

PP14767/09/2012(030761)

MMHE Holdings Berhad

“Painful Quarter in 1Q16”

Results Review

- Actual vs. expectations.** Malaysia Marine and Heavy Engineering Holding Berhad (MMHE) registered a net loss of RM8 million in 1Q16 vs. 1Q15 net profit of RM36 million which came in below ours and consensus estimates respectively. The disappointing earnings performance was dragged by lower contribution from the offshore division which registered operating loss of RM23 million in 1Q16 (1Q15 operating profit: RM1 million). We expect lack of new contract wins will be the torn-in-the-flesh for the group throughout FY16.
- Dividend.** No dividend declared during the quarter.
- Top line vs. bottom line.** 1Q16 revenue declined to RM257 million (-64% y-o-y) mainly impacted by lower contribution from the offshore division whose revenue eased to RM136 million (-78% y-o-y) due to lower backlog as most of projects are nearing completion. Contrariwise, marine division posted a strong revenue of RM120 million (+14% y-o-y), lifted by higher value of vessels repaired from LNG, FPSO and FSU categories. The group registered operating loss of RM3 million in 1Q16 (1Q15 operating profit: RM35 million) injured by the loss incurred by its offshore division of RM23 million in tandem with the decreased in revenue as mentioned above.
- Project update.** During the period, MMHE has successfully delivered Kanowit hook-up and commissioning (HUC) project to its client. Currently, the group is fabricating the Malikai tension leg platform (TLP), Besar-A Wellhead Platform (WHP) topside and jacket, Bergading WHP topside and jacket as well as FLNG-2 turret. The Malikai tension leg platform (TLP) project is nearing completion which is expected to be delivered in 3Q16.

Thursday, April 28, 2016

SELL (TP: RM0.88)

Current Price (RM)	RM1.25
New Fair Value (RM)	RM0.88
Previous Fair Value (RM)	RM0.96
Previous Recommend.	HOLD
Upside To Fair Value	-30%
Dividend Yield (FY17)	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)	2,096
YTD Chg In Share Price	31%
Beta (x)	1.78
52-week on Hi/Lo (RM)	1.38 0.88
3M Average Volume (shrs)	1.32mn
Estimated Free Float	10%

Major Shareholders	
MISC	67%
Technip	9%
Geoproduction	
LTH	6%

- Outlook.** MMHE's latest orderbook has declined to RM1.0 billion as at March 2016 (December 2015: RM1.1 billion) which could last the group until 2017. Note that the group has secured multiple contracts in December 2015 worth RM527 million for offshore structure fabrication works and RAPID electro mechanical, piping and structural works. 4 works packages from RAPID consist of; i) RAPID Package 5 - centralised piping fabrication work, ii) RAPID Package 5 - refinery of gas (RoG) area piping and structural work, iii) RAPID Package 3 - electro-mechanical, piping and structural work and iv) RAPID Package 22 - plate structure prefabrication and fabrication work. RAPID Package 5 and RAPID Package 3 project are schedule to be completed by 2Q2017 and 3Q2017 respectively while RAPID Package 22 is estimated to be completed by 4Q2016. The management guided that the group has submitted RM1.75 billion tenders for 2016 out of total RM7.4 billion potential tenders to be proposed for 2016-2017.
- Change to forecast.** We have shaved our FY16 and FY17 earnings forecast by 30% and 13% respectively due to the murky prospects of the new contract in line with the current volatility in global oil price. Nonetheless, we expect MMHE to post weaker FY16 earnings (-39% y-o-y) on the back of slower orderbook replenishment which will impact the contribution from offshore division. In sum, FY17 earnings are predicted to grow by 57% y-o-y fuelled by the contribution from RAPID work packages.
- Valuation & recommendation.** We re-value our target price on MMHE at RM0.88 based on 18x PER (20% discount to last 3-years average PER of 22x) pegged to FY17 EPS of 5sen and the stock is a **SELL** 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.

Table 1: Peers Comparison (Calenderised)

Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY16	FY17	FY16	FY17	FY16	FY17				
SapuraKencana	Jan	1.77	13	17	10.6	10.9	0.8	0.8	(7)	1	2.34	Buy
Wah Seong	Dec	0.79	8	9	9.6	8.0	0.5	0.5	1	4	0.80	Hold
Bumi Armada	Dec	0.79	5	8	14.4	9.3	0.6	0.6	(3)	2	0.95	Buy
Dialog Group	Jun	1.59	6	7	26.8	24.7	3.7	3.4	14	1	1.60	Hold
MMHE	Dec	1.25	5	5	20.0	19.3	0.5	0.6	2	NA	0.88	Sell
PetDag	Dec	23.80	89	94	26.7	25.4	4.4	4.2	16	3	23.58	Hold
Dayang	Dec	1.33	14	18	8.6	6.9	0.9	0.8	NA	3	1.26	Hold
UMW-OG	Dec	0.94	(3)	(1)	NA	NA	0.6	0.6	(11)	NA	0.90	Hold
Perisai	Dec	0.26	1	24	20.8	1.0	0.4	0.3	2	NA	NR	NR
Perdana Petroleum	Dec	NA	6	7	27.5	23.3	NA	NA	(3)	NA	NR	NR
TH Heavy	Dec	0.14	NA	NA	NA	NA	NA	NA	(23)	NA	NR	NR
Petra Energy	Dec	1.28	15	18	8.3	7.0	0.7	0.6	8	2	NR	NR
Deleum	Dec	1.20	13	15	9.2	8.0	1.5	1.4	16	5	NR	NR
Uzma	Dec	2.00	20	23	8.9	7.6	0.9	0.8	2	NA	NR	NR
KNM	Dec	0.48	6	6	8.9	7.9	0.4	0.4	2	NA	NR	NR
Average					15.4	12.3	1.2	1.1	1	2		

Source: Bloomberg, M&A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY13	FY14	FY15	FY16F	FY17F
Revenue	2,885	2,701	2,459	1,819	2,118
EBITDA	270	212	124	133	165
EBIT	202	135	124	58	88
Net Finance cost	(6)	(13)	0	(11)	(11)
Share of JV	1	(4)	(1)	0	0
PBT	198	119	23	47	77
Net profit	237	130	44	53	84
EPS (sen)	15	8	3	3	5
EBITDA margin	9%	8%	5%	7%	8%
EBIT margin	7%	5%	5%	3%	4%
PBT margin	7%	4%	1%	3%	4%
Net profit margin	8%	5%	2%	3%	4%
PER (x)	23.7	21.9	34.1	37.7	23.9
P/BV (x)	2.2	1.1	0.5	0.7	0.7
Dividend (sen)	5	NA	NA	NA	NA
Dividend yield	1%	NA	NA	NA	NA

Source: Bursa Malaysia, M&A Securities

Table 3: Results Analysis

YE: Dec (RM million)	1Q15	4Q15	1Q16	q-o-q	y-o-y	3M15	3M16	y-o-y
Revenue	720	721	257	-64%	-64%	720	257	-64%
EBIT	35	50	-3	-107%	-110%	35	(3)	NM
JCE	(0.3)	(0.5)	(2)	NM	NM	(0.3)	(2)	NM
PBT	35	(50)	(5)	NM	NM	35	(5)	NM
Taxation	1	24	(3)	NM	NM	1	(3)	NM
Net profit	36	(27)	(8)	NM	NM	36	(8)	NM
EPS (sen)	2	(2)	(1)	NM	NM	2	(1)	NM
EBIT margin	5%	7%	-1%			5%	-1%	
Pre-tax margin	5%	-7%	-2%			5%	-2%	
Net profit margin	5%	-4%	-3%			5%	-3%	
Effective tax rate	-3%	47%	-49%			-3%	-49%	

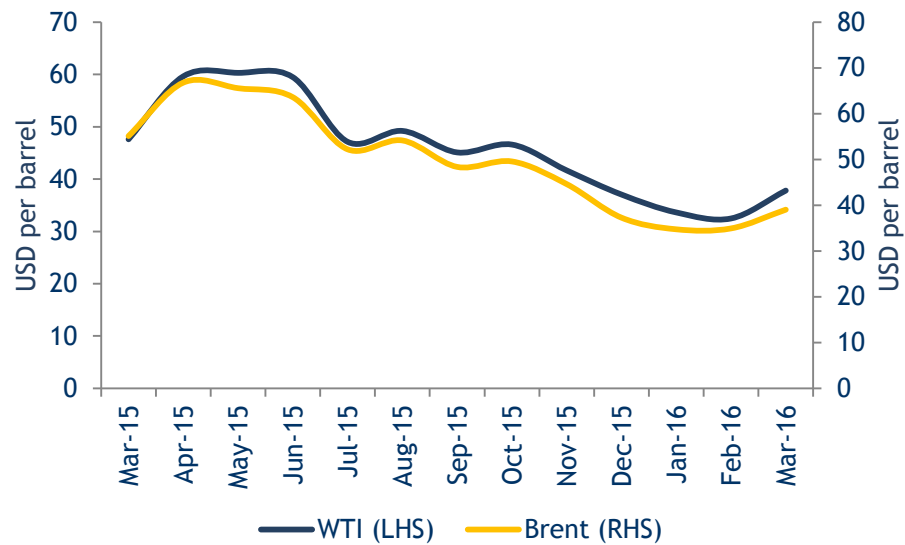
Source: Bursa Malaysia, M&A Securities

Table 4: Segmental Analysis

YE: Dec (RM million)	4Q14	3Q15	4Q15	q-o-q	y-o-y	12M14	12M15	y-o-y
<u>Revenue</u>								
Offshore	616	615	136	-78%	-78%	616	136	-78%
Marine	106	106	120	14%	14%	106	120	14%
Others	0.06	0.1	0.2	225%	210%	0.06	0.2	210%
<u>Operating Profit</u>								
Offshore	1	26	(23)	NM	NM	1	(23)	NM
Marine	15	22	15	-33%	0%	15	15	0%
Others	25	7	8	8%	-68%	25	8	-68%

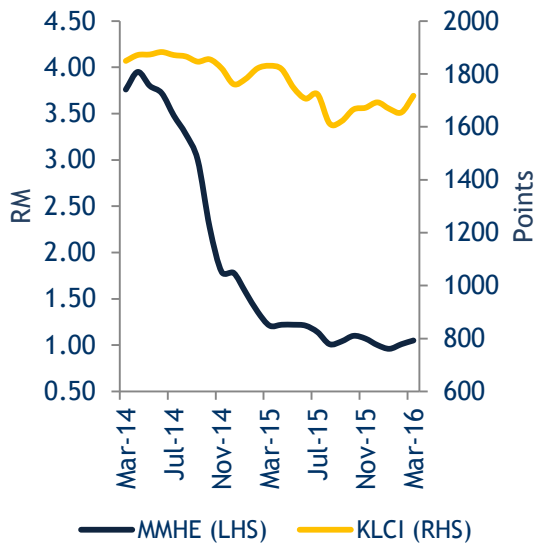
Source: Bursa Malaysia, M&A Securities

WTI vs. Brent Crude Oil Price
(March 2015-March 2016)

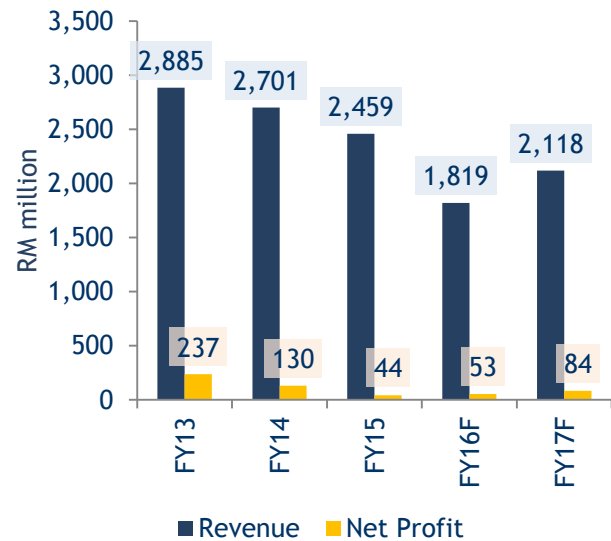


Source: Bloomberg

MMHE Share Price vs. KLCI
(March 2014-March 2016)



Revenue and Net Profit
(FY13-FY17)



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.

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