

14 November 2024

Malaysia Marine & Heavy Engineering (MMHE MK)

A Strong Quarter Sans Claims; Keep BUY

- **Keep BUY, with new MYR0.62 TP from MYR0.61, 43% upside.** Malaysia Marine & Heavy Engineering's results exceeded expectations, supported by better margin in the heavy engineering (HE) segment and strong performance in the marine segment. We remain optimistic on its outlook as older and less favourable projects are phased out, making way for new projects with improved terms. This transition is expected to strengthen MMHE's performance and support a more positive growth trajectory moving forward.
- **Above expectations.** 9M24 core earnings of MYR77.4m accounted for 88% and 90% of our and consensus estimates, largely due to better-than-expected performance of the marine segment and higher margin in the HE segment. 3Q24 revenue rose by 1% QoQ (42% YoY) to MYR906.5m, driven by higher billings from the marine segment, with its topline increasing 18% QoQ and 56% YoY, offsetting softer contribution from the HE segment. Despite the revenue increase, MMHE recorded a core net profit of MYR21.4m (-56% QoQ), mainly from the recognition of substantial cost recovery claims in the previous quarter. MMHE remains in a net debt position (MYR49.4m) due to revolving credit drawn for short-term working capital. No dividend was declared for the quarter.
- **Outlook.** As of 3Q24, MMHE's orderbook fell by 12.9% QoQ to MYR5.4bn, down from MYR6.2bn in the previous quarter due to order recognition. Current project updates: The Joint Development Area or JDA field development project is 72% complete (target completion: 2Q25), and the Kasawari Carbon Capture & Storage or CCS is 53% complete (target completion: 4Q25). Meanwhile, the fabrication of the first offshore substation (OSS) high voltage direct current (HVDC) platform for TenneT's 2GW offshore wind farm is at 3% (target completion: 2027) and the second OSS fabrication is to start by end-FY25 (target completion: 2028). These ongoing projects provide MMHE with a robust outlook, securing activity and revenue visibility until 2028. Additionally, the group has a solid tender book valued at MYR8-9bn, with approximately 21% international and 79% domestic projects. For its marine segment, the group aims to grow its conversion portfolio, leveraging opportunities in upstream activities. MMHE expects rapid LNG fleet expansion to boost repair and maintenance demand, though this may be tempered by deferred LNGC dry-docking to meet strong winter demand. Current total dry dock utilisation rate stands at 70-80%.
- **Keep BUY.** We raise our FY24F-26F earnings by 13%, 14% and 14% on better margin for the HE segment. Our TP is slightly lifted to MYR0.62 based on 0.7x FY25F P/BV, or +1.5SD from its 5-year mean given MMHE's robust orderbook – signalling a strong sector outlook. Our TP includes a 4% discount for its 2.8 ESG score, which is below the 3.0 country median. Key risks include slowdown on replenishments, higher-than-expected material costs, and labour shortages.

| Forecasts and Valuation | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
|---------------------------------|----------|-----------|----------|----------|----------|
| Total turnover (MYRm) | 1,652 | 3,309 | 3,700 | 3,765 | 3,380 |
| Recurring net profit (MYRm) | 10 | (484) | 100 | 65 | 62 |
| Recurring net profit growth (%) | - | (5,023.1) | - | (35.5) | (4.3) |
| Recurring P/E (x) | 70.77 | na | 6.95 | 10.79 | 11.28 |
| P/B (x) | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 |
| P/CF (x) | 5.72 | na | 2.44 | 5.08 | 1.69 |
| Dividend Yield (%) | 3.4 | na | na | na | na |
| EV/EBITDA (x) | 1.66 | na | 1.29 | 2.18 | 1.26 |
| Return on average equity (%) | 3.9 | (31.9) | 7.6 | 4.6 | 4.2 |
| Net debt to equity (%) | net cash | net cash | net cash | net cash | net cash |

Source: Company data, RHB

Energy & Petrochemicals | Oil & Gas Services

Buy (Maintained)

| | |
|------------------------------|-------------------|
| Target Price (Return): | MYR0.62 (+43%) |
| Price (Market Cap): | MYR0.44 (USD157m) |
| ESG score: | 2.8 (out of 4) |
| Avg Daily Turnover (MYR/USD) | 0.29m/0.07m |

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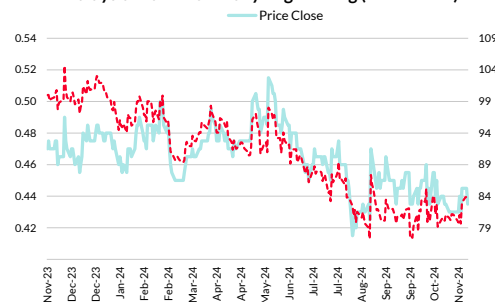
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Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|--------|-----|-----|--------|--------|
| Absolute | (9.4) | 0.0 | 1.2 | (13.9) | (8.4) |
| Relative | (20.0) | 1.5 | 1.3 | (14.2) | (19.7) |
| 52-wk Price low/high (MYR) | | | | 0.42 | -0.52 |

Malaysia Marine & Heavy Engineering (MMHE MK)



Source: Bloomberg

Overall ESG Score: 2.8 (out of 4)

E: 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: EXCELLENT

MMHE maintains its commitment on high labour standards via policies excessive working hours and discriminatory practices. However, MMHE 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: 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 MCGG. Shareholder rights are protected.

Note:

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

Financial Exhibits

| | | | | | | |
|---|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Asia | Financial summary (MYR) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| Malaysia | Recurring EPS | 0.01 | (0.30) | 0.06 | 0.04 | 0.04 |
| Energy & Petrochemicals | DPS | 0.02 | - | - | - | - |
| Malaysia Marine & Heavy Engineering | BVPS | 1.11 | 0.79 | 0.85 | 0.89 | 0.93 |
| MMHE MK | Return on average equity (%) | 3.9 | (31.9) | 7.6 | 4.6 | 4.2 |
| Buy | | | | | | |
| | Valuation metrics | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| Valuation basis | Recurring P/E (x) | 70.77 | na | 6.95 | 10.79 | 11.28 |
| P/BV | P/B (x) | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 |
| | FCF Yield (%) | 11.7 | (37.7) | 26.6 | (1.9) | 37.7 |
| Key drivers | Dividend Yield (%) | 3.4 | - | - | - | - |
| i. Higher project wins; | EV/EBITDA (x) | 1.66 | na | 1.29 | 2.18 | 1.26 |
| ii. Higher variation orders. | EV/EBIT (x) | 3.85 | na | 1.73 | 3.34 | 2.08 |
| | | | | | | |
| Key risks | Income statement (MYRm) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| i. Slow down on replenishments; | Total turnover | 1,652 | 3,309 | 3,700 | 3,765 | 3,380 |
| ii. Higher material costs; | Gross profit | 212 | (468) | 740 | 753 | 676 |
| iii. Labour shortages. | EBITDA | 141 | (392) | 249 | 196 | 188 |
| | Depreciation and amortisation | (80) | (76) | (64) | (68) | (75) |
| Company Profile | Operating profit | 61 | (468) | 185 | 128 | 114 |
| Malaysia Marine & Heavy Engineering is a Malaysian shipbuilding and heavy engineering industries company. | Net interest | (14) | (15) | (17) | (17) | (16) |
| | Pre-tax profit | 47 | (483) | 168 | 111 | 98 |
| | Taxation | 21 | (1) | (68) | (47) | (36) |
| | Reported net profit | 68 | (484) | 100 | 65 | 62 |
| | Recurring net profit | 10 | (484) | 100 | 65 | 62 |
| | | | | | | |
| | Cash flow (MYRm) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| | Change in working capital | 41 | 202 | 121 | (89) | 204 |
| | Cash flow from operations | 122 | (180) | 285 | 137 | 412 |
| | Capex | (41) | (82) | (100) | (150) | (150) |
| | Cash flow from investing activities | 2 | (66) | (100) | (150) | (150) |
| | Cash flow from financing activities | (8) | 44 | (130) | (107) | 0 |
| | Cash at beginning of period | 710 | 797 | 558 | 792 | 666 |
| | Net change in cash | 115 | (202) | 55 | (120) | 262 |
| | Ending balance cash | 797 | 558 | 792 | 666 | 836 |
| | | | | | | |
| | Balance sheet (MYRm) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| | Total cash and equivalents | 797 | 558 | 792 | 666 | 836 |
| | Tangible fixed assets | 1,694 | 1,703 | 1,739 | 1,821 | 1,896 |
| | Total investments | 2 | 2 | 2 | 2 | 2 |
| | Total assets | 3,358 | 3,649 | 4,150 | 3,926 | 4,219 |
| | Short-term debt | 36 | 106 | 120 | 114 | 109 |
| | Total long-term debt | 299 | 261 | 297 | 283 | 268 |
| | Total liabilities | 1,589 | 2,382 | 2,782 | 2,494 | 2,726 |
| | Total equity | 1,770 | 1,267 | 1,367 | 1,432 | 1,493 |
| | Total liabilities & equity | 3,358 | 3,649 | 4,150 | 3,926 | 4,219 |
| | | | | | | |
| | Key metrics | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| | Revenue growth (%) | 12.6 | 100.4 | 11.8 | 1.8 | (10.2) |
| | Recurrent EPS growth (%) | 0.0 | (5023.1) | 0.0 | (35.5) | (4.3) |
| | Gross margin (%) | 12.8 | (14.1) | 20.0 | 20.0 | 20.0 |
| | Operating EBITDA margin (%) | 8.5 | (11.8) | 6.7 | 5.2 | 5.6 |
| | Net profit margin (%) | 4.1 | (14.6) | 2.7 | 1.7 | 1.8 |
| | Dividend payout ratio (%) | 35.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| | Capex/sales (%) | 2.5 | 2.5 | 2.7 | 4.0 | 4.4 |
| | Interest cover (x) | 4.30 | (30.40) | 10.60 | 7.67 | 7.19 |

Source: Company data, RHB

Figure 1: Results review

| FYE Dec (MYRm) | 3Q23 | 2Q24 | 3Q24 | QoQ | YoY | 9M23 | 9M24 | YoY | Comments |
|-------------------------------|----------------|-------------|-------------|------|------|---------|--------------|------|--|
| Revenue | 638.5 | 900.0 | 906.5 | 1% | 42% | 2,191.0 | 2,791.0 | 27% | |
| Other operating income | (15.9) | 28.4 | (6.1) | nm | -61% | (5.1) | 26.8 | nm | |
| EBITDA | (81.5) | 98.5 | 39.4 | -60% | nm | (420.3) | 171.8 | nm | |
| EBITDA margin (%) | (12.8) | 10.9 | 4.4 | | | (19.2) | 6.2 | | |
| Depreciation and amortisation | (18.7) | (19.5) | (18.7) | -4% | 0% | (58.3) | (57.5) | -1% | |
| EBIT | (100.2) | 79.1 | 20.8 | -74% | nm | (478.6) | 114.3 | nm | |
| Interest expense | (3.7) | (4.7) | (4.8) | 2% | 29% | (10.5) | (13.1) | 24% | |
| JVs & associates | 0.0 | 0.0 | 0.0 | nm | nm | 0.0 | 0.0 | nm | |
| PBT | (103.9) | 74.4 | 16.0 | -79% | nm | (489.1) | 101.2 | nm | |
| Tax | (1.1) | (0.4) | (0.7) | 75% | -39% | (1.1) | (1.6) | 39% | |
| Minority interest | (0.1) | (0.1) | 0.0 | nm | nm | (0.1) | (0.0) | -72% | |
| Net profit | (105.2) | 73.9 | 15.3 | -79% | nm | (490.4) | 99.6 | nm | |
| El/others | (11.9) | (25.6) | 6.1 | nm | nm | (9.1) | (22.2) | nm | Inclusive of a net unrealised gain/loss on FX and changes in fair value of hedging derivatives |
| Core profit | (117.1) | 48.3 | 21.4 | -56% | nm | (499.4) | 77.4 | nm | Above expectations |
| Core profit margin (%) | (18.3) | 5.4 | 2.4 | | | (22.8) | 2.8 | | |

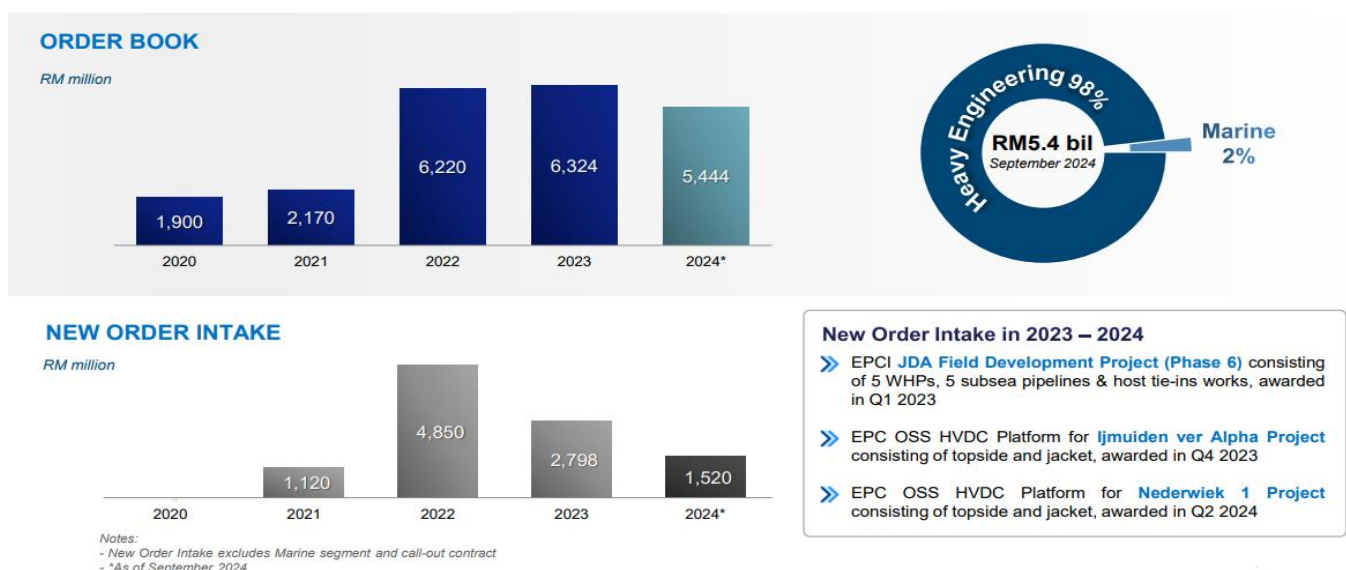
Source: Company data, RHB

Figure 2: Segmental breakdown

| FYE Dec | 3Q23 | 2Q24 | 3Q24 | QoQ | YoY | 9M23 | 9M24 | YoY | Comments |
|--|---------|-------|-------|------|-----|---------|---------|-----|---|
| Revenue breakdown | | | | | | | | | |
| Offshore | 570.2 | 809.5 | 799.9 | -1% | 40% | 1,965.3 | 2,478.5 | 26% | |
| Marine | 68.2 | 90.6 | 106.5 | 18% | 56% | 225.7 | 312.5 | 38% | |
| Others | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | | |
| Operating profit breakdown | | | | | | | | | |
| Offshore | (107.7) | 67.7 | 19.5 | -71% | nm | (506.5) | 87.5 | nm | 2Q24: Inclusive of cost recovery claims |
| Marine | 4.4 | 9.1 | 11.0 | 21% | nm | 20.5 | 33.9 | 65% | |
| Others | 3.2 | 2.3 | (9.8) | nm | nm | 7.4 | (7.1) | nm | |
| Operating profit margin before eliminations (%) | | | | | | | | | |
| Offshore | (18.9) | 8.4 | 2.4 | nm | | (25.8) | 3.5 | | |
| Marine | 6.4 | 10.1 | 10.3 | 3% | | 9.1 | 10.9 | | |

Source: Company data, RHB

Figure 3: Outstanding orders and new order intake



Source: Company data

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.

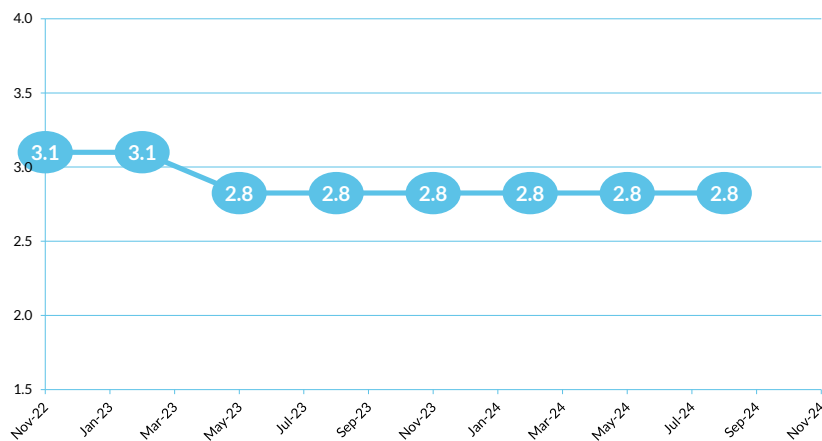
| Emissions (tCO ₂ e) | Dec-21 | Dec-22 | Dec-23 |
|--------------------------------|--------|--------|--------|
| Scope 1 | 4,926 | 8,258 | 9,928 |
| Scope 2 | 25,819 | 28,312 | 27,882 |
| Scope 3 | - | 5,555 | 2,014 |
| Total emissions | 30,745 | 42,125 | 39,824 |

Source: Company data, RHB

Latest ESG-Related Developments

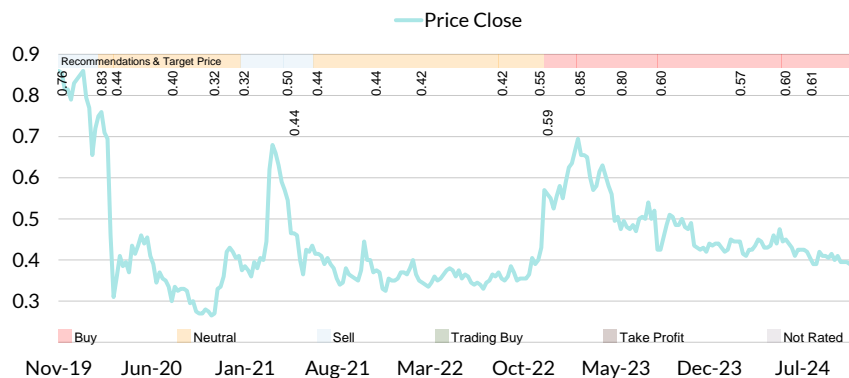
- In 2023, MMHE established a Net Zero Committee (NetZec) that oversees the implementation of its 2030 Roadmap, endorses the 2050 Net Zero GHG Roadmap and assesses initiatives in Decarbonisation, Biodiversity Conservation, and Circular Economy.
- The group planted 1,000 trees in its West Yard for the 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 Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 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 |
| 2021-11-03 | Neutral | 0.44 | 0.42 |

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

| | |
|---------------------|--|
| Buy: | Share price may exceed 10% over the next 12 months |
| Trading Buy: | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| Neutral: | Share price may fall within the range of +/- 10% over the next 12 months |
| Take Profit: | Target price has been attained. Look to accumulate at lower levels |
| Sell: | Share price may fall by more than 10% over the next 12 months |
| Not Rated: | Stock is not within regular research coverage |

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