Small Cap Asean Research

Malaysia Results Review

Shariah Compliant

20 February 2025

Energy & Petrochemicals | Oil & Gas Services

Malaysia Marine & Heavy Engineering (MMHE MK)

Buy (Maintained)

Target Price (Return):	MYR0.62 (+60%)
Price (Market Cap):	MYR0.39 (USD140m)
ESG score:	2.8 (out of 4)
Avg Daily Turnover (MYR/USD)	0.17m/0.04m

A Stellar Year; Keep BUY

- **Maintain BUY and MYR0.62 TP (60% upside).** Malaysia Marine & Heavy Engineering's results came in below expectations, weighed down by margin contraction in the marine segment. Nonetheless, we remain positive on the group due to its turnaround and strong orderbook, which underscores a favourable sector outlook. We believe its robust project pipeline, coupled with improved contract terms, will support sustained profitability.
- **Below expectations.** MMHE's results fell short of our and Street's expectations. Core profit of MYR89.2m made up 89% and 82% of our and consensus' full-year forecasts. No dividend was declared for the quarter.
- **Results review.** The group returned to the black in FY24 with a core profit of MYR89.2m, reversing a MYR490m loss in the previous year. The earnings rebound was mainly driven by the recognition of change order claims during the year. Revenue rose 9% YoY to MYR3.6bn, up from MYR3.3bn, largely due to higher project billings from the heavy engineering (HE) division and increased conversion jobs from the marine division. Excluding one-off items in 4Q24, the group posted a core net profit of MYR11.7m (-45% QoQ, +25% YoY). The sequential drop was attributed to a 36% QoQ decline in the marine segment's operating profit, which fell to MYR7m (from MYR11m), impacted by supply chain inflationary pressures. As of 4Q24, MMHE returned to a net cash position of MYR196m (MYR0.12/share) after fully repaying its revolving credits.
- **Outlook.** As of 4Q24, MMHE's orderbook stood at MYR5.3bn (-16.8% QoQ) with order recognition. Project updates: The Kasawari CCS project is 58% complete, while the first steel cut for the OSS HVDC platform project is expected in Apr 2025. Its c.MYR5bn tenderbook has a 70:30 split between domestic and international projects. Going forward, MMHE aims to balance its portfolio between oil and gas opportunities and renewable energy ventures. For the marine business, it anticipates sustained strong performance, supported by its vessels achieving a near-perfect client satisfaction score.
- **Keep BUY.** Our FY25-26F forecasts are raised slightly by 1% following housekeeping adjustments. We also introduce our FY27 earnings forecasts. We expect earnings to decline, as FY24 was boosted by recovery claims, and any further recognition of its claims would provide upside to earnings. Our TP remains at MYR0.62, pegging it to 0.7x P/BV on FY25F (+1.5SD from its 5-year mean), incorporating a 4% ESG discount for its 2.8 ESG score, which is below the country median.
- **Key risks** include slower order replenishments, higher-than-expected material costs, and labour shortages.

Analysts

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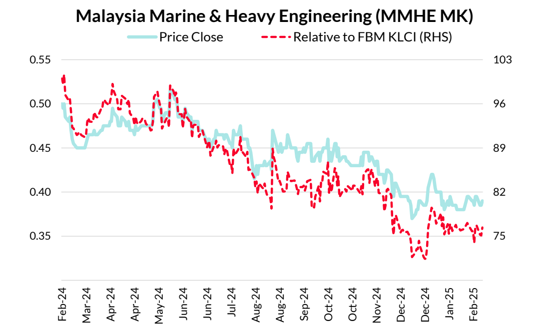
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.3	2.6	(10.4)	(10.4)	(18.8)
Relative	5.1	1.7	(9.1)	(6.3)	(21.5)
52-wk Price low/high (MYR)					0.37 –0.52



Source: Bloomberg

Forecasts and Valuation	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Total turnover (MYRm)	3,309	3,609	3,321	3,050	3,170
Recurring net profit (MYRm)	(484)	121	65	62	68
Recurring net profit growth (%)	(5,023.1)	-	(46.1)	(4.4)	8.8
Recurring P/E (x)	na	5.16	9.58	10.01	9.21
P/B (x)	0.5	0.5	0.4	0.4	0.4
P/CF (x)	na	4.50	3.54	2.88	2.53
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	na	1.95	2.27	2.16	1.69
Return on average equity (%)	(32.5)	9.1	4.6	4.2	4.4
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 2.8 (out of 4)

E Score: 2.0 (MODERATE)
S Score: 3.3 (EXCELLENT)
G Score: 4.0 (EXCELLENT)
Please refer to the ESG analysis on the next page

Note:
Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Emissions And ESG

Trend analysis

MMHE's total GHG emissions decreased by 5.5% YoY, primarily due to a reduction in its Scope 3 emissions, specifically from employee commuting.

Emissions (tCO2e)	Dec-22	Dec-23	Dec-24	Dec-25
Scope 1	8,258	9,928	na	na
Scope 2	28,312	27,882	na	na
Scope 3	5,555	2,014	na	na
Total emissions	42,125	39,824	na	na

Source: Company data, RHB

Latest ESG-Related Developments

In 2023, MMHE established a Net Zero Committee (NetZec) that oversees the implementation of its 2030 Roadmap, endorses the 2050 Net Zero GHG Roadmap and assesses initiatives in Decarbonisation, Biodiversity Conservation, and Circular Economy.

The group planted 1,000 trees in its West Yard for the Yard in the Garden project.

MMHE secured both the FEED and EPCIC services contracts for the Kasawari CCS project, which is Malaysia's first CCS project as well as the world's largest offshore CCS project by volume of carbon dioxide captured.

ESG Unbundled

Overall ESG Score: 2.8 (out of 4)

Last Updated: 27 May 2024

E Score: 2.0 (MODERATE)

MMHE has implemented various efforts to manage the environmental impact of its business including the installation of rooftop solar panel which reduces 6,286 tonnes of carbon emissions annually. In FY23, the group's total GHG emissions decreased by 5.5% YoY, primarily due to a reduction in its Scope 3 emissions, specifically from employee commuting.

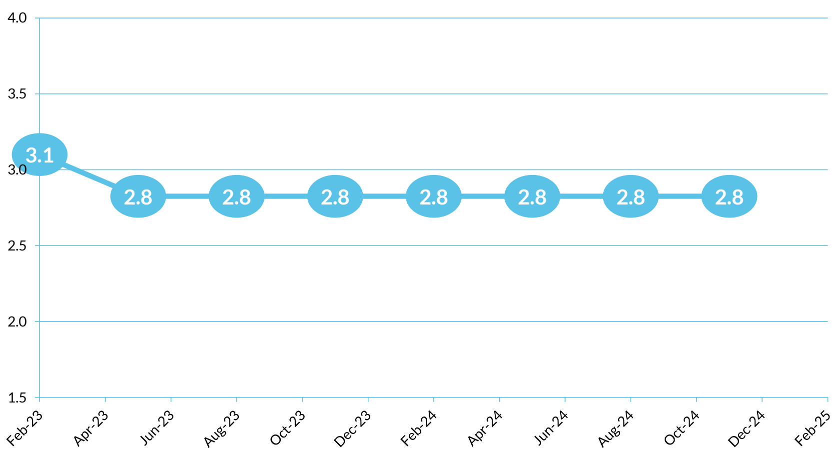
S Score: 3.3 (EXCELLENT)

MMHE maintains its commitment on high labour standards via policies against excessive working hours and discriminatory practices. However, it recorded one fatality in FY23 due to the failure of a scaffolding structure and saw an increase in its Lost Time Injury Frequency (LTIF) to 0.13 from FY22's 0.1.

G Score: 4.0 (EXCELLENT)

Its board size is within the industry average. Over half is made up of independent directors. There is female representation, and the directors are skilled and experienced. It provides clear, timely and reliable information, prepared within Bursa Malaysia and MCCG requirements. Shareholder rights are protected.

ESG Rating History



Source: RHB

Financial Exhibits

Asia
Malaysia
Energy & Petrochemicals
Malaysia Marine & Heavy Engineering
MMHE MK
Buy

Valuation basis

P/BV

Key drivers

i. Higher project wins;
ii. Higher variation orders.

Key risks

i. Slowdown in replenishments;
ii. Higher material costs;
iii. Labour shortages.

Company Profile

MMHE is a Malaysian shipbuilding and heavy engineering industries company.

Financial summary (MYR)	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Recurring EPS	(0.30)	0.08	0.04	0.04	0.04
BVPS	0.79	0.86	0.90	0.94	0.98
Return on average equity (%)	(32.5)	9.1	4.6	4.2	4.4

Valuation metrics	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Recurring P/E (x)	na	5.16	9.58	10.01	9.21
P/B (x)	0.5	0.5	0.4	0.4	0.4
FCF Yield (%)	(41.7)	4.3	12.3	18.7	23.4
EV/EBITDA (x)	na	1.95	2.27	2.16	1.69
EV/EBIT (x)	na	3.04	3.46	3.51	2.74

Income statement (MYRm)	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Total turnover	3,309	3,609	3,321	3,050	3,170
Gross profit	(186)	722	664	610	634
EBITDA	(401)	219	196	186	198
Depreciation and amortisation	(76)	(78)	(67)	(72)	(76)
Operating profit	(477)	141	129	115	122
Net interest	(15)	(18)	(17)	(16)	(15)
Pre-tax profit	(492)	123	112	99	107
Taxation	(1)	(2)	(47)	(37)	(40)
Reported net profit	(493)	121	65	62	68
Recurring net profit	(484)	121	65	62	68

Cash flow (MYRm)	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Change in working capital	(270)	(61)	(50)	10	23
Cash flow from operations	(178)	139	176	217	246
Capex	(82)	(112)	(100)	(100)	(100)
Cash flow from investing activities	(68)	(100)	(100)	(100)	(100)
Cash flow from financing activities	(124)	37	(108)	(114)	0
Cash at beginning of period	797	558	458	576	600
Net change in cash	(371)	76	(32)	3	146
Ending balance cash	558	458	576	600	647

Balance sheet (MYRm)	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Total cash and equivalents	558	458	576	600	647
Tangible fixed assets	1,703	1,722	1,755	1,783	1,807
Total investments	2	0	0	0	0
Total assets	3,649	3,531	3,581	3,482	3,593
Short-term debt	106	39	114	109	103
Total long-term debt	261	222	283	268	255
Total liabilities	2,382	2,150	2,135	1,974	2,018
Total equity	1,267	1,380	1,446	1,508	1,575
Total liabilities & equity	3,649	3,531	3,581	3,482	3,593

Key metrics	Dec-23	Dec-24	Dec-25F	Dec-26F	Dec-27F
Revenue growth (%)	100.4	9.0	(8.0)	(8.1)	3.9
Recurrent EPS growth (%)	(5023.1)	0.0	(46.1)	(4.4)	8.8
Gross margin (%)	(5.6)	20.0	20.0	20.0	20.0
Operating EBITDA margin (%)	(12.1)	6.1	5.9	6.1	6.3
Net profit margin (%)	(14.9)	3.4	2.0	2.0	2.1
Capex/sales (%)	2.5	3.1	3.0	3.3	3.2
Interest cover (x)	(31.0)	7.9	7.7	7.2	8.2

Source: Company data, RHB

Figure 1: Results review

FYE Dec (MYRm)	4Q23	3Q24	4Q24	QoQ	YoY	FY23	FY24	YoY	Comments
Revenue	1,118.4	906.5	817.6	*-10%*	*-27%*	3,309.4	3,608.6	*9%*	
Other operating income	5.6	(6.1)	16.7	*nm*	*nm*	0.4	43.5	*nm*	
EBITDA	**28.4**	**39.4**	**46.7**	*18%*	*64%*	(391.9)	**218.5**	*nm*	
EBITDA margin %	*2.5*	*4.4*	*5.7*			*(11.8)*	*6.1*		
Depreciation and amortisation	(17.5)	(18.7)	(20.0)	*7%*	*14%*	(75.8)	(77.5)	*2%*	
EBIT	**10.9**	**20.8**	**26.7**	*29%*	*nm*	(467.7)	**141.0**	*nm*	
Interest expense	(4.9)	(4.8)	(4.7)	*-2%*	*-3%*	(15.4)	(17.8)	*16%*	
JVs & associates	0.0	0.0	0.0	*nm*	*nm*	0.0	0.0	*nm*	
PBT	**6.0**	**16.0**	**22.0**	*38%*	*nm*	(483.1)	**123.3**	*nm*	
Tax	0.0	(0.7)	(0.7)	*-6%*	*nm*	(1.1)	(2.2)	*96%*	
Minority Interest	0.1	0.0	0.0	*-36%*	*-94%*	0.0	(0.0)	*nm*	
Net Profit	**6.2**	**15.3**	**21.4**	*40%*	*nm*	(484.2)	**121.0**	*nm*	
EI/Others	(3.2)	6.2	(9.7)	*nm*	*nm*	(12.2)	(31.8)	*nm*	Inclusive of gain on scrap disposal and unrealised FX gain.
Core Profit	**9.4**	**21.4**	**11.7**	*-45%*	*25%*	(490.1)	**89.2**	*nm*	
Core Profit margin %	*0.8*	*2.4*	*1.4*			*(14.8)*	*2.5*		

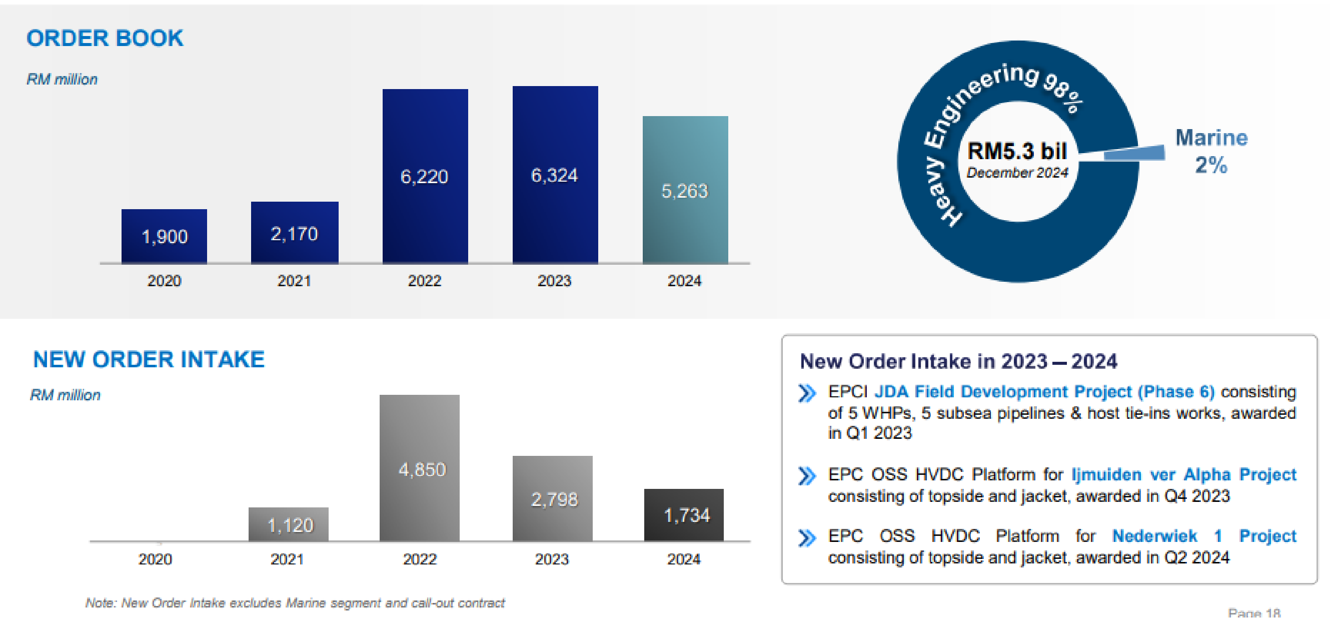
Source: Company data, RHB

Figure 2: Segmental breakdown

FYE Dec	4Q23	3Q24	4Q24	QoQ	YoY	FY23	FY24	YoY	Comments
Revenue breakdown									
Offshore	1,020.2	799.9	708.1	*-11%*	*-31%*	2,985.5	3,186.6	*7%*	
Marine	98.2	106.5	109.5	*3%*	*11%*	323.9	422.0	*30%*	
Others	0.0	0.0	0.0			0.0	0.0		
Eliminations	0.0	0.0	0.0			0.0	0.0		
Operating profit breakdown									
Offshore	7.4	19.5	22.6	*16%*	*nm*	(499.1)	110.1	*nm*	
Marine	2.0	11.0	7.0	*-36%*	*nm*	22.6	41.0	*82%*	
Others	1.5	(9.8)	(2.8)	*-71%*	*nm*	8.9	(9.9)	*nm*	
Operating profit margin before eliminations (%)									
Offshore	0.7	2.4	3.2	*n.m*		(16.7)	3.5		
Marine	2.1	10.3	6.4	*-38%*		7.0	9.7		

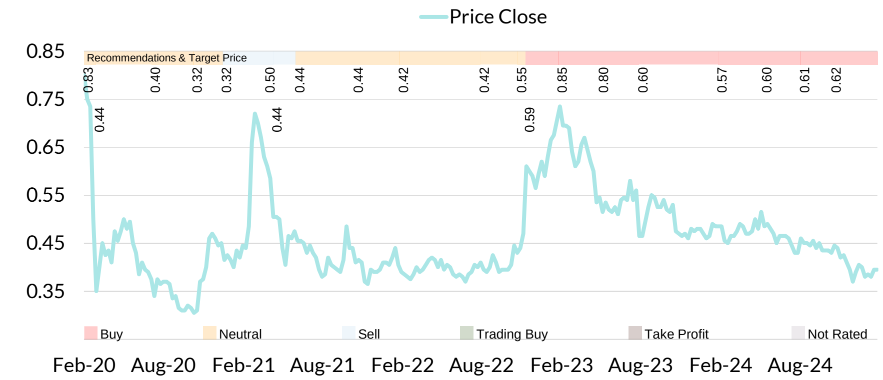
Source: Company, RHB estimates

Figure 3: Outstanding orders and new order intake



Source: Company, data

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-11-13	Buy	0.62	0.44
2024-08-22	Buy	0.61	0.47
2024-05-27	Buy	0.60	0.51
2024-02-15	Buy	0.57	0.48
2023-11-30	Buy	0.60	0.48
2023-11-09	Buy	0.60	0.49
2023-08-17	Buy	0.60	0.46
2023-05-18	Buy	0.80	0.54
2023-02-14	Buy	0.85	0.75
2023-02-12	Buy	0.85	0.71
2022-11-30	Buy	0.59	0.54
2022-11-11	Neutral	0.55	0.43
2022-08-18	Neutral	0.42	0.42
2022-05-22	Neutral	0.42	0.42
2022-02-14	Neutral	0.42	0.41

Source: RHB, Bloomberg

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