

## TH Heavy Engineering


RH MK / THHE.KL

### FLASH NOTE

➤ **Market Cap**  
**US\$262.7m**  
RM855.9m

➤ **Avg Daily Turnover**  
**US\$1.27m**  
RM4.04m

➤ **Free Float**  
**59.3%**  
1,241 m shares

Current **RM0.81**  
Target **RM1.48**   
Prev. Target **RM1.23**  
Up/Downside **82.4%**

#### STOCK RATING

**ADD**

HOLD

REDUCE

#### CIMB Analyst(s)



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#### Share price info

Share price perf. (%)	1M	3M	12M
Relative	0.1	-1.7	-7.5
Absolute	-1.2	-4.2	-3.6

Major shareholders	% held
Lembaga Tabung Haji	31.6
Tan Sri Quek Leng Chan	9.1

## Shoring up its finances

THHE's proposed rights issue, which is expected to raise RM450m and comes with a bonus issue, will undeniably be earnings dilutive but will strengthen its balance sheet and enable it to finance its yard expansion and FPSO venture. Next year, the yard capacity is expected to triple and fabrication of the FPSO modules will begin. We maintain our forecasts pending the announcement of the entitlement basis and issue price but raise our target price as we roll it forward. We now value the stock at a CY16 P/E of 14.8x (previously 16.4x), still at a 30% discount to the P/E of the O&G big caps. A growing order book and a successful FPSO venture are the potential re-rating catalysts. THHE remains an Add and our top pick among the O&G small caps.

### What Happened

Following a proposed placement of up to 10% (see our note dated 24 Sep), THHE today announced a proposed rights issue with a bonus issue. The entitlement basis and issue price for the rights issue have yet to be determined but the company has made these disclosures 1) the intended gross proceeds are RM450m, and 2) the issue price is expected to be at a discount of at least 15% to the theoretical ex-all price. The rights issue comes with a 1:5 bonus issue.

61% of the intended gross proceeds are earmarked for the yard expansion and FPSO venture while the balance is expected to be used for debt reduction (20%), working capital (18%) and expenses relating to the cash call (1%).

### What We Think

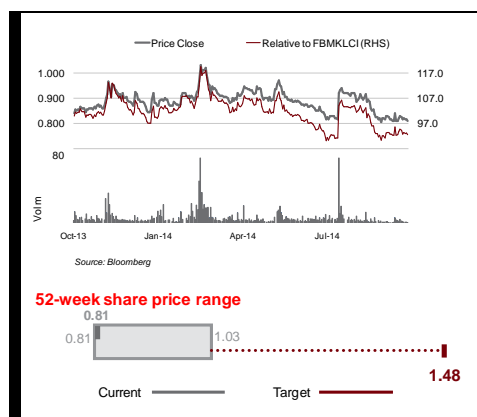
The cash call was not a surprise as we had highlighted a fundraising exercise in our 20 Jul initiation note. The yard expansion will take THHE's yard size from 235,000 sq m in FY13 to 360,000 sq m in FY15, with capacity rising from 10,000 MT p.a. in FY13 to 30,000MT p.a. in FY15 (Figure 1). The company aims to secure a sizeable fabrication contract by Dec to expand its order book of RM1.5bn at end-Aug (Figure 2). Meanwhile, the FPSO commercial production is expected to start in 2Q16 although the fabrication of the FPSO modules will commence in FY15.

Based on our estimates, the cash call could dilute our FY15-16 EPS by 32-36% and our target price by 46% but our Add rating would remain.

### What You Should Do

Take advantage of the recent share price weakness brought about by a loss-making 2Q to accumulate the stock, which offers long-term earnings visibility, thanks to the FPSO business that landed an 8+10 US\$372m contract in May. We understand that the company turned profitable in 3Q.

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#### Financial Summary

	Dec-12A	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Revenue (RMm)	190.4	259.9	244.2	758.4	856.9
Operating EBITDA (RMm)	34.9	0.2	23.7	134.6	182.0
Net Profit (RMm)	24.2	8.2	19.4	93.0	123.6
Core EPS (RM)	0.052	0.010	0.016	0.075	0.100
Core EPS Growth	0%	(82%)	63%	378%	33%
FD Core P/E (x)	15.5	106.1	60.9	12.7	9.6
DPS (RM)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	15	5,134	45	8	6
P/FCFE (x)	NA	NA	NA	NA	12.44
Net Gearing	49.0%	32.8%	29.2%	14.1%	3.2%
P/BV (x)	1.21	2.30	2.19	1.82	1.49
ROE		2.2%	4.3%	18.4%	20.2%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.52	1.04	1.66

SOURCE: CIMB, COMPANY REPORTS

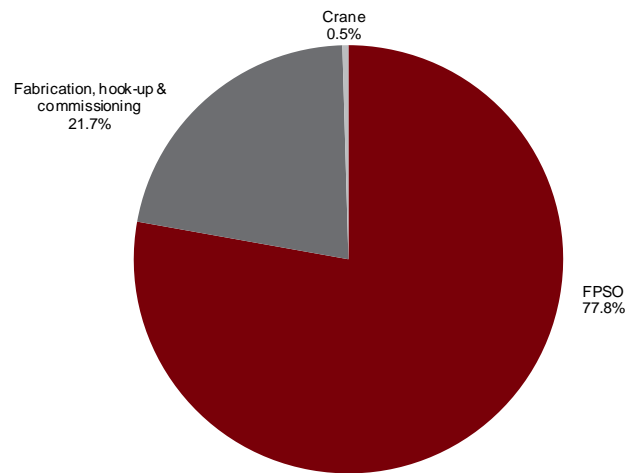
**Figure 1: Pulau Indah yard expansion**

	2013A	2014F	2015F
Yard size (sq m)	235,000	235,000 <sup>^</sup>	360,000
Yard capacity (MT p.a.)	10,000	20,000	30,000

<sup>^</sup> Same size as the year before but capacity is higher due to yard upgrading

SOURCES: CIMB, COMPANY

**Figure 2: Order book breakdown as at end-Aug**



SOURCES: CIMB, COMPANY

### Profit & Loss

(RMm)	Dec-13A	Dec-14F	Dec-15F	Dec-16F
<b>Total Net Revenues</b>	<b>259.9</b>	<b>244.2</b>	<b>758.4</b>	<b>856.9</b>
<b>Gross Profit</b>	<b>44.4</b>	<b>85.5</b>	<b>265.5</b>	<b>299.9</b>
<b>Operating EBITDA</b>	<b>0.2</b>	<b>23.7</b>	<b>134.6</b>	<b>182.0</b>
Depreciation And Amortisation	(8.9)	(18.8)	(30.3)	(34.3)
<b>Operating EBIT</b>	<b>(8.7)</b>	<b>4.9</b>	<b>104.2</b>	<b>147.8</b>
Financial Income/(Expense)	2.7	(2.4)	(4.0)	(6.7)
Pretax Income/(Loss) from Assoc.	5.0	20.0	20.0	20.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0
<b>Profit Before Tax (pre-EI)</b>	<b>(1.0)</b>	<b>22.5</b>	<b>120.2</b>	<b>161.1</b>
Exceptional Items				
<b>Pre-tax Profit</b>	<b>(1.0)</b>	<b>22.5</b>	<b>120.2</b>	<b>161.1</b>
Taxation	2.5	(1.1)	(6.0)	(8.1)
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>1.6</b>	<b>21.4</b>	<b>114.2</b>	<b>153.0</b>
Minority Interests	6.6	(1.9)	(21.2)	(29.4)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>8.2</b>	<b>19.4</b>	<b>93.0</b>	<b>123.6</b>
Recurring Net Profit	8.2	19.4	93.0	123.6
<b>Fully Diluted Recurring Net Profit</b>	<b>8.2</b>	<b>19.4</b>	<b>93.0</b>	<b>123.6</b>

### Balance Sheet

(RMm)	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Total Cash And Equivalents	86.8	95.5	105.1	115.6
Total Debtors	211.4	232.6	255.8	281.4
Inventories	5.7	5.0	5.0	5.0
Total Other Current Assets	2.2	2.0	2.0	2.0
<b>Total Current Assets</b>	<b>306.1</b>	<b>335.1</b>	<b>367.9</b>	<b>404.0</b>
Fixed Assets	492.6	810.4	851.5	897.1
Total Investments	91.9	85.9	5.0	5.0
Intangible Assets	0.0	0.0	0.0	0.0
Total Other Non-Current Assets	0.0	0.0	0.0	0.0
<b>Total Non-current Assets</b>	<b>584.5</b>	<b>896.3</b>	<b>856.5</b>	<b>902.1</b>
Short-term Debt	28.6	28.3	27.1	27.4
Current Portion of Long-Term Debt				
Total Creditors	154.9	539.3	464.2	461.4
Other Current Liabilities	2.0	2.0	2.0	2.0
<b>Total Current Liabilities</b>	<b>185.5</b>	<b>569.6</b>	<b>493.3</b>	<b>490.8</b>
Total Long-term Debt	217.9	201.4	158.4	110.9
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0.1	0.1	0.1	0.1
<b>Total Non-current Liabilities</b>	<b>218.0</b>	<b>201.5</b>	<b>158.5</b>	<b>111.0</b>
Total Provisions	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>403.5</b>	<b>771.1</b>	<b>651.9</b>	<b>601.8</b>
Shareholders' Equity	436.0	458.3	551.3	674.9
Minority Interests	51.1	1.9	21.2	29.4
<b>Total Equity</b>	<b>487.2</b>	<b>460.2</b>	<b>572.5</b>	<b>704.3</b>

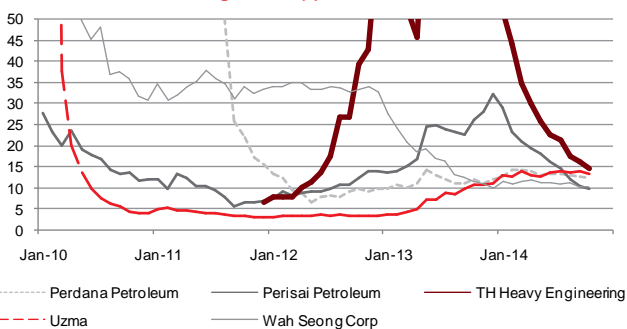
### Cash Flow

(RMm)	Dec-13A	Dec-14F	Dec-15F	Dec-16F
EBITDA	0.2	23.7	134.6	182.0
Cash Flow from Inv. & Assoc.				
Change in Working Capital	(36.8)	(39.8)	(43.3)	(47.1)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow				
Net Interest (Paid)/Received	(5.4)	(2.4)	(4.0)	(6.7)
Tax Paid	(0.3)	(1.1)	(6.0)	(8.1)
<b>Cashflow From Operations</b>	<b>(42.4)</b>	<b>(19.7)</b>	<b>81.2</b>	<b>120.1</b>
Capex	(64.8)	(475.0)	(475.0)	(10.0)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	(77.9)	(20.0)	(20.0)	(20.0)
Other Investing Cashflow	103.1	25.0	25.0	25.0
<b>Cash Flow From Investing</b>	<b>(39.7)</b>	<b>(470.0)</b>	<b>(470.0)</b>	<b>(5.0)</b>
Debt Raised/(repaid)	(201.3)	(20.0)	(20.0)	(20.0)
Proceeds From Issue Of Shares	41.8	0.0	0.0	0.0
Shares Repurchased				
Dividends Paid				
Preferred Dividends				
Other Financing Cashflow	302.0	50.0	50.0	50.0
<b>Cash Flow From Financing</b>	<b>142.5</b>	<b>30.0</b>	<b>30.0</b>	<b>30.0</b>
Total Cash Generated	60.4	(459.7)	(358.8)	145.1
<b>Free Cashflow To Equity</b>	<b>(283.4)</b>	<b>(509.7)</b>	<b>(408.8)</b>	<b>95.1</b>
<b>Free Cashflow To Firm</b>	<b>(75.5)</b>	<b>(481.3)</b>	<b>(378.8)</b>	<b>127.8</b>

### Key Ratios

	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Revenue Growth	37%	(6%)	211%	13%
Operating EBITDA Growth	(100%)	14740%	469%	35%
Operating EBITDA Margin	0.1%	9.7%	17.7%	21.2%
Net Cash Per Share (RM)	(0.13)	(0.11)	(0.06)	(0.02)
BVPS (RM)	0.35	0.37	0.44	0.54
Gross Interest Cover	(1.31)	0.58	10.42	11.63
Effective Tax Rate	0.0%	5.0%	5.0%	5.0%
Net Dividend Payout Ratio	NA	NA	NA	NA
Accounts Receivables Days	226.5	331.8	117.5	114.7
Inventory Days	5.54	12.32	3.70	3.29
Accounts Payables Days	218.2	798.1	371.5	304.1
ROIC (%)	(1.5%)	0.7%	15.4%	17.1%
ROCE (%)	(1.4%)	0.7%	14.4%	18.5%

### 12-month Forward Rolling FD P/E (x)



### Key Drivers

	Dec-13A	Dec-14F	Dec-15F	Dec-16F
Outstanding Orderbook (RMm)	400	2,000	2,500	3,000
Order Book Wins (RMm)	N/A	N/A	N/A	N/A
Order Book Depletion (RMm)	N/A	N/A	N/A	N/A
Average Day Rate Per Ship (US\$)	-	-	-	150,000.0
No. Of Ships (unit)	-	1	1	1
Average Utilisation Rate (%)	0.0%	0.0%	0.0%	50.0%

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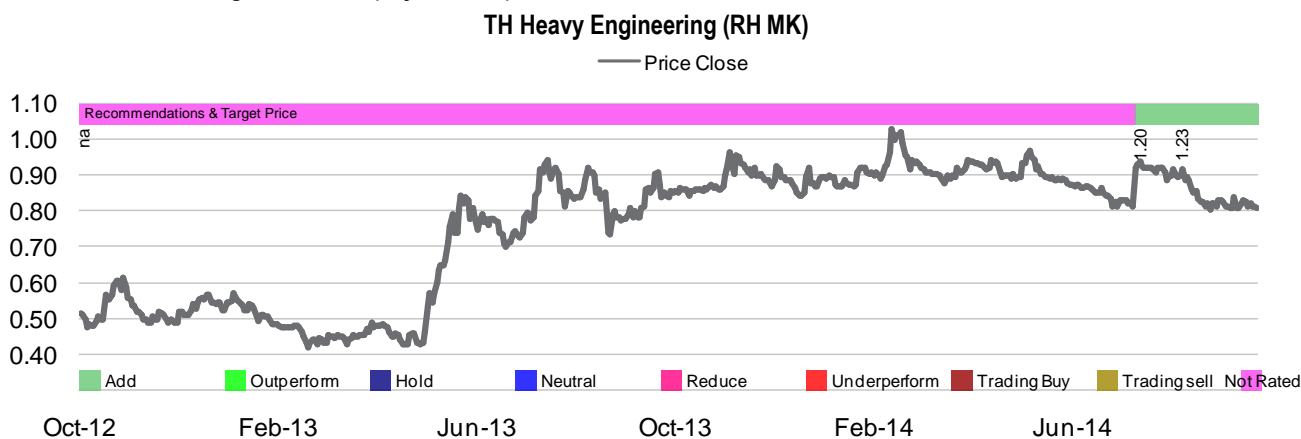
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2014		
1467 companies under coverage for quarter ended on 30 June 2014		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.9%	7.2%
Hold	27.9%	3.9%
Reduce	13.2%	1.0%

**Spitzer Chart for stock being researched ( 2 year data )**



**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2013.**

**AAV** - Good, **ADVANC** - Excellent, **AMATA** - Very Good, **ANAN** - Good, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent, **BAY** - Excellent, **BBL** - Excellent, **BCH** - Good, **BCP** - Excellent, **BEAUTY** - Good, **BEC** - Very Good, **BECL** - Excellent, **BGH** - not available, **BH** - Very Good, **BIGC** - Very Good, **BJC** - Very Good, **BMCL** - Very Good, **BTS** - Excellent, **CCET** - Very Good, **CENTEL** - Very Good, **CHG** - not available, **CK** - Excellent, **CPALL** - Very Good, **CPF** - Excellent, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Excellent, **EA** - Good, **EGCO** - Excellent, **GFPT** - Very Good, **GLOBAL** - Good, **GLOW** - Very Good, **GRAMMY** - Excellent, **HANA** - Excellent, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **ICHI** - not available, **INTUCH** - Excellent, **ITD** - Very Good, **IVL** - Excellent, **JAS** - Very Good, **KAMART** - not available, **KBANK** - Excellent, **KCE** - Very Good, **KKP** - Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **M** - not available, **MAJOR** - Very Good, **MAKRO** - Very Good, **MC** - not available, **MCOT** - Excellent, **MEGA** - not available, **MINT** - Excellent, **OFM** - Very Good, **PS** - Excellent, **PSL** - Excellent, **PTT** - Excellent, **PTTGC** - Excellent, **PTTEP** - Excellent, **QH** - Excellent, **RATCH** - Excellent, **ROBINS** - Excellent, **RS** - Excellent, **SAMART** - Excellent, **SAPPE** - not available, **SC** - Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIM** - Excellent, **SIRI** - Very Good, **SPALI** - Excellent, **STA** - Good, **STEC** - Very Good, **SVI** - Excellent, **TASCO** - Very Good, **TCAP** - Excellent, **THAI** - Excellent, **THCOM** - Excellent, **TICON** - Very Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Excellent, **TTW** - Excellent, **TUF** - Very Good, **VGI** - Excellent, **WORK** - Good.

## CIMB Recommendation Framework

### Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

*\*Prior to December 2013 CIMB recommendation framework for stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange were based on a stock's total return relative to the relevant benchmarks total return. Outperform: expected to exceed by 5% or more over the next 12 months. Neutral: expected to be within +/-5% over the next 12 months. Underperform: expected to be below by 5% or more over the next 12 months. Trading Buy: expected to exceed by 3% or more over the next 3 months. Trading Sell: expected to be below by 3% or more over the next 3 months. For stocks listed on Korea Exchange, Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Outperform: Expected positive total returns of 10% or more over the next 12 months. Neutral: Expected total returns of between -10% and +10% over the next 12 months. Underperform: Expected negative total returns of 10% or more over the next 12 months. Trading Buy: Expected positive total returns of 10% or more over the next 3 months. Trading Sell: Expected negative total returns of 10% or more over the next 3 months.*