

PP14767/09/2012(030761)

MMHE Holdings Berhad

“Prospects Remain Challenging”

Results Review

- Actual vs. expectations.** Malaysia Marine and Heavy Engineering Holding Berhad (MMHE) 6M15 net profit of RM54 million (-27% y-o-y) came in below ours and consensus estimates respectively, accounting 36% and 41% of ours and consensus full year net profit forecast. The disappointing earnings performance in 6M15 was dragged by lower contribution from offshore division which registered a weak operating profit of RM8 million that slipped by 79% y-o-y. 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.** 6M15 revenue declined to RM1.3 billion (-21% y-o-y) mainly impacted by lower contribution from the offshore division which eased to RM1.1 billion (-29% y-o-y) due to the completion of major projects. During the period, MMHE has successfully delivered SK316 Wellhead Topsides to Petronas Carigali. Currently, the group is fabricating the Malikai EPC Tension Leg Platform (TLP), the SK316 CPP, Besar-A and North Malay Basin (NMB) Bergading.
- Bottom line.** The group’s operating profit down to RM53 million (-9% y-o-y) hammered by weaker contribution from offshore division (-79% y-o-y) due to the higher completion of some existing project. Nonetheless, marine division recorded an improvement in operating profit (+108% y-o-y) lifted by higher value for vessels repaired from rigs, Floating Storage Unit (FSU) and general cargo categories. Overall, 6M15 EBIT margin was flat at 4%, more or less the same against 6M14 margin of 3%.

Wednesday, July 29, 2015

HOLD (TP: RM1.20)

Current Price (RM)	RM1.18
New Fair Value (RM)	RM1.20
Previous Fair Value (RM)	RM1.33
Previous Recommend.	HOLD
Upside To Fair Value	2%
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)	1,840
YTD Chg In Share Price	-35%
Beta (x)	1.46
52-week on Hi/Lo (RM)	3.58 1.06
3M Average Volume (shrs)	0.99mn
Estimated Free Float	10%

Major Shareholders

MISC	67%
Technip	9%
LTH	6%

- **Orderbook.** MMHE's latest orderbook stood at RM1.0 billion as at June 2015 (March 2015: RM1.2 billion) which could last the group only until 2017. The group has secured multiple of fabrication contracts, marine repair and conversion works worth RM324 million in June 2015 consisting of i) fabrication of substructures and bridge for the Baronia CPP-B project due for load-out and sail-away to Petronas Carigali Sdn Bhd (PCSB) in March 2017, ii) the contractor for PCSB - Facilities Improvement Project Package C: Peninsular Malaysia offshore operations with 2 years contract tenure from June 2015 until June 2017 with the option of a 1-year extension, iii) repair life extension project and dry-docking for two LNG carrier vessels for MISC, namely 'Puteri Intan' and 'Puteri Delima' to be completed by early September 2015 and iv) conversion of a vessel into a FSO facility for E.A. Technique (M) Berhad and targeted for sail-away by end June 2016. MMHE is currently bidding more 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 further.
- **Change to forecast.** We have done some housekeeping exercise and came out with new FY15 and FY16 earnings forecast of RM137 million (+5% y-o-y) and RM125 million (-9% y-o-y) respectively. We expect FY15 earnings growth will be fuelled by the higher work progress from SK316 jobs apart from the anticipated delay in major contract awards due to the softening in oil prices which may dampen earnings performance in FY16.
- **Valuation & recommendation.** We re-value our target price on MMHE at RM1.20 based on 15x PER pegged to FY16 EPS of 8sen 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 targeted PER of 15x is based on the group's average 3-years low PER as we take into consideration 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	2.38	20	21	13.7	12.7	1.2	1.1	13	1	2.95	Buy
Wah Seong	Dec	1.32	14	15	9.2	8.6	0.8	0.8	12	4	1.38	Hold
Bumi Armada	Dec	1.08	8	10	15.7	11.7	1.0	1.0	4	2	1.32	Hold
Dialog Group	Jun	1.59	5	5	34.3	31.0	4.8	4.6	15	1	1.70	Hold
Alam Maritim	Dec	0.51	7	7	9.5	9.4	0.7	0.7	9	NA	0.56	Sell
MMHE	Dec	1.18	8	8	15.1	15.4	0.7	0.7	8	NA	1.20	Hold
PetDag	Dec	20.60	71	79	30.1	27.0	4.0	3.9	11	2	18.90	Sell
Dayang	Dec	2.06	24	28	10.8	9.3	2.4	2.1	22	3	2.64	Hold
UMW-OG	Dec	1.43	15	17	14.8	13.3	1.4	1.2	8	0.5	2.21	Hold
Perisai	Dec	0.40	6	9	10.0	5.9	0.6	0.5	1	NA	NR	NR
Perdana Petroleum	Dec	1.54	12	15	11.4	9.3	1.3	1.1	14	1	NR	NR
TH Heavy	Dec	0.20	3	4	12.1	9.0	0.8	0.7	(20)	NA	NR	NR
Petra Energy	Dec	1.02	15	16	9.3	9.0	0.8	0.8	7	1	NR	NR
Deleum	Dec	1.35	16	18	10.1	9.2	2.0	1.7	23	5	NR	NR
Uzma	Dec	2.42	21	23	11.3	10.0	1.6	1.2	19	2	NR	NR
KNM	Dec	0.59	7	8	8.9	7.8	0.5	0.4	2	NA	NR	NR
Average					14.1	12.4	1.5	1.4	9	2		

Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	3,330	2,885	2,701	2,000	1,826
EBITDA	259	270	212	210	201
EBIT	202	202	135	137	125
Net Finance cost	0	(6)	(13)	(11)	(11)
Share of JV	(25)	1	(4)	0	0
PBT	177	198	119	126	114
Net profit	201	237	130	137	124
EPS (sen)	13	15	8	9	8
EBITDA margin	8%	9%	8%	11%	11%
EBIT margin	6%	7%	5%	7%	7%
PBT margin	5%	7%	4%	6%	6%
Net profit margin	6%	8%	5%	7%	7%
PER (x)	35.0	23.7	21.9	13.8	15.2
P/BV (x)	2.9	2.2	1.1	0.7	0.7
Dividend (sen)	10	5	0	0	0
Dividend yield	2%	1%	0%	0%	0%

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

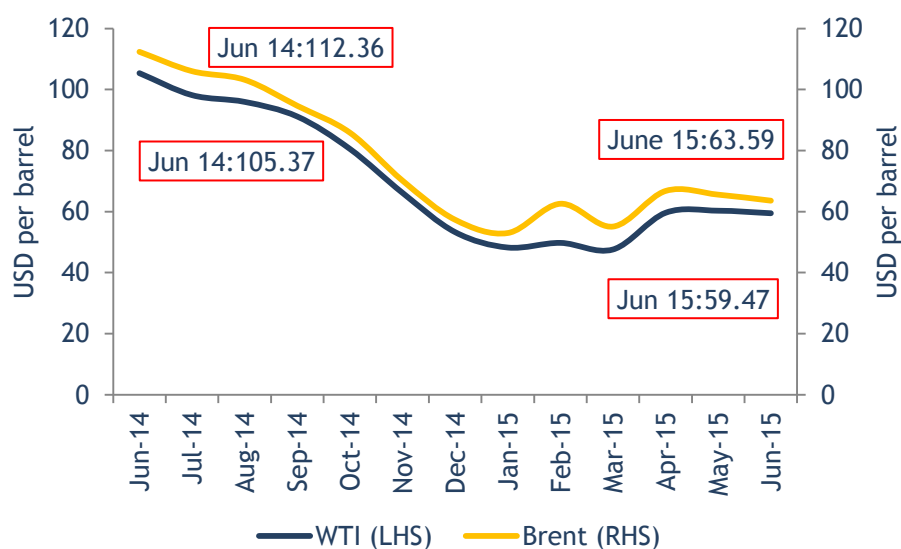
YE: Dec (RM million)	2Q14	1Q15	2Q15	q-o-q	y-o-y	6M14	6M15	y-o-y
Revenue	981	719	582	-19%	-41%	1,652	1,302	-21%
EBIT	23	35	17	-50%	-25%	58	53	-9%
JCE	2.5	(0.3)	0.1	NM	-97%	2.0	(0.2)	NM
PBT	26	35	18	-50%	-32%	60	53	-12%
Taxation	14	1	1	-33%	NM	15	2	-90%
Net profit	40	36	18	-50%	-55%	74	54	-27%
EPS (sen)	3	2	1	-52%	-56%	5	3	-26%
EBIT margin	2%	5%	3%			3%	4%	
Pre-tax margin	3%	5%	3%			4%	4%	
Net profit margin	4%	5%	3%			5%	4%	
Effective tax rate	-56%	-3%	-3%			-25%	-3%	

Source: Bursa Malaysia, M&A Securities

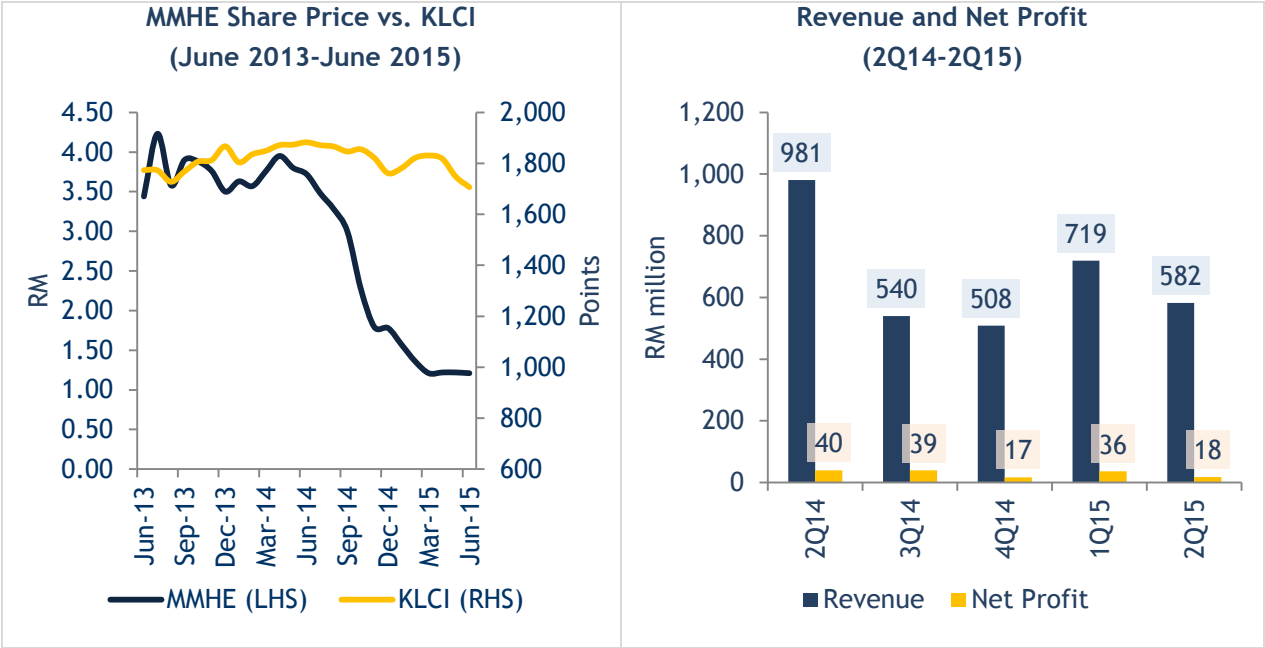
Table 4: Segmental Analysis

YE: Dec (RM million)	2Q14	1Q15	2Q15	q-o-q	y-o-y	6M14	6M15	y-o-y
Revenue								
Offshore	908	616	461	-25%	-49%	1,518	1,077	-29%
Marine	87	106	121	15%	39%	164	227	38%
Others	0.07	0.06	0.05	-25%	-29%	0.1	0.1	25%
Operating Profit								
Offshore	15	1	6	349%	-58%	38	8	-79%
Marine	9	15	19	30%	122%	17	34	108%
Others	5	25	(2)	-109%	-151%	15	23	54%

Source: Bursa Malaysia, M&A Securities

WTI vs. Brent Crude Oil Price
(June 2014-June 2015)

Source: Bloomberg



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ 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 $\geq -10\%$ 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.

DISCLOSURES AND DISCLAIMER

This report has been prepared by M&A SECURITIES SDN BHD. Readers should be fully aware that this report is for informational purposes only and no representation or warranty, expressed or implied is made as to the accuracy, completeness or reliability of the information or opinion contained herein. The recommendation and opinion are based on information obtained or derived from sources believed to be reliable.

This report contains financial forecast/projection based on our assumptions which may defer from the actual financial results announced by the companies under coverage. All opinions, estimates and assumptions are subject to change without notice. Analysts will initiate, update and cease coverage solely at the discretion of M&A SECURITIES SDN BHD.

Investors are to be cautioned that value of any securities invested may fluctuate from time to time. We advise investors to seek financial, legal and other advice for investing based on the recommendation of our report as we have not taken into account each investors' specific investment objectives, risk tolerance and financial position.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. M&A SECURITIES SDN BHD can accept no liability for any consequential loss or damage whether direct or indirect. Investment should be made at investors' own risks.

M&A SECURITIES SDN BHD and INSAS GROUP of companies, their respective directors, officers, employees and connected parties may have interest in any of the securities mentioned and may benefit from the information herein. M&A SECURITIES SDN BHD and INSAS GROUP of companies and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This report may not be reproduced, distributed or published in any form or for any purpose.

M & A Securities Sdn Bhd (15017-H)

(A wholly-owned subsidiary of INSAS BERHAD)

A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: www.mnaonline.com.my