23 May 2022

Energy & Petrochemicals | Oil & Gas Services

Malaysia Marine & Heavy Engineering (MMHE MK)

Sitting On The Edge Of a Recovery; NEUTRAL

Neutral (Maintained)

Target Price (Return):	MYR0.42 (+0%)
Price (Market Cap):	MYR0.42 (USD151m)
ESG score:	3.10 (out of 4)
Avg Daily Turnover (MYR/USD)	0.14m/0.03m

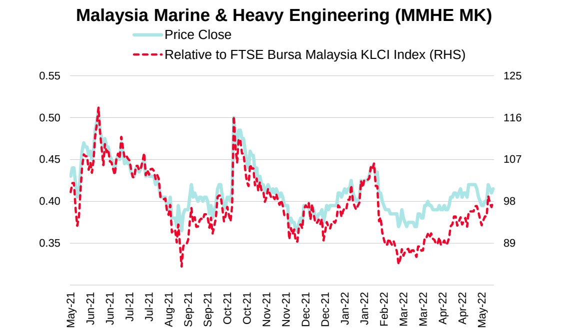
Analyst

Sean Lim
+603 9280 8867
sean.lim@rhbgroup.com

- **Maintain NEUTRAL and TP of MYR0.42, 0% upside.** Malaysia Marine & Heavy Engineering's results met expectations, as there were no cost provisions incurred – given that ongoing projects are on track. We are positive on MMHE's outlook, following the lifting of border restrictions in April. This will make it attractive for ship-owners to send their vessels for repairs, as foreign technical experts will be able to enter the group's yard to conduct marine repair works more easily. However, we still remain cautious on the prospect of additional cost provisions being recognised in FY22.
- **Results within expectations.** Its 1Q22 core net loss of MYR6.6m is in line, as we expect MMHE to turn around in the upcoming quarters. No dividend was declared, as expected.
- **Results review.** MMHE recorded a 3% QoQ decline in revenue, no thanks to lower contributions from the marine segment (-23% QoQ) as a result of seasonally fewer dry docking activities. This was partially offset by higher project billing from heavy engineering division (+1% QoQ). Nevertheless, core net losses narrowed by 94% QoQ to MYR6.6m with the absence of additional cost provisions for ongoing heavy engineering projects.
- **Outlook.** MMHE's orderbook decreased by 14% QoQ to MYR1.9bn. Current projects on hand include Kasawari (67.2% completed) and Jerun (27.3% completed). The orderbook also includes the new front-end engineering design carbon capture and storage Kasawari project that was awarded in 1Q22. The project commenced back in Feb 2022 and is expected to be completed within 7-8 months. The company's tenderbook is currently worth c.MYR18-19bn as of Mar 2022. We should also expect revenue from the marine segment to pick up in the coming quarters, as the group's marine repair slots have been fully booked up until July, following easing of border restrictions of countries such as Japan where nationals are allowed to travel to Malaysia starting 1 Apr. Note that the current utilisation rates for DD1, DD2 and DD3 are at 68%, 60% and 76%.
- **Maintain NEUTRAL.** We make no changes to our earnings estimates and TP of MYR0.42, which is pegged to 0.4x FY23F P/BV (-0.5SD from the 5-year mean). Our TP takes into account a 2% premium, based on MMHE's 3.1 ESG evaluation score. Although we believe MMHE's marine segment will see a gradual recovery, possible cost provisions remain a cause for concern. Even so, MMHE's balance sheet remains strong, with a net cash position of MYR492.5m (0.31 per share) as of 1Q22.

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.1	2.5	6.4	1.2	(7.8)
Relative	6.3	5.3	9.8	(0.3)	(6.1)
52-wk Price low/high (MYR)					0.37 – 0.51



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	1,567	1,467	1,324	1,140	1,323
Recurring net profit (MYRm)	(76)	(263)	6	24	31
Recurring net profit growth (%)	179.5	246.4	-	264.6	31.8
Recurring P/E (x)	na	na	102.41	28.09	21.31
P/B (x)	0.3	0.4	0.4	0.4	0.4
P/CF (x)	4.90	na	4.18	9.97	3.08
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	na	na	2.21	1.58	0.29
Return on average equity (%)	(21.3)	(14.3)	0.4	1.4	1.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 3.10 (out of 4)

E: MODERATE

MMHE has implemented various efforts to manage the environmental impact of its business. These include the installation of rooftop solar panels which reduce 6,286 tonnes of carbon emissions annually. In 2021, MMHE's electricity consumption as well as greenhouse gas emissions decreased to 37,950 MWh and 25,958 CO2e (from 52,577 MWh and 36,031 CO2e in 2020).

S: EXCELLENT

MMHE maintains its commitment to upholding high labour standards via policies against child labour, excessive working hours, and discriminatory practices. It recorded zero fatalities and lost time injuries for 2021. Furthermore, the group was given the RoSPA Gold Award in the 2021 RoSPA Health & Safety Awards for Health and Safety Performance.

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 Malaysian Code On Corporate Governance guidelines. Shareholder rights are protected.

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

Financial Exhibits

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

Valuation basis

P/BV

Key drivers

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

Key risks

i. Slowdown in in order replenishment;
ii. Higher cost provisions.

Company Profile

Malaysia Marine & Heavy Engineering is a Malaysian shipbuilding and heavy engineering industries company.

Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Recurring EPS	(0.05)	(0.16)	0.00	0.01	0.02
BVPS	1.23	1.07	1.07	1.09	1.10
Return on average equity (%)	(21.3)	(14.3)	0.4	1.4	1.8

Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Recurring P/E (x)	na	na	102.41	28.09	21.31
P/B (x)	0.3	0.4	0.4	0.4	0.4
FCF Yield (%)	(14.3)	(8.8)	8.9	7.0	29.5
EV/EBITDA (x)	na	na	2.21	1.58	0.29
EV/EBIT (x)	na	na	13.31	5.50	0.88

Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover	1,567	1,467	1,324	1,140	1,323
Gross profit	81	314	314	288	318
EBITDA	(391)	(165)	123	148	158
Depreciation and amortisation	(75)	(88)	(102)	(106)	(106)
Operating profit	(466)	(252)	20	42	52
Net interest	(1)	(13)	(10)	(10)	(9)
Pre-tax profit	(467)	(265)	7	30	40
Taxation	0	0	(2)	(7)	(10)
Reported net profit	(462)	(261)	6	24	31
Recurring net profit	(76)	(263)	6	24	31

Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Change in working capital	154	168	41	(71)	71
Cash flow from operations	136	(10)	159	67	216
Capex	(230)	(48)	(100)	(20)	(20)
Cash flow from investing activities	(217)	(38)	(100)	(20)	(20)
Cash flow from financing activities	58	107	(82)	(22)	(29)
Cash at beginning of period	674	651	710	687	711
Net change in cash	(23)	59	(23)	24	167
Ending balance cash	651	710	687	711	878

Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total cash and equivalents	651	710	687	711	878
Tangible fixed assets	1,796	1,728	1,725	1,640	1,554
Total investments	9	9	9	9	9
Total assets	3,146	3,390	3,196	3,043	3,215
Short-term debt	21	35	35	35	35
Total long-term debt	228	335	263	251	231
Total liabilities	1,181	1,683	1,484	1,307	1,449
Total equity	1,966	1,707	1,713	1,736	1,766
Total liabilities & equity	3,146	3,390	3,196	3,043	3,215

Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Revenue growth (%)	55.2	(6.3)	(9.7)	(13.9)	16.0
Recurrent EPS growth (%)	179.5	246.4	0.0	264.6	31.8
Gross margin (%)	5.2	21.4	23.7	25.3	24.0
Operating EBITDA margin (%)	(24.9)	(11.2)	9.3	13.0	11.9
Net profit margin (%)	(29.5)	(17.8)	0.5	2.1	2.4
Capex/sales (%)	14.7	3.3	7.6	1.8	1.5
Interest cover (x)	(511)	(19)	2	4	6

Source: Company data, RHB

Figure 1: Results review

FYE Dec (MYRm)	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)	Comments
Revenue	**343.6**	**432.0**	**417.8**	**-3%**	**22%**	
Other operating income	5.0	(1.7)	15.9	nm	nm	
EBITDA	**(81.8)**	**(81.7)**	**25.9**	nm	nm	
EBITDA margin %	(23.8)	(18.9)	6.2			
Depreciation and amortisation	(20.1)	(22.2)	(19.6)	-12%	-2%	
EBIT	**(101.9)**	**(103.9)**	**6.3**	nm	nm	
Interest expense	(2.7)	(3.7)	(3.6)	-2%	34%	
JVs & associates	0.0	0.0	0.0	nm	nm	
PBT	**(104.6)**	**(108.7)**	**2.7**	nm	nm	
Tax	0.0	0.0	0.0	nm	nm	
Minority Interest	0.2	0.9	0.0	-97%	-87%	
Net Profit	**(104.4)**	**(107.8)**	**2.7**	nm	nm	
EI/Others	(1.8)	(1.1)	(9.3)	nm	nm	Inclusive of a net reversal of impairment losses on receivables due to the recovery of doubtful debts.
Core Profit	**(106.1)**	**(106.6)**	**(6.6)**	-94%	-94%	
Core profit margin %	(30.9)	(24.7)	(1.6)			

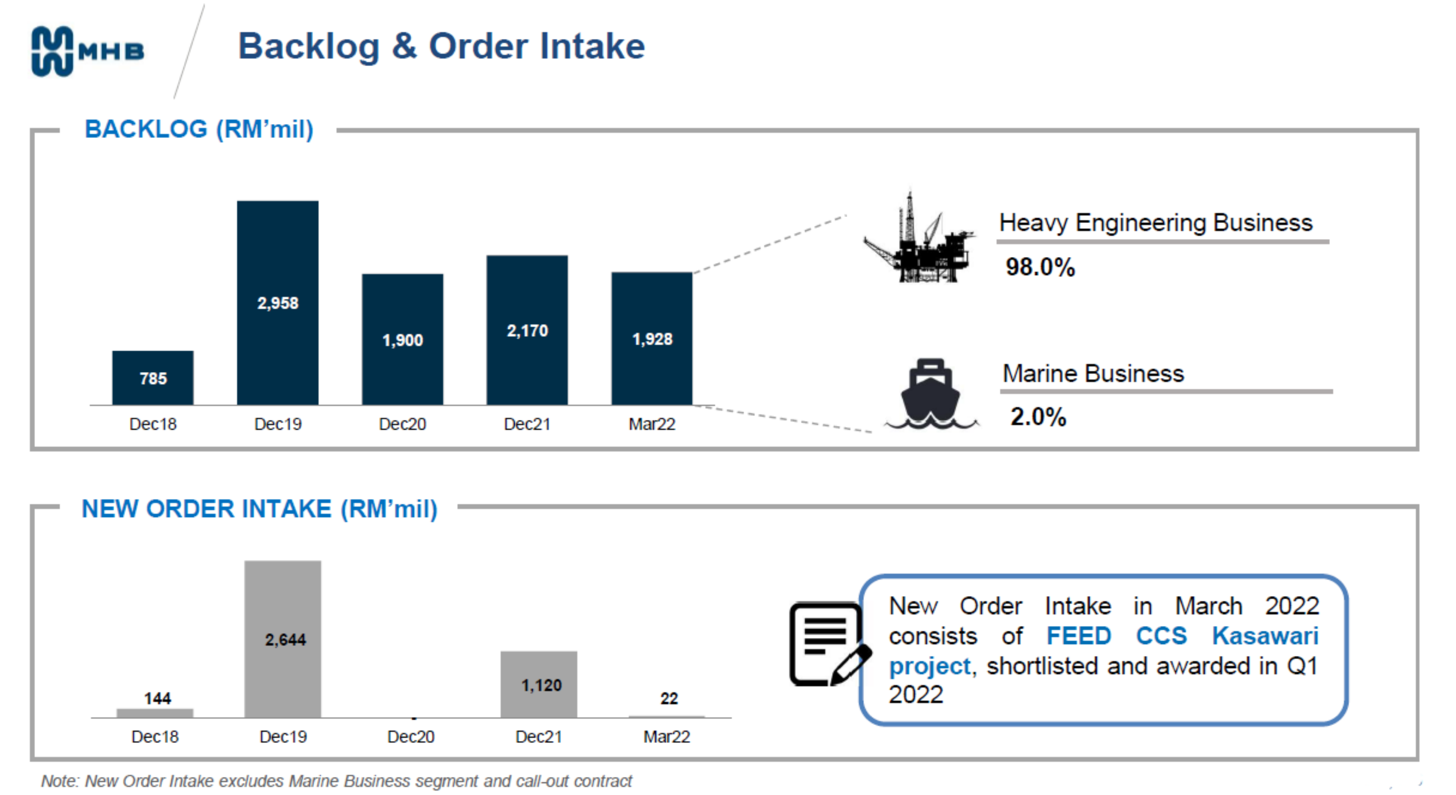
Source: Company data, RHB

Figure 2: Segmental breakdown

FYE Dec (MYRm)	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)	Comments
Revenue breakdown						
Offshore	304.2	354.5	358.4	1%	18%	
Marine	39.4	77.6	59.4	-23%	51%	
Others	0.0	0.0	0.0			
Eliminations	0.0	0.0	0.0			
Operating profit breakdown						
Offshore EBIT	(85.1)	(90.5)	2.9	nm	nm	
Marine EBIT	(17.7)	(17.7)	3.7	nm	nm	
Others EBIT	0.9	4.3	(0.3)			
Eliminations EBIT	(0.0)	(0.0)	0.0			
Operating profit margin before eliminations (%)						
Offshore	(28.0)	(25.5)	0.8			
Marine	(44.8)	(22.8)	6.2			

Source: Company data, RHB

Figure 3: Outstanding orders and new order intake



Source: Company, RHB

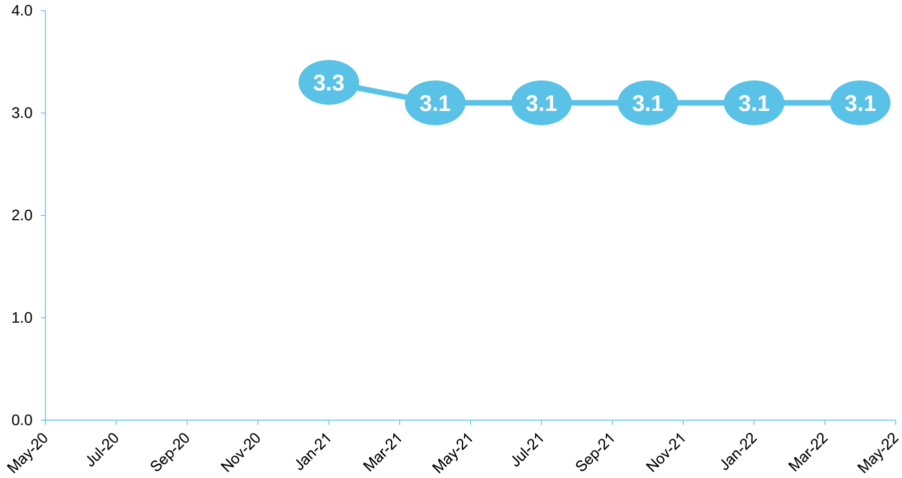
Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-02-14	Neutral	0.42	0.41
2021-06-22	Neutral	0.44	0.48
2021-04-30	Sell	0.44	0.51
2021-04-14	Sell	0.50	0.62
2021-01-03	Sell	0.32	0.45
2020-10-28	Neutral	0.32	0.31
2020-07-24	Neutral	0.40	0.38
2020-03-18	Neutral	0.44	0.31
2020-02-13	Neutral	0.83	0.79
2019-10-25	Sell	0.76	0.88
2019-04-29	Sell	0.59	0.77

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470