PP14767/09/2012(030761)

Tuesday, April 28, 2015

MMHE Holdings Berhad

"Superlative is yet to Come"

HOLD (TP: RM1.33)

Current Price (RM)	RM1.24
New Fair Value (RM)	**RM1.33**
Previous Fair Value (RM)	RM1.69
Previous Recommend.	HOLD
Upside To Fair Value	**7%**
Dividend Yield (FY16)	**NA**

Stock Code

Bloomberg	MMHE MK

Stock & Market Data

Listing	MAIN MARKET
Sector	Oil and Gas
Shariah Compliance	Yes
Issued Shares (mn)	1,600
Market Cap (RM mn)	2,016
YTD Chg In Share Price	-29%
Beta (x)	1.46
52-week on Hi/Lo (RM)	4.04 | 1.06
3M Average Volume (shrs)	1.84mn
Estimated Free Float	20%

Major Shareholders

MISC	67%
LTH	6%
EPF	2%

Market Access

Results Review

- **Actual vs. expectations.** Malaysia Marine and Heavy Engineering Holding Berhad (MMHE) 1Q15 net profit of RM36 million (+4% y-o-y) came in line with ours and consensus estimates respectively, accounting 24% and 26% of ours and consensus full year net profit forecast. The better-than-expected earnings performance in 1Q15 was fuelled by higher contribution from marine division which registered a strong operating profit of RM15 million that gained by a hefty 92% y-o-y. Nonetheless, we expect lack of new contract wins will be the torn-in-the-flesh for the group throughout FY15.

- **Dividend.** No dividend was declared during the period.

- **Top line vs. Bottom line.** 1Q15 revenue rose to RM719 million (+7% y-o-y, +42% q-o-q) mainly driven by higher contribution from the offshore division (+1% y-o-y, +46% q-o-q) on higher progress achieved from the on-going SK316 project. Currently, the group is fabricating the Malikai EPC Tension Leg Platform (TLP), the SK316 CPP, WHP- Besar A WHP and Jacket – The North Malay Basin Project's Bergading WHP. Despite weaker q-o-q, MMHE posted an improved operating profit of RM35 million in 1Q15 (+2% Y-o-Y) due to strong contribution from Marine division (+92% y-o-y), lifted by higher value for vessels repaired from rigs, Floating Storage Unit (FSU) and general cargo categories. 1Q15 EBIT margin was flat at 5%, more or less the same against 1Q14 margin of 5%.

- **Order book.** MMHE's latest orderbook stood at RM1.2 billion as at March 2015 (December 2014: RM1.6 billion) which could last the group alarmingly only until 2016. Approximately more than 50% of the order book values are made up by SK316 EPCIC job which has been secured in 3Q13 and the project is scheduled to be loaded out by 2016. MMHE is currently bidding for more

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than RM7.0 billion worth of new projects internationally and locally. The management gave an indication that outlook for FY15 remains challenging in tandem with the downtrend of global oil price which resulted in tightening budget from major operator including Petronas and hence, dimming the group's ability to replenish its order book. Note that the group's offshore division has secured a hook-up and commissioning contract for the Kanowit project worth approximately RM30.4 million in 1Q15. To recap, MMHE has only managed to clinch its first job wins in November 2014 consisting of two contracts worth approximately RM350 million.

- **Change to forecast.** We maintain our FY15 and FY16 earnings forecast as 1Q15 results are within our expectation. Nonetheless, FY15 and FY16 earnings is projected to jump by 16% y-o-y and 1% y-o-y driven by i) major contribution from TLP Malikai and SK316 project and ii) likely contract wins given tender book size of approximately RM7.0 billion. The downside risks to earnings would come from the drying of contracts wins and uncertainty of crude oil price direction.

- **Valuation & recommendation.** We maintain our target price on MMHE at RM1.33 based on 14x PER pegged to FY16 EPS of 9.5sen and the stock is a **HOLD** due to the less-than-encouraging outlook impacted by fewer job wins which could dampen the order book outlook. Until there is clear sign of contract flow momentum in the coming quarters, we expect investor to remain cautious on MMHE. The peg of PER of 14x is based on 20% discount to the group's average 3-years low PER of 18x as we take into consideration of the negative catalyst arising from the projected weaker crude oil price outlook.

Table 1: Peers Comparison (Calenderised)

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
SapuraKencana	Jan	2.80	24	27	11.7	10.5	1.4	1.2	16	2	2.93	Buy
Wah Seong	Dec	1.30	16	17	8.5	8.0	0.9	0.9	11	3	1.38	Hold
Bumi Armada	Dec	1.23	9	11	14.5	11.1	1.1	1.0	8	2	1.28	Hold
Dialog Group	Jun	1.67	5	6	31.7	26.6	4.8	4.3	14	1	1.66	Hold
Alam Maritim	Dec	0.68	8	9	8.7	7.8	0.8	0.6	9	NA	0.72	Hold
MMHE	Dec	1.24	11	10	14.3	15.4	0.9	0.9	8	NA	1.33	Hold
PetDag	Dec	22.30	81	85	22.2	21.0	3.3	3.1	13	3	14.40	Sell
Dayang	Dec	2.65	27	30	10.5	9.5	2.3	1.8	24	2	2.95	Hold
UMW-OG	Dec	2.21	17	19	16.1	14.4	1.7	1.5	11	0.4	3.20	Buy
Perisai	Dec	0.56	7	10	7.1	4.9	0.6	0.5	0	NA	NR	NR
Perdana Petroleum	Dec	1.33	14	16	8.6	7.5	1.2	1.1	16	2	NR	NR
TH Heavy	Dec	0.32	5	4	7.1	10.1	0.9	0.8	(9)	NA	NR	NR
Petra Energy	Dec	1.48	16	18	8.6	7.7	0.8	0.8	5	0.7	NR	NR
Deleum	Dec	1.69	17	19	10.7	9.3	2.2	NA	24	4	NR	NR
Uzma	Dec	2.20	21	24	9.5	8.4	1.3	0.9	19	2	NR	NR
KNM	Dec	0.65	7	9	8.8	7.1	0.4	0.4	2	NA	NR	NR
Average					12.4	11.2	1.5	1.3				

Source: Bloomberg, M&A Securities

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Table 2: Financial Forecast

YE: Jan (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	3,330	2,885	2,701	2,683	2,709
EBIT	243	196	123	183	184
PBT	218	198	119	161	163
Taxation	26	40	12	-10	-10
Net profit	242	237	130	151	153
EPS	15	15	8	9	10
P/E (x)	29.1	10.3	15.6	13.4	13.2
P/BV (x)	2.8	2.3	0.8	0.7	0.7
EBIT margin	7%	7%	5%	7%	7%
PBT margin	7%	7%	4%	6%	6%
Net profit margin	7%	8%	5%	6%	6%
DPS (sen)	10	5	0	0	0
Dividend yield	7%	3%	0%	0%	0%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

YE: Dec (RM million)	1Q14	4Q14	1Q15	q-o-q	y-o-y	3M14	3M15	y-o-y
Revenue	671	508	719	42%	7%	671	719	7%
EBIT	35	42	35	-15%	2%	35	35	2%
JCE	(0.5)	(3)	(0)	NM	NM	(0.5)	(0)	NM
PBT	34	39	35	-11%	3%	34	35	3%
Taxation	0	(22)	1	-104%	NM	0	1	96%
Net profit	35	17	36	118%	4%	35	36	4%
EPS (sen)	2	1	2	130%	5%	2	2	5%
EBIT margin	5%	8%	5%			5%	5%	
Pre-tax margin	5%	8%	5%			5%	5%	
Net profit margin	5%	3%	5%			5%	5%	
Effective tax rate	-1%	57%	-3%			-1%	-3%	

Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: Dec (RM million)	1Q14	4Q14	1Q15	q-o-q	y-o-y	3M14	3M15	y-o-y
Revenue								
Offshore	609	423	616	46%	1%	609	616	1%
Marine	77	117	106	-10%	36%	77	106	36%
Others	0.01	0.04	0.06	58%	600%	0.01	0.06	600%
Operating Profit								
Offshore	22	11	1	-87%	-94%	22	1	-94%
Marine	8	13	15	15%	92%	8	15	92%
Others	10	25	25	1%	143%	10	25	143%

Source: Bursa Malaysia, M&A Securities

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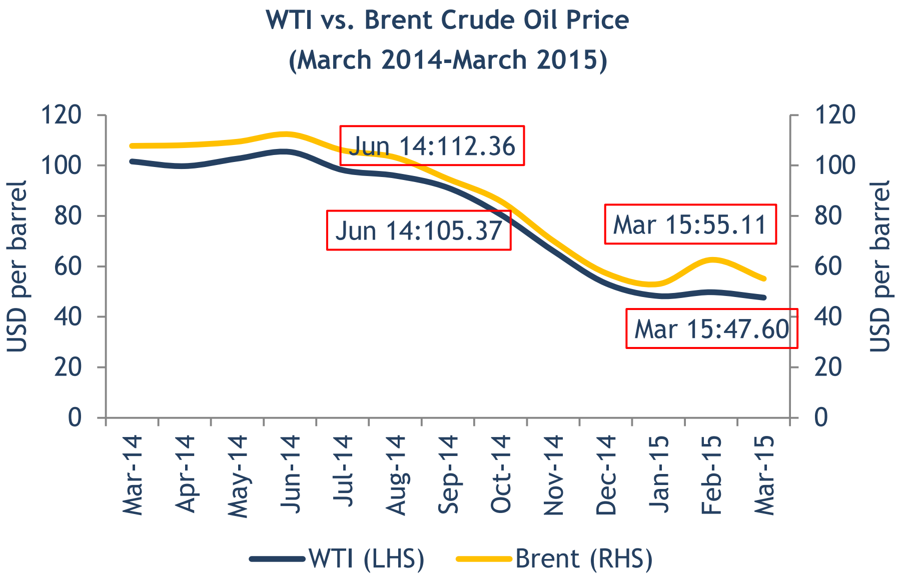
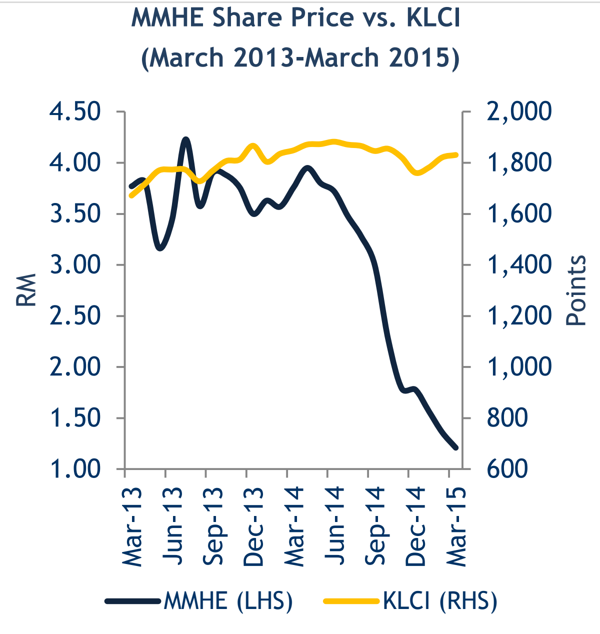
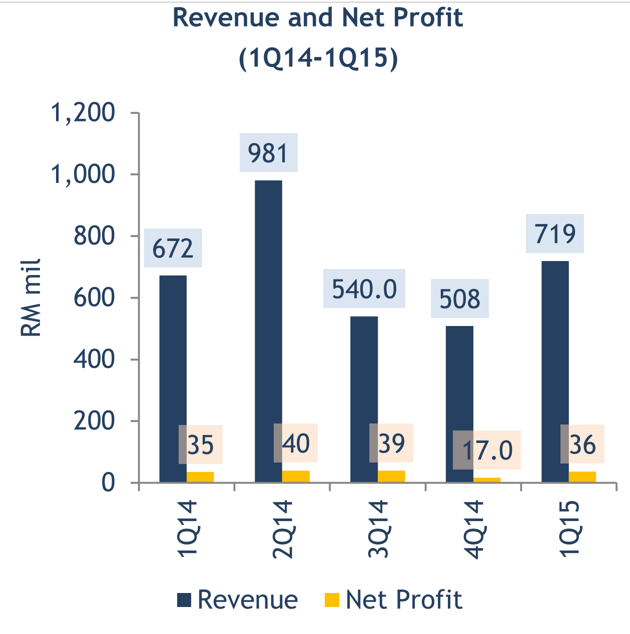


Source: Bloomberg





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STOCK RECOMMENDATIONS
BUY *Share price is expected to be ≥+10% over the next 12 months.*
TRADING BUY *Share price is expected to be ≥+10% within 3-months due to positive newsflow.*
HOLD *Share price is expected to be between -10% and +10% over the next 12 months.*
SELL *Share price is expected to be ≥-10% over the next 12 months.*

SECTOR RECOMMENDATIONS
OVERWEIGHT *The sector is expected to outperform the FBM KLCI over the next 12 months.*
NEUTRAL *The sector is expected to perform in line with the FBM KLCI over the next 12 months.*
UNDERWEIGHT *The sector is expected to underperform the FBM KLCI over the next 12 months.*

M & A Securities Sdn Bhd (15017-H)
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