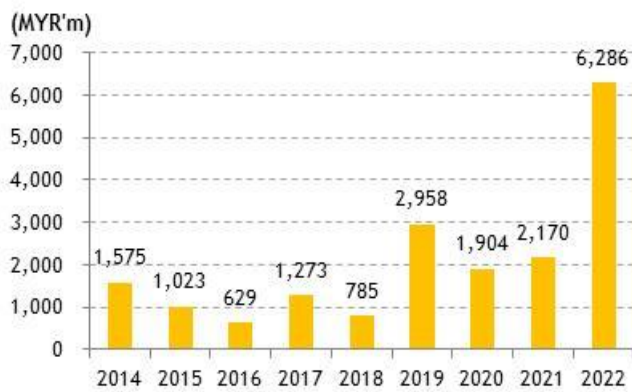


Figure 3: Heavy engineering order backlog (MYR'm)



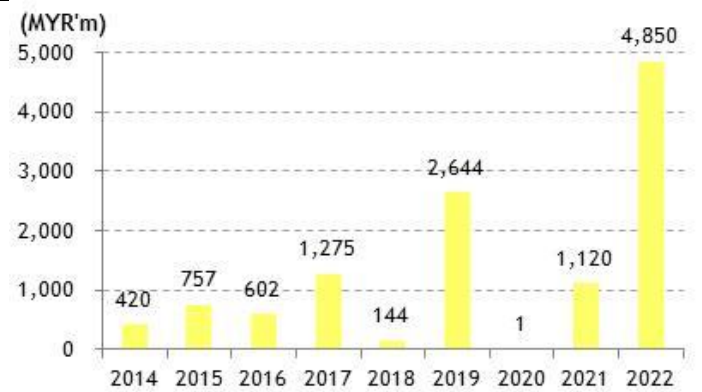
Sources: Company

Figure 4: Order backlog



Source: Company, Maybank IBG Research

Figure 5: Order intake



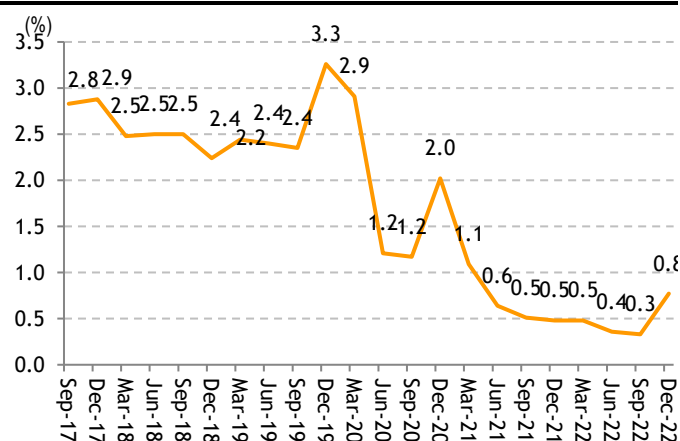
Source: Company, Maybank IBG Research

### Shareholding update

Foreign shareholding (ex-Technip's 8.5%) level has risen strongly QoQ, from 0.33% in end-Sep 2022 to 0.77% (Dec 22).

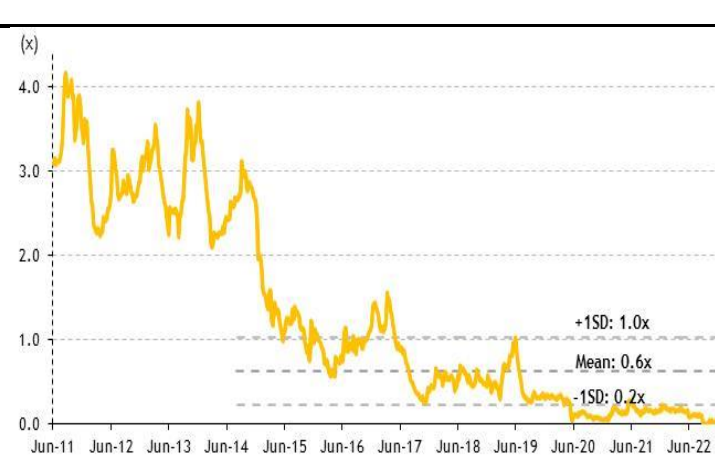
Similarly, there was significant movement at its local shareholding level, from 5.2% in 3Q22 to 8.5% now.

### Foreign shareholding (%) ex Technip's 8.5% strategic stake



Source: Company, Maybank IBG Research

### 1-year forward EV/ order backlog



Source: Company, Maybank IBG Research

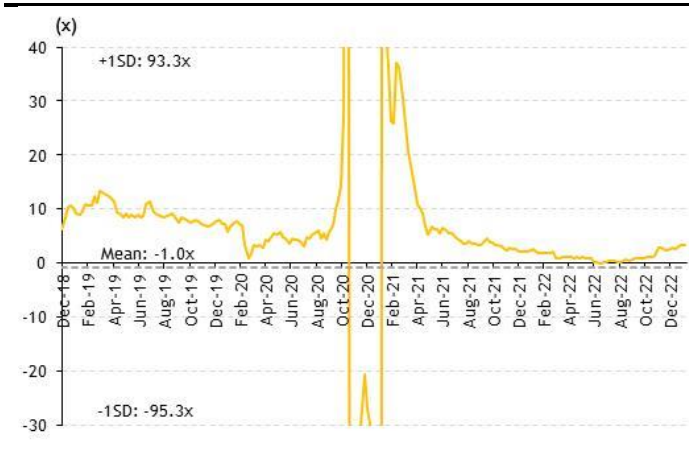


1-year forward PBV



Source: Company, Maybank IBG Research

1-year forward EV/ EBITDA



Source: Company, Maybank IBG Research



FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	nm	9.9	14.6	13.5	11.8
Core P/E (x)	nm	19.6	14.6	13.5	11.8
P/BV (x)	0.4	0.5	0.6	0.6	0.6
P/NTA (x)	0.4	0.5	0.6	0.6	0.6
Net dividend yield (%)	0.0	2.5	0.0	0.0	0.0
FCF yield (%)	nm	9.8	8.0	13.3	15.7
EV/EBITDA (x)	nm	3.7	3.7	2.7	1.5
EV/EBIT (x)	nm	7.8	6.6	4.6	2.5

**INCOME STATEMENT (MYR m)**

Revenue	1,467.3	1,651.6	1,683.7	1,871.4	2,108.5
EBITDA	(15.3)	134.3	163.0	169.2	181.4
Depreciation	(79.0)	(71.6)	(71.6)	(71.6)	(71.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(94.3)	62.7	91.4	97.6	109.8
Net interest income / (exp)	(12.9)	(14.2)	(14.1)	(14.1)	(14.1)
Associates & JV	(12.9)	0.0	0.0	0.0	0.0
Exceptionals	(154.0)	(1.8)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	(274.1)	46.7	77.3	83.5	95.7
Income tax	0.0	20.9	0.0	0.0	0.0
Minorities	3.7	0.1	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(270.4)	67.8	77.3	83.5	95.7
Core net profit	(116.4)	48.6	77.3	83.5	95.7

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	709.9	797.0	863.4	1,013.4	1,190.1
Accounts receivable	831.8	748.0	762.5	847.5	954.9
Inventory	3.6	2.8	10.9	12.2	13.6
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,524.8	1,493.4	1,481.8	1,470.2	1,458.6
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	8.9	1.5	1.5	1.5	1.5
Other assets	311.1	315.4	315.4	315.4	315.4
<b>Total assets</b>	<b>3,390.1</b>	<b>3,358.1</b>	<b>3,435.5</b>	<b>3,660.1</b>	<b>3,934.1</b>
ST interest bearing debt	34.5	36.2	36.2	36.2	36.2
Accounts payable	1,307.4	1,241.3	1,265.3	1,406.4	1,584.6
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	335.1	299.0	299.0	299.0	299.0
Other liabilities	6.0	12.0	12.0	12.0	12.0
<b>Total Liabilities</b>	<b>1,682.7</b>	<b>1,588.6</b>	<b>1,612.7</b>	<b>1,753.8</b>	<b>1,932.0</b>
Shareholders Equity	1,706.5	1,768.7	1,822.0	1,905.6	2,001.3
Minority Interest	1.0	0.8	0.8	0.8	0.8
<b>Total shareholder equity</b>	<b>1,707.4</b>	<b>1,769.5</b>	<b>1,822.8</b>	<b>1,906.4</b>	<b>2,002.1</b>
<b>Total liabilities and equity</b>	<b>3,390.1</b>	<b>3,358.1</b>	<b>3,435.5</b>	<b>3,660.1</b>	<b>3,934.1</b>

**CASH FLOW (MYR m)**

Pretax profit	(274.1)	46.7	77.3	83.5	95.7
Depreciation & amortisation	79.0	71.6	71.6	71.6	71.6
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	167.7	38.5	1.4	54.8	69.4
Cash taxes paid	0.0	20.9	0.0	0.0	0.0
Other operating cash flow	17.0	(44.3)	0.0	0.0	0.0
Cash flow from operations	(10.5)	133.5	150.3	210.0	236.7
Capex	(48.1)	(40.5)	(60.0)	(60.0)	(60.0)
Free cash flow	(58.6)	92.9	90.3	150.0	176.7
Dividends paid	0.0	0.0	(24.0)	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	121.2	(34.4)	0.0	0.0	0.0
Other invest/financing cash flow	(3.8)	28.7	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>58.9</b>	<b>87.1</b>	<b>66.3</b>	<b>150.0</b>	<b>176.7</b>



FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(6.3)	12.6	1.9	11.1	12.7
EBITDA growth	nm	nm	21.4	3.8	7.2
EBIT growth	nm	nm	45.8	6.8	12.5
Pretax growth	nm	nm	65.4	8.0	14.6
Reported net profit growth	nm	nm	14.1	8.0	14.6
Core net profit growth	nm	nm	59.0	8.0	14.6
<b>Profitability ratios (%)</b>					
EBITDA margin	nm	8.1	9.7	9.0	8.6
EBIT margin	nm	3.8	5.4	5.2	5.2
Pretax profit margin	nm	2.8	4.6	4.5	4.5
Payout ratio	0.0	35.4	0.0	0.0	0.0
<b>DuPont analysis</b>					
Net profit margin (%)	nm	4.1	4.6	4.5	4.5
Revenue/Assets (x)	0.4	0.5	0.5	0.5	0.5
Assets/Equity (x)	2.0	1.9	1.9	1.9	2.0
ROAE (%)	(14.7)	3.9	4.3	4.5	4.9
ROAA (%)	(3.6)	1.4	2.3	2.4	2.5
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(111.1)	(155.3)	(155.2)	(149.3)	(149.3)
Days receivable outstanding	174.6	172.2	161.5	154.9	153.9
Days inventory outstanding	1.1	0.8	1.7	2.7	2.6
Days payables outstanding	286.8	328.3	318.4	306.8	305.8
Dividend cover (x)	nm	2.8	nm	nm	nm
Current ratio (x)	1.2	1.2	1.3	1.3	1.3
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.0	2.1	2.1	2.1	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)	na	4.4	6.5	6.9	7.8
Debt/EBITDA (x)	nm	2.5	2.1	2.0	1.8
Capex/revenue (%)	3.3	2.5	3.6	3.2	2.8
Net debt/ (net cash)	(340.3)	(461.9)	(528.2)	(678.2)	(854.9)

Source: Company; Maybank IBG Research



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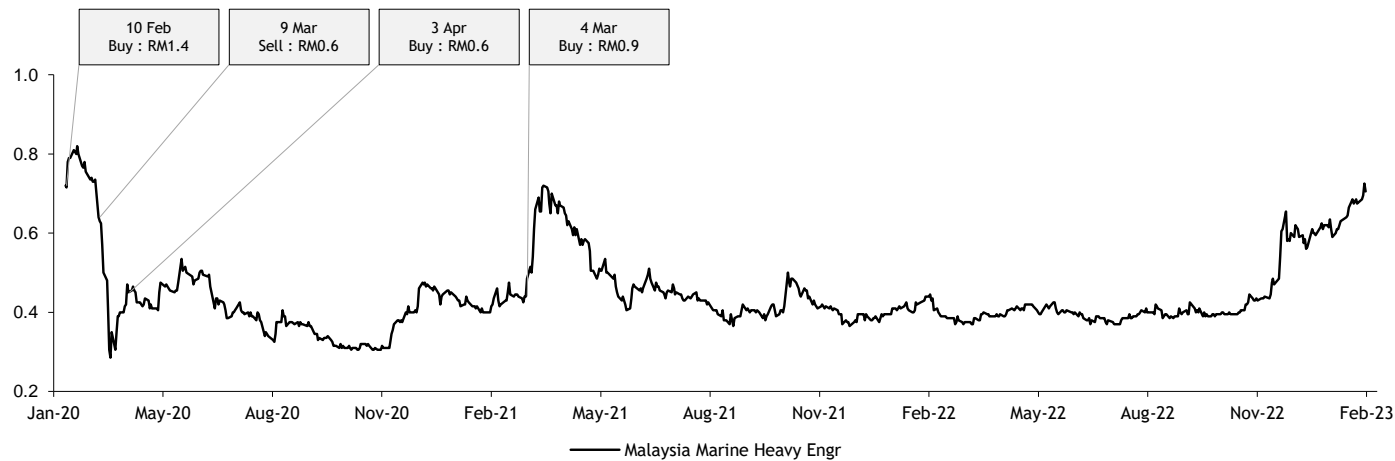
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