

## COMPANY UPDATE

### Malaysia Marine and Heavy Engineering Holdings (MMHE MK)

Building Track Record On Decarbonisation/Green Projects

Although share price surged by around 30% after securing the mega CCS project, we still see further upside thereafter, as MMHE is well-positioned to capture more green projects including offshore wind structures (50% of its bidbook), onshore projects related to circular economy, and demand for green shipping retrofits. We upgrade forecasts and valuation, premised on our assumption that marine repair will continue to show recurring profits. Upgrade to BUY. Target price: RM0.75.

#### WHAT'S NEW

- **Big Kasawari carbon capture and storage (CCS) win lifts orderbook to RM6.6b.** The RM4.5b CCS project will fabricate a carbon sequestration (CO<sub>2</sub> seq) fixed platform of 14,000-MT topside and 15,000-MT jacket. To meet the ready-for-startup (RSFU) target of end-25, the first steel cut is targeted for 2Q23. The platform will be bridged-linked to the main 47,000-MT Central Processing Platform (CPP), of which the RSFU target is 2023. The CPP is also being built by Malaysia Marine and Heavy Engineering Holdings (MMHE), and the RM2.1b project is now at 73% completion, with first jacket loadout in early-23. Kasawari is set to be the world's largest CCS project. About 71m-76m tonnes of CO<sub>2</sub> (averagely 3.3MTPA) will be reinjected into the M1 field for storage, via a pipeline about 138km away.
- **"Alliance" contract structure with Petronas reduces project risk.** The scale of the CCS (need to hire more manpower), and being a new technology worldwide (the industry has no prior established track record) will lead to investor concerns over project execution. This is especially given MMHE's past track record of volatile offshore losses, for projects that were the "first of their kind" in that era, like the Malikai and Gumusut-Kakap floating platforms. However, the CCS is an "Alliance" EPCC contract with Petronas, which means the client will share 50% of the project risk. This is a new contract structure and is more favourable vs the standard EPCC contract, although it does not fully insulate MMHE from delays and cost overruns.
- **Marine repair – preparing to capture decarbonisation opportunities.** MMHE's recent strategic partnerships with providers of green shipping technology (like Air Lubrication System) and consultancy services, are in anticipation of the Jan 23 enforcement of Energy Efficiency eXisting ship (EEXI) and Carbon Intensity Indicator (CII) compliance for ships worldwide. These technologies can help save fuel by 5-17%. On top of the normal marine repair demand, we expect higher dry-docking demand from shipowners after deciding the portion of their fleet (usually aged vessels) to be retrofitted to meet green compliance. Having said that, the current geopolitical events and uncertainties on shipping costs vs charter rates are not pushing for such retrofit demand yet at this juncture.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	1,567	1,467	1,601	2,440	2,875
EBITDA	(18)	(178)	105	147	127
Operating profit	(93)	(266)	21	66	47
Net profit (rep./act.)	(389)	(270)	9	55	37
Net profit (adj.)	(34)	(279)	9	55	37
EPS (sen)	(2.1)	(17.4)	0.6	3.4	2.3
PE (x)	n.m.	n.m.	101.6	17.4	26.2
P/B (x)	0.5	0.6	0.6	0.6	0.6
EV/EBITDA (x)	n.m.	n.m.	2.9	2.1	2.4
Dividend yield (%)	0.0	0.0	0.0	3.3	3.3
Net margin (%)	(24.9)	(18.4)	0.6	2.3	1.3
Net debt/(cash) to equity (%)	(20.1)	(19.9)	(38.3)	(37.4)	(35.2)
Interest cover (x)	(19.6)	(13.8)	6.8	9.5	8.1
ROE (%)	n.a.	n.a.	0.6	3.2	2.1
Consensus net profit	-	-	27	53	67
UOBKH/Consensus (x)	-	-	0.35	1.04	0.55

Source: Malaysia Marine and Heavy Engineering Holdings, Bloomberg, UOB Kay Hian  
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

## BUY

(Upgraded)

Share Price	RM0.60
Target Price	RM0.75
Upside	+24.6%
(Previous TP)	RM0.46)

#### COMPANY DESCRIPTION

Petronas-owned deepwater offshore oil and gas engineering, procurement, construction and commissioning (EPCC) fabricator.

#### STOCK DATA

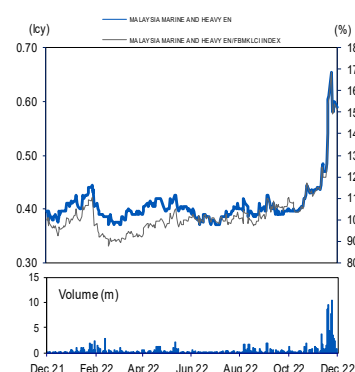
GICS sector	Energy
Bloomberg ticker:	MMHE MK
Shares issued (m):	1,600.0
Market cap (RMm):	960.0
Market cap (US\$m):	217.9
3-mth avg daily t'over (US\$m):	0.2
Price Performance (%)	

52-week high/low RM0.655/RM0.370

1mth	3mth	6mth	1yr	YTD
39.5	50.0	51.9	51.9	51.9

Major Shareholders	%
MISC Bhd	66.5
Technip SA	8.5
-	-
FY22 NAV/Share (RM)	1.07
FY22 Net Cash/Share (RM)	0.41

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

**Kong Ho Meng**  
+603 2147 1987  
homeng@uobkayhian.com

## STOCK IMPACT

• **We expect this ESG angle to be a mid-term catalyst (2Q23 onwards).** Both MMHE and Sembcorp Marine (Sembcorp) reported improvements in 3Q22 marine repair earnings, but a milder-than-expected outlook. For MMHE, it expects lower dry-docking demand in 4Q22, especially from LNG carriers (3Q22: 4 LNG refits), given high winter demand for LNG transportation worldwide. Sembcorp saw higher shipping refits of 60 vessels (3Q22: 11 LNG refits) vs 96 vessels in 1H22 (10 LNG refits), but said the improving outlook will be lower than expected due to residual effects of COVID-19 measures, which may imply higher-than-expected costs. MMHE still expects a decent marine repair profit for 4Q22 (as the lower winter demand is an expected seasonal effect), but the group has yet to observe material spike in orders for green retrofits.

• **RM11b bidbook is now heavily skewed to green projects, at 50% mix.** MMHE still has a financial advantage to win future local CPPs vs Sapura Energy, but it may less likely secure future local wellhead platforms (WHP). This is in view of recent events whereby OceanMight, a Sarawakian yard under KKB Engineering, is chosen as Shell's primary contractor for all future WHPs in Sarawak for five years. MMHE had anticipated the competitive landscape changes, and is positioning itself to capture the rising interest of green projects.

MMHE's 2019 global collaboration agreement with Smulders, a renowned player in offshore wind structures, had helped MMHE gained from the Greater Changhua windfarm's learning curve in Taiwan. Allocating its East Yard for wind structures, it is bidding for nine wind projects, amounting to RM4b in value for substations and RM1b for jackets. Cumulatively they are now at 50% of bidbook mix (vs 20-30% mix a year ago).

• **May also benefit from onshore projects due to ESG demand.** The global chemicals industry is seeing an opportunity to support the energy transition, by providing low-carbon polymers and sustainable circular economy. Our channel checks indicate that big players like Petronas and Shell are in late stages of project planning to roll out plastic chemical recycling facilities, to convert into green feedstock for petrochemicals, in areas like Pengerang. We believe the likes of MMHE and Dialog are beneficiaries for onshore modules – one processing plant may be around US\$100m.

• **The revival of local floater projects.** Upstream reported that the floating, production and offloading (FPSO) projects Limbayong (Sabah) and Kelidang (Brunei), which were shelved many times in the past, are now back in the radar for bidding. Any go-ahead will also be an added bonus for MMHE, which had not done any FPSO conversion jobs in the last few years since EA Technique's vessel. In the past, FPSO conversion carries a high margin that supports the RM15m-20m quarterly earnings for marine repair.

## EARNINGS REVISION/RISK

• **Upgrade 2022-24 earnings by 27%/79%/8x.** We doubled marine repair earnings forecasts for 2023, assuming MMHE will see a sustained strength for ship repairs and potential green shipping retrofit demand after 2Q23. We also update offshore revenues after accounting for Kasawari CCS, but our 2024 earnings is below consensus' as we conservatively assume losses in the early stages of CCS' fabrication. We also now assume a RM0.02 DPS for 2023/24 forecasts, premised on a sustainable marine profit base. MMHE last paid RM0.05/RM0.03 DPS in 2014/2017.

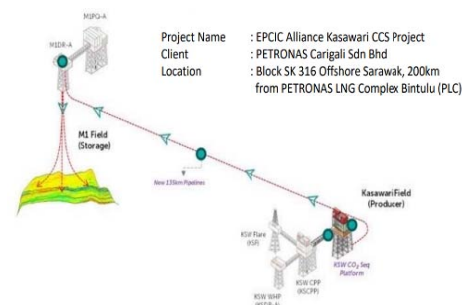
## VALUATION/RECOMMENDATION

• **Upgrade to BUY (from HOLD), target price raised to RM0.75 (from RM0.46)** on higher P/B valuation from 0.5x to 0.7x. Even though the share price surged by about 30% after the CCS project win, we still see further upside on more green project wins, potential dividends, and last but not least, the valuation re-rating to be justified by marine repair returning to recurring profits, like in pre-2018. At our target price, both P/B and PE (implied 23x) valuations reflect pre-2018 five-year mean average.

## ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

<b>• Environmental</b>	
- <b>Carbon (CO2) emission reduction.</b> Since 2021, MMHE adopted the greenhouse gas (GHG) protocol, which covers a broader scope of assets within operational control. 8.3MWp Solar panel installation to generate RM30m savings over 21 years.	
- <b>Safety (HSE).</b> 1.20 Lost Time Injury (LTI) Frequency in 2021 (2020: 0.00).	
<b>• Social</b>	
- <b>Diversity.</b> 18% female representation amongst employees.	
- Investments of RM97,000 contributed as COVID-19 assistance to communities.	
<b>• Governance</b>	
- 5 out of 9 board members are independent.	

## PROJECT STRUCTURE OF KASAWARI PHASE 2



Source: MMHE

## MARINE DECARBONISATION PARTNERSHIPS

SILVERSTREAM TECHNOLOGIES

Products and Services: Air Lubrication System

### Benefits:

5-10% Net Fuel Savings depending on the vessel's profile



Products and Services: Hull Performance Audit (including bulbous bow retrofit and vessel lengthening) and Technical Advisory

### Benefits:

Up to 17% Net Fuel Savings depending on the vessel's profile

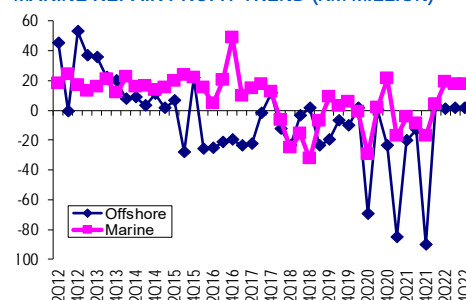
Source: MMHE

## SEGMENTAL FORECASTS

(RMm)	2022F	2023F	2024F
Revenue	1,601.0	2,440.0	2,875.0
Offshore	1,201.0	1,910.0	2,365.0
Marine repair	400.0	530.0	510.0
Operating profit	20.7	66.1	47.4
Offshore	(17.3)	(8.1)	(13.8)
Marine repair	38.0	74.2	61.2
Margins (%)	1.3%	2.7%	1.6%
Offshore	-1.4%	-0.4%	-0.6%
Marine repair	9.5%	14.0%	12.0%

Source: UOB Kay Hian

## MARINE REPAIR PROFIT TREND (RM MILLION)



Source: MMHE, UOB Kay Hian

**PROFIT & LOSS**

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	1,467	1,601	2,440	2,875
EBITDA	(178)	105	147	127
Deprec. & amort.	88	84	81	80
EBIT	(266)	21	66	47
Associate contributions	0	0	0	0
Net interest income/(expense)	(13)	(15)	(16)	(16)
Pre-tax profit	(274)	5	51	32
Tax	0	0	0	0
Minorities	4	4	5	5
Net profit	(270)	9	55	37
Net profit (adj.)	(279)	9	55	37

**BALANCE SHEET**

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	1,525	1,444	1,422	1,401
Other LT assets	305	292	311	338
Cash/ST investment	710	998	997	964
Other current assets	850	749	1,199	1,411
<b>Total assets</b>	<b>3,390</b>	<b>3,483</b>	<b>3,930</b>	<b>4,115</b>
ST debt	35	41	46	51
Other current liabilities	1,312	1,425	1,844	2,020
LT debt	335	300	300	300
Other LT liabilities	0	0	0	0
Shareholders' equity	1,706	1,716	1,739	1,744
Minority interest	1	1	1	1
<b>Total liabilities &amp; equity</b>	<b>3,390</b>	<b>3,483</b>	<b>3,930</b>	<b>4,115</b>

**CASH FLOW**

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	(14)	293	105	75
Pre-tax profit	(274)	5	51	32
Tax	0	0	0	0
Deprec. & amort.	88	84	81	80
Associates	0	0	0	0
Working capital changes	164	204	(27)	(36)
Other operating cashflows	8	0	0	0
Investing	(34)	(10)	(80)	(80)
Capex (growth)	(48)	(20)	(80)	(80)
Investments	0	0	0	0
Others	14	10	0	0
Financing	106	5	(26)	(28)
Dividend payments	0	0	(32)	(32)
Issue of shares	0	0	0	0
Proceeds from borrowings	150	14	16	16
Loan repayment	(43)	(9)	(10)	(12)
Others/interest paid	0	0	0	0
<b>Net cash inflow (outflow)</b>	<b>59</b>	<b>288</b>	<b>(1)</b>	<b>(32)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>651</b>	<b>710</b>	<b>998</b>	<b>997</b>
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>710</b>	<b>998</b>	<b>997</b>	<b>964</b>

**KEY METRICS**

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	(12.1)	6.5	6.0	4.4
Pre-tax margin	(18.7)	0.3	2.1	1.1
Net margin	(18.4)	0.6	2.3	1.3
ROA	n.a.	0.3	1.5	0.9
ROE	n.a.	0.6	3.2	2.1
<b>Growth</b>				
Turnover	(6.3)	9.1	52.4	17.8
EBITDA	n.a.	n.a.	40.7	(13.5)
Pre-tax profit	n.a.	n.a.	847.4	(37.4)
Net profit	n.a.	n.a.	483.3	(33.6)
Net profit (adj.)	n.a.	n.a.	483.3	(33.6)
EPS	n.a.	n.a.	483.3	(33.6)
<b>Leverage</b>				
Debt to total capital	17.8	16.5	16.6	16.7
Debt to equity	21.7	19.8	19.9	20.1
Net debt/(cash) to equity	(19.9)	(38.3)	(37.4)	(35.2)
Interest cover (x)	(13.8)	6.8	9.5	8.1

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

## IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W