Still challenging but valuation attractive

We maintain our forecasts and TP based on 0.7x 2017E BVPS. Operating environment remains challenging while it plies the oil & gas value chain that is among the last to recover even if oil prices rise and business activities recover. However, we upgrade our rating from HOLD to BUY purely for its lackluster share price performance where valuation has become attractive on a P/B basis, noting that 46% of its market cap consists of cash.

2Q16 core net profit within expectations

MMHE booked a headline net loss of RM4.3m in 2Q16, dragged down also by an unrealised forex exchange loss (RM13.4m vs RM37.4m in 1Q16). Excluding exceptional items, it recorded a core net profit of RM9.1m in 2Q16 (-72% yoy; -63.4% qoq). Added to the RM25.0m recorded in 1Q16, 1H16 core net profit of RM37.5m is within our and consensus expectations, accounting for 47% and 45% of full-year estimates respectively.

Segmental results commentary

i. **Offshore segment.** Offshore revenue increased 59.7% qoq to RM217.8m in 2Q16 on higher number of projects completion but declined by 52.8% yoy. However, the segment posted an operating loss of RM25.8m in 2Q16 (vs loss RM26.4m in 1Q16 on higher-than-expected overheads and projects in early phases.

ii. **Marine segment.** Marine revenue declined 33.8% qoq to RM79.7m in 2Q16 (-53% yoy; -33.8 qoq) mainly due to lower number of rig repairs and conversion works in current period as well as settlement of past project in 1Q16. As a result, EBIT margin fell 7.2ppts qoq to 2.5% during the quarter.

Maintain forecasts and TP, upgrade to BUY

The operating environment remains challenging, with order intake of RM156m in 1H16 and backlog at RM1,029m. However, management has submitted RM1.75bn of tenders so far in 2016 (of which 90% are local projects) and identified RM7.4bn of potential tenders and proposals for 2016-17 (of which two-thirds are domestic). There are also plans for diversification within the sector value chain (HUC, Facilities Improvement, and Maintenance) to mitigate slower offshore revenue. We maintain our 2016E-18E forecasts and TP of RM1.25 (based on 0.7x BVPS 2017E, with ROE forecasts of 3.0%-3.8% in 2016-18).

Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	2,700.5	2,459.0	1,380.0	1,680.0	1,980.0
EBITDA (RMm)	169.3	141.9	148.9	166.4	181.7
Pretax profit (RMm)	119.1	22.5	78.3	90.0	101.7
Net profit (RMm)	129.9	43.9	72.0	82.6	93.1
EPS (sen)	8.1	2.7	4.5	5.2	5.8
PER (x)	13.3	39.4	24.0	20.9	18.6
Core net profit (RMm)	103.7	84.6	72.0	82.6	93.1
Core EPS (sen)	6.5	5.3	4.5	5.2	5.8
Core EPS growth (%)	(54.4)	(18.4)	(14.9)	14.6	12.7
Core PER (x)	16.7	20.4	24.0	20.9	18.6
Net DPS (sen)	-	-	-	-	-
Dividend Yield (%)	-	-	-	-	-
EV/EBITDA (x)	10.1	8.1	8.1	6.9	5.9
Chg in EPS (%)	-	-	-	-	-
Affin/Consensus (x)	-	-	0.7	0.9	1.0

Source: Company, Affin Hwang estimates

Results Note

MMHE

MMHE MK
Sector: Oil & Gas

RM1.08 @ 1 August 2016

BUY (upgrade)

Upside: 15.7%

Price Target: RM1.25

Previous Target: RM1.25

Price Performance

	1M	3M	12M
Absolute	-4.4%	-3.6%	-5.3%
Rel to KLCI	-5.5%	-3.1%	-2.0%

Stock Data

Issued shares (m)	1,600.0
Mkt cap (RMm)/(US$m)	1728/429.5
Avg daily vol - 6mth (m)	1.2
52-wk range (RM)	0.88-1.34
Est free float	10.9%
BV per share (RM)	1.67
P/BV (x)	0.65
Net cash/ (debt) (RMm) (1Q16)	922.8
ROE (2016E)	3.0
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

MISC	66.5%
Technip SA	8.5%
Lembaga Tabung Haji	6.2%

Source: Affin Hwang, Bloomberg

Ong Keng Wee
(603) 2146 7536
kengwee.ong@affinhwang.com

Key risks

Key downside risks to our recommendation include: (1) worsening of the operating environment and failure to replenish order book; and (2) potential margin compression.

Fig 1: Results comparison

FYE 31 Dec (RMm)	2QFY16	QoQ % chg	YoY % chg	6MFY16	YoY % chg	Comment
Revenue	297.4	*15.9*	*(48.9)*	554.2	*(57.4)*	Revenue increase 15.9% qoq, mainly driven by higher revenue recognition by heavy engineering segment which caters for both offshore and onshore works.
Op costs	(247.9)	*18.4*	*(53.5)*	(457.4)	*(62.3)*	
EBITDA	49.5	*4.7*	*2.0*	96.8	*7.7*	
EBITDA margin (%)	16.6	*-1.8ppt*	*8.3ppt*	*17.5*	*10.6ppt*	
Depn and amort	(42.1)	*87.4*	*129.6*	(64.6)	*78.8*	
EBIT	7.4	*(70.3)*	*(75.6)*	32.2	*(40.1)*	
EBIT margin (%)	2.5	*-7.2ppt*	*-2.7ppt*	*5.8*	*1.7ppt*	EBIT margin boost q-o-q due to reversal of 3Q provisions in the offshore segment.
Int expense	0.0	*0.0*	*(100.0)*	0.0	*(100.0)*	
Int and other inc	5.6	*32.4*	*54.9*	9.9	*33.4*	
Associates	(2.2)	*17.9*	*(2660.0)*	(4.0)	*1852.4*	
EI	(13.5)	*(58.6)*	*(8.0)*	(46.0)	*1102.1*	RM13.4m unrealised forex loss; RM1.5m income from scrap disposal; RM1.6m FV change in derivatives.
Pretax profit	**(2.7)**	*50.0*	*(115.2)*	**(8.0)**	*115.2*	
Core pretax	**10.8**	*(60.3)*	*(66.5)*	**38.0**	*(32.6)*	
Tax	(1.7)	*(35.2)*	*(372.9)*	(4.3)	*(384.5)*	
Tax rate (%)	(63.7)	*-14.6ppt*	*-60.2ppt*	*(54.0)*	*-51.1ppt*	
MI	0.0	*90.2*	*(122.5)*	0.4	*1189.7*	
Net profit	**(4.3)**	*42.8*	*(124.0)*	**(11.9)**	*(122.0)*	
EPS (sen)	(0.3)	*42.8*	*(124.0)*	(0.7)	*(122.0)*	
Core net profit	**9.1**	*(63.4)*	*(72.0)*	**34.1**	*(41.1)*	Core net profit inline with our and consensus expectation.

Source: Affin Hwang, company data

Fig 2: Segmental breakdown

FYE Dec (RM m)	3Q15	4Q15	1Q16	2Q16	QoQ %pt chg	YoY %pt chg	6MFY15	6MFY16	YoY %pt chg
Revenue	**436.3**	**721.1**	**256.7**	**297.4**	***15.9***	***-48.9***	**1,301.7**	**554.2**	***-57.4***
Offshore	302.3	615.1	136.4	217.8	*59.7*	*-52.8*	1,077.3	354.2	*-67.1*
Marine	134.0	106.0	120.3	79.7	*-33.8*	*-34.2*	224.3	200.0	*-10.8*
Others	0.0	0.0	0.0	0.0	*N/A*	*N/A*	0.0	0.0	*N/A*
Operating Profit	**-29.4**	**39.1**	**24.8**	**7.4**	***-70.3***	***-75.6***	**53.7**	**32.2**	***-40.1***
Offshore	-24.3	25.6	-26.1	-25.6	*-2.2*	*-495.9*	7.9	-51.7	*-754.5*
Marine	24.7	22.5	15.0	4.2	*-72.0*	*-78.4*	34.4	19.2	*-44.1*
Others	-29.8	-9.0	35.9	28.7	*-20.0*	*573.8*	11.4	64.7	*466.0*
Operating Margin	**-6.7%**	**5.4%**	**9.7%**	**2.5%**	***-7.2%***	***-2.7%***	**4.1%**	**5.8%**	***1.7%***
Offshore	-8.0%	4.2%	-19.2%	-11.7%	*7.4%*	*-13.1%*	0.7%	-14.6%	*-15.3%*
Marine	18.4%	21.2%	12.5%	5.3%	*-7.2%*	*-10.8%*	15.3%	9.6%	*-5.7%*

Source: Affin Hwang, company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months