Malaysia Marine and Heavy Engineering (MMHE MK)

2Q26: Positive Surprise From Sailaway Finalisation

Highlights

- **1H26/2Q26 core earnings were materially above expectations.** This was mainly due to substantial profits from the offshore segment, coinciding with the sailaway of several projects including Kasawari Carbon Capture Storage (CCS) and the Vestigo Wellhead Platforms (WHP). This demonstrates that MMHE's ability to close out project completions has improved materially. Marine repair still appears weaker yoy on account of lower vessel repair jobs and a lack of substantial conversion jobs relative to 1H25.
- **2H26 will see better marine repair contributions.** Despite a lower orderbook of RM4.1b (vs RM4.7b qoq), we expect marine repair to pick up traction in 2H26, on LNGC repairs and floater conversion jobs that have already begun at the JV level. Sustaining its current execution track record and building up a higher marine repair profit base are key for a re-rating. Maintain BUY with a target price of RM0.53 adjusted from RM0.50 as we roll over to 2027 horizon (0.5x P/B).

2Q26 Results

Year to 31 Dec (RMm)	2Q26	% chg	% chg	YTD 2026	% chg	Comments
Revenue	986.7	89.1	128.6	1,508.7	70.5	
- Offshore	870.2	105.6	180.7	1,293.4	105.2	High earnings recognised in tandem with
- Marine	116.6	18.1	(4.2)	215.3	(15.4)	project sailaways
EBIT	67.4	272.9	412.9	85.4	199.8	
- Offshore	62.0	502.6	4,040.5	72.3	nm	
- Marine	7.5	11.1	(31.4)	14.3	(49.6)	Lower no of high-margin LNGC vessel repairs
Operating margin (%)	6.8%	3.4%	3.8%	5.7%	2.4%	
JV/associate	(1.4)	nm	nm!	(1.4)	nm)	
PBT	61.2	316.3	(394.6)	75.9	229.7	
Tax	(0.6)	50.4	113.1	(1.0)	39.6	
Net Profit	60.6	323.9	502.6	74.9	235.9	2Q26 Exceptional Items (EI): RM0.9m net
Core Profit	60.1	269.2	784.5	76.4	220.8	unrealised forex loss, RM0.4m allowance

Source: MMHE

Analysis

- **1H26 above expectations, primarily driven by post-sailaway projects.** The exceptionally strong 2Q26 showing from the offshore segment lifted 1H26 core profit, accounting for 85%/72% of our/consensus forecasts respectively. EBITDA expanded more than 2x qoq from RM38m in 1Q26 to RM80m in 2Q26, which was comparable to 4Q25's RM71m. Malaysia Marine and Heavy Engineering's (MMHE) project execution and ability to close out project completions has improved substantially. 2Q26 is also a rare quarter whereby the yard celebrated several offshore project sailaways at once.

Key Financials

Year to 30 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	3,609	1,976	1,715	1,685	1,805
EBITDA	219	197	207	198	217
Operating profit	141	116	124	112	128
Net profit (rep./act.)	121	103	115	102	119
Net profit (adj.)	112	103	115	102	119
EPS (x)	7.0	6.4	7.2	6.4	7.4
PE (x)	5.4	5.9	5.3	6.0	5.1
P/B (x)	0.4	0.4	0.4	0.4	0.4
EV/EBITDA (x)	1.9	2.1	2.2	2.2	1.6
Dividend yield (%)	3.9	4.2	5.3	5.3	5.3
Net margin (%)	3.4	5.2	6.7	6.0	6.6
Net debt/(cash) to equity (%)	-	-	-	-	-
Consensus net profit	-	-	106	108	116
UOBKH/Consensus (x)	-	-	1.08	0.94	1.03-

Source: MMHE, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	RM0.38
Target Price	RM0.53
Upside	+39.5%
Previous TP	RM0.50

Stock Data

Sector	Energy
Bloomberg ticker	MMHE MK
Shares issued (m)	1,600
Market cap (RMm)	608.0
Market cap (US$m)	150.5
3-mth avg daily t'over (US$m)	0.5

Price Performance (%)

52-week high/low: RM0.49/RM0.31

1mth	3mth	6mth	1yr	YTD
8.6	4.1	5.6	10.1	4,1

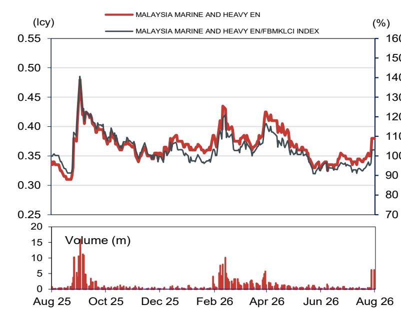
Major Shareholders (%)

MISC Bhd	66.5
Technip SA	8.5

Balance Sheet Metrics

FY26 NAV/Share (RM)	RM0.98
FY26 Net Debt/Share (RM)	n.m.

Price Chart



Source: Bloomberg

Company Description

Petronas-owned deepwater offshore oil and gas fabricator. The offshore/ heavy engineering division is capable of performing Engineering, Procurement, Construction, Installation and Commissioning (EPCIC) scope of works, for platforms like Central Processing Platform (CPP) and Wellhead Platform (WHP). Marine division is being recognized by Clarksons as a leading yard for Liquefied Natural Gas Carrier (LNGC) repairs

- **Marine repair: Lower activities relative to 1H25…** This division completed 36 vessels in 1H26 (1Q26:18; 1H25:41). Out of these, eight were high-margin LNGC completions (1Q26: 2; 1H25: 9). MMHE attributed the lower number of vessel repairs to vessels opting for charters to favourable freight rates following the Middle East conflict, although this was not the only key factor behind the lower marine repair revenue and profit vs 1H25. Although not disclosed previously, MMHE acknowledged that 1H25 also recognized the finalisation of a floating storage and offloading (FSO) vessel conversion. We believe this was related to the conversion of FPSO Bunga Kertas, which was one of the most technically challenging conversion jobs. Effective 2026, major conversion projects will be reflected as JV profit (as per next paragraph).
- **…but set to pick up in 2H26.**. MMHE will allocate a similar level of capex as in 2025 (RM165m), which appears relatively high, but this will be mainly for its yard modernisation plans. Given there is no organic expansion of dry dock capacity, we continue to believe maintaining its execution (to deliver repair jobs ahead of schedule) is the most crucial factor to improve the marine repair segment's profit sustainably, which used to deliver a quarterly profit of RM15m-20m before 2017. In 1Q26, five vessels were completed ahead of schedule, and eight job were assessed as having a "perfect score" by clients. In 1H26, 12 vessels were completed ahead of schedule, and 15 achieved a "perfect score". MMHE has secured 24 LNGC repair jobs ytd, putting it on track to match 2025's milestone of 26 LNGC repairs.
- **JV unit (FPS) began contributions**. We understand the two conversion projects secured by MISC - FPU Kelidang (Brunei) and FSO Santos (PNG) - are projects allocated to the JV unit between MMHE and MISC, Floating Production Systems (FPS). A small loss incurred in 2Q26 represents pre-operating costs for the conversion projects.
- **Orderbook stands at RM4.1b (vs RM4.7b qoq).** Offshore and marine split was 75%/25%, implying that the marine orderbook was unchanged qoq at RM1b. We believe O&G orderbook stands at around RM0.7b, comprising four confirmed WHP work orders for Petroleum Authority of Thailand (PTT), as part of a four-year contract for up to 11 WHPs. The remainder offshore orderbook is largely renewables, ie two high voltage direct current (HVDC) offshore wind systems worth RM2.7b in total.

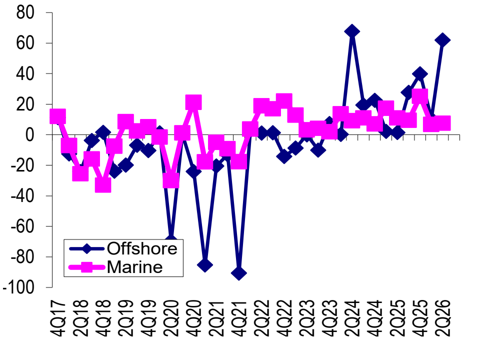
Valuation/Recommendation

- **Maintain BUY; target price raised to RM0.53 from RM0.50 (0.5x P/B).** We roll over valuations to 2027 horizon. Our new target price implies 8x 2027F PE. We believe the depressed valuation vs 0.7x P/B historically and regional peer average, conservatively priced in past execution risk in mega fabrication projects, which we believe will improve over time as long as MMHE sustains its current execution track record, and rebuild its marine repair base to capitalise on the global trend of marine repair demand and FPSO supercycle. Under MHB30, a "floor target price" based on dividend yield is RM0.40, where the implied target DPS appears to be 2.0 sen.

Earnings Revision/ Risk

- **Raise 2026-28 earnings forecasts by 28%/5%/9% respectively**. We have upgraded offshore EBIT contributions from RM55m-58m p.a. to RM63m-80m p.a., while leaving marine repair EBIT forecasts unchanged at RM44m-61m p.a, across our forecast years. Subsequently, we have upgraded 2026-28 DPS from 1.7sen/1.8sen1.9sen respectively to 2sen per year, which is the target payout implied by its MHB30 five-year masterplan, and found that at this DPS and capex of >RM150 p.a., MMHE can still grow its cash flow.

Segmental EBIT Performance (RMm)



Source: MMHE

Project Status

% completion as of	2Q26	Sailaway date
Kasawari CCS	82	Topside: 17 June 26
Irong Timur	89	Jacket: 25 Apr 26 Topside: 21 Apr 26
Berantai East	89	Jacket: 19 Apr 26 Topside: 21 Apr 26
Kurma Manis	94	Jacket: 24 May 26 Topside: 9 May 26
IJmuiden Ver Alpha	32	Target 4Q26 sailaway
Nederwiek 1	Na	Expecting 4Q26 start

Source: MMHE

Environmental, Social, Governance (ESG) Updates

Environmental
- Carbon (CO2) emission reduction. 8.3MWp Solar panel installation to generate RM30m savings over 21 years - Safety (HSE). Lost Time Injury (LTI) Frequency of 0.05 in 2025, better than the limit/ target of 0.21
Social
- Diversity. 18% female representation amongst employees
Governance
- Achieved 4 rating (FTSE4Good) and aligning to MISC's ESG and Responsible Supply Chain programme

Source: UOB Kay Hian

Profit & loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	1,976	1,715	1,685	1,805
EBITDA	197	207	198	217
Deprec. & amort.	81	83	86	88
EBIT	116	124	112	128
Associate contributions	0	0	0	0
Net interest income/(expense)	(11)	(14)	(15)	(15)
Pre-tax profit	105	110	97	114
Tax	(2)	5	5	5
Minorities	0.0	0.0	0.0	0.0
Net profit	103	115	102	119
Net profit (adj.)	103	115	102	119

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	1,627	1,676	1,725	1,774
Other LT assets	274	270	261	247
Cash/ST investment	458	415	424	496
Other current assets	770	878	863	924
Total assets	3,133	3,242	3,275	3,444
ST debt	72	84	93	100
Other current liabilities	1,383	1,416	1,391	1,490
LT debt	187	169	148	125
Other LT liabilities	0	0	0	0
Shareholders' equity	1,489	1,572	1,642	1,489
Minority interest	1	1	1	1
Total liabilities & equity	3,133	3,242	3,275	3,444

Cash flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	173	127	181	248
Pre-tax profit	105	110	97	114
Tax	(2)	5	5	5
Deprec. & amort.	81	83	86	88
Associates	0	0	0	0
Working capital changes	(14)	(75)	(9)	37
Other operating cashflows	3	3	3	3
Investing	(151)	(150)	(150)	(151)
Capex (growth)	(165)	(150)	(150)	(150)
Investments	0	0	0	0
Others	14	0	0	0
Financing	(3)	(20)	(23)	(25)
Dividend payments	(26)	(32)	(32)	(32)
Issues of shares	0	0	0	0
Proceeds from borrowings	33	30	30	30
Loan repayment	(10)	(18)	(21)	(23)
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	19	(43)	9	73
Beginning cash & cash equivalent	458	458	415	424
Changes due to forex impact	33	0	0	0
Ending cash & cash equivalent	509	415	424	496

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	10.0	12.1	11.7	12.0
Pre-tax margin	5.3	6.4	5.7	6.3
Net margin	5.2	6.7	6.0	6.6
ROA	3.1	3.4	3.0	3.4
ROE	5.1	5.6	4.9	5.6
Growth (% yoy)				
Turnover	65.9	44.0	41.4	7.1
EBITDA	(10.3)	5.5	(4.7)	9.5
Pre-tax profit	(15.2)	5.4	(12.4)	17.7
Net profit	(7.9)	12.2	(11.8)	16.8
Net profit (adj.)	(7.9)	12.2	(11.8)	16.8
EPS	(7.9)	12.2	(11.8)	16.8
Leverage				
Debt to total capital	17.4	16.1	14.7	13.0
Debt to equity	17.4	16.1	14.7	13.0
Net debt/(cash) to equity	-	-	-)	-
Interest cover (x)	17.1	14.9	12.8	14.7