PP14767/09/2012(030761)

Wednesday, November 04, 2015

MMHE Holdings Berhad

"Earnings Outlook Still Fragile"

HOLD (TP: RM1.04)

Current Price (RM)	RM1.10
New Fair Value (RM)	**RM1.04**
Previous Fair Value (RM)	RM1.20
Previous Recommend.	HOLD
Upside To Fair Value	**-5%**
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)	1,760
YTD Chg In Share Price	-38%
Beta (x)	1.69
52-week on Hi/Lo (RM)	2.34 | 0.89
3M Average Volume (shrs)	1.80mn
Estimated Free Float	10%

Major Shareholders

MISC	67%
Technip Geoproduction	9%
LTH	6%

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Results Review

- **Actual vs. expectations.** Malaysia Marine and Heavy Engineering Holding Berhad (MMHE) 9M15 net profit of RM71 million (-37% y-o-y) came in below ours and consensus estimates respectively, accounting 52% and 58% of ours and consensus full year net profit forecast. The disappointing earnings performance was dragged by lower contribution from offshore division which registered operational loss of RM16 million in 9M15. We expect lack of new contract wins will be the torn-in-the-flesh for the group throughout FY15 and possibly FY16.

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

- **Top line.** 9M15 revenue declined to RM1.7 billion (-21% y-o-y) mainly impacted by lower contribution from the offshore division whose revenue eased to RM1.4 billion (-32% y-o-y) due to the completion of major projects. During the period, MMHE has successfully delivered SK316 central processing platform (CPP) and wellhead platform (WHP) to its client on 1st September 2015. Currently, the group is fabricating the Malikai tension leg platform (TLP), Besar-A WHP and jacket as well as North Malay Basin (NMB) Bergading structures.

- **Bottom line.** The group's operating profit was down to RM73 million (-9% y-o-y) hammered by weaker contribution from offshore division which recorded an operational loss of RM16 million due to additional cost incurred to complete the Malikai TLP project. Nonetheless, marine division recorded an improvement in operating profit (+199% y-o-y) lifted by higher value for vessels repaired from rigs, Floating Storage Unit (FSU) and FPSO categories. Overall, 9M15 EBIT margin

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was flat at 4%, more or less the same against 9M14 margin of 4%.

- **Outlook.** MMHE's latest orderbook has declined to RM955 million as at September 2015 (June 2015: RM1.0 billion) which could last the group only until 2017. Note that 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 for several RAPID packages worth RM1.8 billion and other local and overseas projects worth RM2.2 billion. The management gave indication that outlook for FY15 remains challenging in tandem with the downtrend in 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 RM104 million (-20% y-o-y) and RM121 million (+16% y-o-y) respectively. We expect MMHE to post weaker FY15 earnings due to slower-than-expected new jobs replenishment in tandem with the softening in oil prices. Nonetheless, FY16 earnings growth are expected to be fuelled by additional contribution from marine division from vessel repair works.

- **Valuation & recommendation.** We re-value our target price on MMHE at RM1.04 based on 13x PER (10% discount to last 3-years average low PER of 15x) 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 orderbook outlook. Until there is clear sign of contract flow momentum in the coming quarters, we expect investor to remain cautious on MMHE.

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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	2.16	18	19	12.5	11.3	1.0	0.9	7	2	2.55	Buy
Wah Seong	Dec	1.19	12	13	9.9	8.9	0.8	0.8	10	3	1.15	Hold
Bumi Armada	Dec	0.98	6	8	16.5	12.8	0.9	0.8	(3)	2	1.06	Hold
Dialog Group	Jun	1.63	6	6	28.3	25.8	4.1	3.9	16	1	1.60	Hold
MMHE	Dec	1.10	8	8	14.2	13.7	0.7	0.6	4	NA	1.04	Hold
PetDag	Dec	22.56	81	87	27.9	25.9	4.3	4.2	13	2	22.68	Hold
Dayang	Dec	1.67	18	21	9.6	8.2	1.6	1.4	18	2	1.80	Hold
UMW-OG	Dec	1.22	4	6	33.6	19.2	0.8	0.8	5	1	0.90	Sell
Perisai	Dec	0.33	1	2	40.6	13.5	0.4	0.4	2	NA	NR	NR
Perdana Petroleum	Dec	1.54	(0)	8	NA	19.0	1.5	1.3	6	1	NR	NR
TH Heavy	Dec	0.20	(1)	2	NA	10.5	0.5	0.4	(25)	NA	NR	NR
Petra Energy	Dec	1.27	10	13	12.9	9.4	0.8	0.8	8	2	NR	NR
Deleum	Dec	1.33	15	18	9.1	7.5	1.7	1.5	22	5	NR	NR
Uzma	Dec	2.24	20	24	11.0	9.1	1.9	1.2	17	2	NR	NR
KNM	Dec	0.53	6	7	8.9	7.5	0.4	0.4	3	NA	NR	NR
Average					18.1	13.5	1.4	1.3	7	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	2,085	1,819
EBITDA	259	270	212	175	192
EBIT	202	202	135	102	117
Net Finance cost	0	(6)	(13)	(11)	(11)
Share of JV	(25)	1	(4)	0	0
PBT	177	198	119	91	106
Net profit	201	237	130	104	121
EPS (sen)	13	15	8	7	8
EBITDA margin	8%	9%	8%	8%	11%
EBIT margin	6%	7%	5%	5%	6%
PBT margin	5%	7%	4%	4%	6%
Net profit margin	6%	8%	5%	5%	7%
PER (x)	35.0	23.7	21.9	16.9	14.5
P/BV (x)	2.9	2.2	1.1	0.7	0.6
Dividend (sen)	10	5	NA	NA	NA
Dividend yield	2%	1%	NA	NA	NA

Source: Bursa Malaysia, M&A Securities

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Table 3: Results Analysis

YE: Dec (RM million)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
Revenue	540	582	436	-25%	-19%	2,192	1,738	-21%
EBIT	23	17	20	17%	-11%	81	73	-9%
JCE	(3.0)	0.1	(0.7)	NM	NM	(1.0)	(0.9)	NM
PBT	20	18	20	12%	-2%	80	72	-9%
Taxation	19	1	(3)	-615%	NM	34	(2)	-105%
Net profit	39	18	17	-6%	-57%	113	71	-37%
EPS (sen)	2	1	1	0%	-54%	7	4	-38%
EBIT margin	4%	3%	5%			4%	4%	
Pre-tax margin	4%	3%	5%			4%	4%	
Net profit margin	7%	3%	4%			5%	4%	
Effective tax rate	-95%	-3%	16%			-42%	2%	

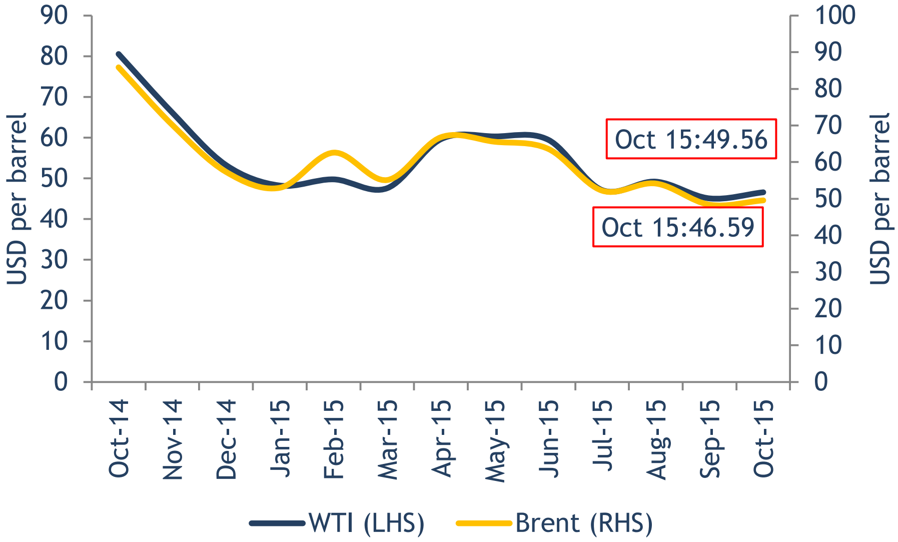
Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: Dec (RM million)	3Q14	2Q15	3Q15	q-o-q	y-o-y	9M14	9M15	y-o-y
Revenue								
Offshore	507	461	302	-34%	-40%	2,025	1,380	-32%
Marine	39	121	134	11%	241%	204	361	77%
Others	0.01	0.05	0	-100%	-100%	0.1	0.1	38%
Operating Profit								
Offshore	16	6	(24)	NM	-251%	54	(16)	NM
Marine	3	19	25	27%	660%	20	59	199%
Others	10	(2)	25	NM	155%	25	48	94%

Source: Bursa Malaysia, M&A Securities

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



Source: Bloomberg

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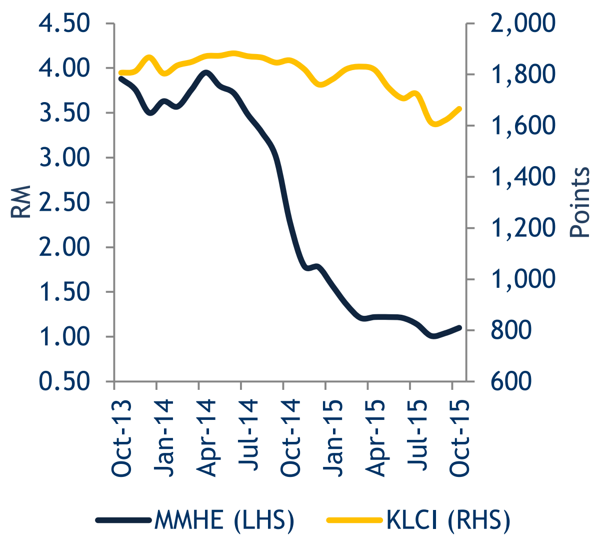
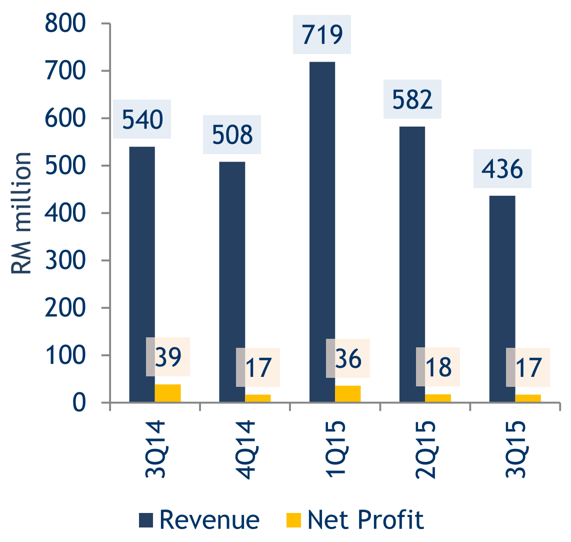
MMHE Share Price vs. KLCI
(September 2013-September 2015)



Revenue and Net Profit
(3Q14-3Q15)



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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.*

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