Malaysia Marine and Heavy Engineering (MMHE MK)

3Q26: Another Positive Surprise That Reiterates Its Execution

Highlights

- **9M26 core earnings beat expectation for the second time in a row.** Although 3Q26 earnings seem weaker qoq, this was due to 2Q26 recording unusual gains from post-sailaway projects. The offshore segment remains profitable, while marine repair activity surged tremendously qoq. More importantly, MMHE continues to perfect its craft in marine repair, as its high-margin LNG carrier (LNGC) jobs ytd already surpassed 2024, and is setting new records in early deliveries and customer satisfaction scores.
- **Discounted valuation unwarranted; possible beneficiary from vessel diversion opportunity.** Although not yet an obvious catalyst, there are talks of shipowners facing disruptions in drydocking due to the Middle East situation, and may divert their vessels to drydock at Asian repair yards. In this case, only MMHE and Seatrium are beneficiaries. We upgrade MMHE's earnings forecasts by 18-32% and expect dividends from 2027. Maintain BUY, with an adjusted target price of RM0.55.

3Q26 Results

Year to 31 Dec (RMm)	3Q26	Qoq % chg	Yoy % chg	YTD 2026	% chg	Comments
Revenue	692.2	(29.8)	35.8	2,200.9	57.8	
- Offshore	472.9	(45.7)	20.1	1,766.3	180.3	Offshore:lower revenue qoq as 2Q26 saw
- Marine	219.4	88.2	88.9	434.6	70.8	several offshore projects sailaway
EBIT	37.5	(44.3)	18.5	122.9	331.4	
- Offshore	20.5	(66.9)	(26.2)	92.8	na	Marine: qoq surge in repair activity, while
- Marine	22.4	197.6	134.6	36.7	29.4	recognising FPSO conversion projects
Operating margin (%)	5.4%	-1.4%	-0.8%	5.6%	3.5%	
JV/associate	3.4	(346.7)	(213.4)	2.0	(98.0)	Maiden profit from FPS (a JV with MISC)
PBT	37.0	(39.5)	(394.6)	112.9	118.6	
Tax	(0.6)	4.8	48.7	(1.6)	43.0	
Net Profit	36.4	(39.9)	28.7	111.3	120.1	3Q26 Exceptional Items (EI): RM2.7m
Core Profit	39.1	(35.0)	6.3	115.4	128.3	receivables impairment

Source: MMHE

Analysis

- **Profit trumps expectations for the second consecutive quarter in a row.** 9M26 profit hit 100%/84% of our/consensus forecast respectively. While it seems 3Q26 results were weaker qoq (3Q26/2Q26 EBITDA was RM60m/RM80m), this was because 2Q26 was a rare quarter that gained from the finalisation of several major projects post-sailaway. Nevertheless, the offshore segment remains profitable, despite the lower revenue due to new projects like PTTEP's series of WHP still being in early stages, which reiterates our view of Malaysia Marine and Heavy Engineering's (MMHE) improved project execution.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	3,609	1,976	1,715	1,685	1,805
EBITDA	219	197	244	233	233
Operating profit	141	116	161	148	145
Net profit (rep./act.)	121	103	151	134	140
Net profit (adj.)	112	103	151	134	140
EPS (x)	7.0	6.4	9.4	8.4	8.8
PE (x)	5.0	5.4	3.7	4.2	4.0
P/B (x)	0.4	0.4	0.3	0.3	0.3
EV/EBITDA (x)	1.7	1.8	1.5	1.7	1.0
Dividend yield (%)	-	-	-	7.1	7.1
Net margin (%)	3.4	5.2	8.8	8.0	7.8
Net debt/(cash) to equity (%)	-	-	-	-	-
Consensus net profit	-	-	137	143	145
UOBKH/Consensus (x)	-	-	1.10	0.91	0.94

Source: MMHE, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	RM0.33
Target Price	RM0.55
Upside	+66.7%
Previous TP	RM0.53

Stock Data

Sector	Energy
Bloomberg ticker	MMHE MK
Shares issued (m)	1,600
Market cap (RMm)	520.0
Market cap (US$m)	126.2
3-mth avg daily t'over (US$m)	0.5

Price Performance (%)

52-week high/low				RM0.48/RM0.32
1mth	3mth	6mth	1yr	YTD
(5.8)	(17.7)	(13.3)	(11.0)	(11.0)

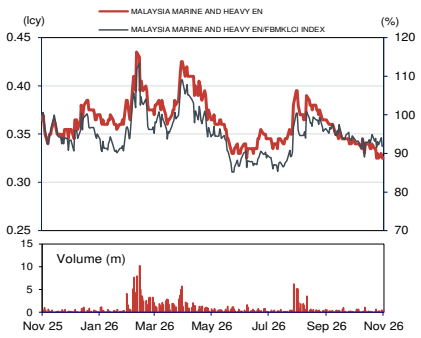
Major Shareholders (%)

MISC Bhd	66.5
Technip SA	8.5

Balance Sheet Metrics

FY26 NAV/Share (RM)	RM1.03
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 recognised by Clarksons as a leading yard for Liquefied Natural Gas Carrier (LNGC) repairs.

- **Marine repair: sharp boost in activity vs 2Q26.** MMHE completed 60 vessels in 9M26 (1H26:36; 9M25:60). Out of these, 19 were high-margin LNGC completions in 9M26 (1H26: 10; 9M25: 20). To recap, MMHE attributed the trend of vessels opting for charter during favourable freight rates benefitting from the Middle East conflict, as the reason for the lower number of vessel repairs in 1H26. Seatrium's Repair & Upgrades (R&U) unit reported the same with 91 jobs done in 1H26 relative to 101 in 1H25.
- **LNGC jobs surpassed 2024 numbers again.** In the past, with its capacity via the three dry docks (DD), MMHE delivered 12-14 LNGC jobs on a yearly average. This track record surged recently to 16 and 26 for 2024 and 2025. Although we are unsure if the LNGC job volume will surpass 2025, we take comfort in the fact that MMHE is enhancing its LNGC services. In 2025, 20 vessels out of 87 were delivered ahead of schedule, while 18 vessels scored MMHE a "perfect 10" on the customer satisfaction index. For YTD 2026, 21 vessels were delivered ahead of schedule, and 25 vessels scored MMHE a "perfect 10". One of its key LNGC customers, BW LNG, celebrated its 25th LNGC dry docking with MMHE on Oct 26, marking a 14-year relationship that started with the first drydocking in 2012. Widening its reputation and clientele base is also an important element, as it quickens future job acceptance rates. MMHE is is engaging with shipowners with potential vessel diversions from Middle Eastern dry-dock markets to Asian repair facilities, but none have materialised as catalysts yet.
- **Orderbook declined to RM3.5b (RM4.1b qoq),** with offshore/marine split at 75:25 respectively. MMHE's tenderbook is RM10.5b (2Q26: RM8.8b), Although no further breakdown was given, we estimate marine's portion may be valued at RM2.2b or 21% of tenderbook. For the offshore tenderbook of RM8.3b, we estimate 64% are overseas, implying dependency on Petronas/MISC is manageable. We believe the projects are well diversified across O&G and energy transition sectors. Seatrium said there are S$32b of opportunities, with a breakdown of S$21b/S$9b/S$2b for O&G/wind/conversions. Note that Seatrium classifies FPSO conversions as O&G.

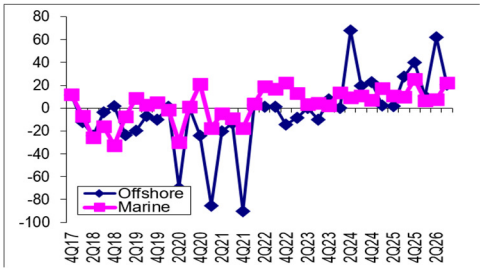
Valuation/Recommendation

- **Maintain BUY with a target price of RM0.55 from RM0.53 (0.5x 2027F P/B)** which implies 8x 2027F PE. We believe the depressed valuation vs 0.7x P/B historically and regional peer average (Seatrium trades at 0.8x P/B) is unwarranted, as it represents markets still pricing in past execution risk from legacy offshore platform projects. Market confidence (to relook MMHE as a leading shiprepair hub) takes time to build, hence we think MMHE must continue to sustain execution, rebuild its marine repair, and revive dividends. 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

- **We raise 2026F-2028F earnings forecasts by 31%/32%/18% respectively.** We upgraded offshore EBIT contributions from RM63m-80m p.a. to RM83m-100m pa, and upgrade marine repair EBIT forecasts from RM44m-61m p.a to RM60m-67m across our forecast years. Subsequently, we upgraded 2027F-2028F DPS from 2 sen to 2.5 sen, ie above the target payout implied by its MHB30 five-year masterplan. However, we assume no DPS for 2026, as we now expect MMHE to clear its accumulated losses by 4Q26, but still require enough retain earnings only by 2027 to comfortably issue dividends.

Segmental EBIT Performance (RMm)



Source: MMHE

Project Status

% completion as of	2Q26	3Q26
Kasawari CCS	82	84
Irong Timur, Berantai East	89	94
Kurma Manis	94	96
IJmuiden Ver Alpha	46	36
Nederwiek 1	Na	Na (commence 4Q26)
PTTEP, Work Order 1*	Na	32

**Note: Refering to the confirmed work orders for 4 WHP (Sapih, Tiram, Wangsa & Chenda) out of 11 signed with PTTEP*
Source: MMHE

JV Income Update

- Floating Production Systems (FPS) ie the JV unit set up by MMHE and MISC to provide competitive floating solutions
- The idea is to maximise Enterprise Synergy, combining conversion and module fabrication expertise to maximise participation in the floater supercycle
- Two projects secured under FPS: Floating Production Unit (FPU) Kelidang (Brunei) and Floating Storage Offloading (FSO) Kutubu (Papua New Guinea)
- We understand the marine segment's operating profit includes conversions from FSO Kutubu, FSO Dulang and FPU Kelidang,
- The maiden quarterly JV earnings of RM2m in 3Q26 appears to be driven by both Kelidang and Kutubu. In the "Note A18: Related Party Transactions (RPT)" of MMHE's 3Q26 accounts, only Kutubu was listed as a sole project.
- We understand that Kelidang had certain scopes awarded to MMHE and commenced in 2Q26 already. Perhaps, the scopes were not significant enough to warrant a classification as RPT
- In our Jul 26 update, we guess that FPS can take on up to three floater conversion projects, with the third candidate likely FPSO Limbayong/ Megah.

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	244	233	233
Deprec. & amort.	81	83	86	88
EBIT	116	161	148	145
Associate contributions	0	0	0	0
Net interest income/(expense)	(11)	(15)	(18)	(10)
Pre-tax profit	105	145	129	135
Tax	(2)	5	5	5
Minorities	0.0	0.0	0.0	0.0
Net profit	103	151	134	140
Net profit (adj.)	103	151	134	140

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	658	466	415
Other current assets	770	878	863	924
Total assets	3,133	3,529	3,426	3,423
ST debt	72	304	232	2545=
Other current liabilities	1,383	1,416	1,391	1,490
LT debt	187	169	68	148
Other LT liabilities	0	0	0	0
Shareholders' equity	1,618	1,618	1,618	1,618
Minority interest	1	1	1	1
Total liabilities & equity	3,133	3,529	3,426	3,423

Cash flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	173	162	214	269
Pre-tax profit	105	145	129	135
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)	(150)
Capex (growth)	(165)	(150)	(150)	(150)
Investments	0	0	0	0
Others	14	0	0	0
Financing	23	188	(257)	(126)
Dividend payments	0	0	(40)	(40)
Issues of shares	0	0	0	0
Proceeds from borrowings	33	250	30	30
Loan repayment	(10)	(18)	(202)	(116)
Others/interest paid	0	(44)	(44)	0
Net cash inflow (outflow)	44	200	(192)	(7)
Beginning cash & cash equivalent	458	458	658	466
Changes due to forex impact	33	0	0	0
Ending cash & cash equivalent	535	658	466	459

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	10.0	14.2	13.9	12.9
Pre-tax margin	5.3	8.5	7.7	7.5
Net margin	5.2	8.8	8.0	7.8
ROA	5.2	4.2	3.8	4.0
ROE	5.1	7.2	6.3	6.4
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	28.8	17.3	5.3
Debt to equity	17.4	28.8	17.3	5.3
Net debt/(cash) to equity	-	-	-)	-
Interest cover (x)	17.1	14.9	12.8	14.7

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