29 Jun 2020

# Hold

**Price**
RM0.47

Target Price
RM0.56

Bloomberg code
MRC MK

Equity | Malaysia | Property

Flashnote

# MRCB

## Slower 2Q expected

**Financial Highlights**

| FYE Dec | 2018 | 2019 | 2020F | 2021F | 2022F |
|---|---|---|---|---|---|
| Revenue (RMm) | 1,870.7 | 1,319.4 | 1,505.9 | 1,964.5 | 2,039.9 |
| Core net profit (RMm) | 101.2 | 31.7 | 14.1 | 26.3 | 65.2 |
| Core EPS (Sen) | 2.4 | 1.0 | 0.6 | 0.9 | 1.7 |
| EPS growth (%) | (10.1) | (59.0) | (36.2) | 39.4 | 89.9 |
| DPS (Sen) | 1.8 | 1.0 | 0.2 | 0.3 | 1.0 |
| Core PE (x) | 34.0 | 81.9 | 73.9 | 53.0 | 27.9 |
| Div yield (%) | 2.1 | 1.2 | 0.3 | 0.6 | 2.1 |
| ROE (%) | 2.1 | 0.5 | 0.3 | 0.6 | 1.4 |
| Net Gearing (%) | 19.5 | 27.4 | 26.3 | 26.1 | 24.3 |
| PBV(x) | 0.8 | 0.7 | 0.4 | 0.4 | 0.4 |

Source: Company, KAF

- We maintain our Hold rating on MRCB with an unchanged TP of RM0.56 (25% discount to NAV).
- MRCB reported stronger a much strong 1Q20, with core earnings gaining 159% QoQ at RM16m despite revenues dropping by 10%.
- The better QoQ performance was largely driven by higher revenue recognition from Sentral Suites (34% completed vs 45% target by end-FY20) and 1080 Carnegie, which has been completed and is currently undergoing the settlement process.
- As of end-May, the group manage to complete the settlement of 80 units for the latter (1Q20: 59 units).
- On the other hand, associate contributions from LRT 3 remained tepid at RM1.2m vs RM0.5m a year earlier. The project is still facing delays and is now about 29% completed.
- Although its 1Q results appear to be above expectations – already surpassing our FY21F core profit forecast of RM14m (35% of consensus estimates), we maintain our estimates for now.
- This is premised on our expectations of a much weaker 2Q20, due to the government's mandatory control order (MCO) which has significantly impacted its construction and property operations.
- To be sure, we estimate that the group's revenue only made up c.15% of 1Q20's topline of RM425m.
- Despite an easing of lockdown restrictions, management's immediate concern is with lower productivity levels and restriction on foreign labour, which may last for more than 6 months, thereby disrupting the progress and revenue recognition of its projects.
- Management has also lowered its property sales target for FY20F to RM250-300m. Due to the soft property market and macro concerns over the Covid-19 pandemic, it will only showcase two new launches this year, i.e. at Kwasa Damansara and Sri Iskandar.
- The maiden launch of Kwasa Damansara is now postponed to 4Q20 vs the initial plan of 3Q20. It comprises 660 units of condominiums, with built ups between 500-700 sq ft (indicative pricing: RM625 psf). Management also shared that it has commenced marketing initiatives to employees of a key tenant.
- Its launch pipeline next year will likely include a new tower at PJ Sentral (facing some delays in obtaining approval), Suria Subang, and a small plot of about 16k sq ft in KL Sentral (next to Menara Shell) that is earmarked for co-living or SOHO-type use.
- On the contrary, management highlighted that it is facing some difficulties in crystallizing sales for Tria @ 9 Seputeh (take-up: 25%), as the balance of units are priced above RM1mil. To encourage potential buyers, the group is looking at options to revise its price

- As for its RM5b Sukuk program, management outlined that the perpetual debt papers will first be used to retire existing debts. The first tranche, with an issue size of RM600m, will likely be out next month (tenure: 5-7 years tenure @ 4.3%).
- On the KL Sports City project, the master plan has already been firmed up. The next step will be to secure the necessary regulatory approvals, including the development order (DO).
- That being said, management reiterated that they are not in any rush to kick start KL Sports City, for which and any construction works will only start next year, at the earliest. Thus far, the group has only commenced some site clearing works.

**Exhibit 1: Financial results**

| YE 31 Dec (RM m) | 1Q19 | 1Q20 | % YoY | 4Q19 | 1Q20 | % QoQ |
|---|---|---|---|---|---|---|
| **Turnover** | **234.1** | **425.8** | ***81.9*** | **471.6** | **425.75** | ***(9.7)*** |
| | | | | | | |
| **EBIT** | **13.8** | **32.4** | ***134.9*** | **21.0** | **32.4** | ***54.2*** |
| Interest Expense | (12.4) | (12.6) | | (7.0) | (12.6) | |
| Interest Income | 5.1 | 3.5 | | 5.8 | 3.5 | |
| Pre-Exceptionals Profit | 6.5 | 23.3 | | 19.8 | 23.3 | |
| Exceptionals | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Pre-Associates/JV Profit | 6.5 | 23.3 | | 19.8 | 23.3 | |
| Associates/JVs | 1.9 | 3.6 | | 0.7 | 3.6 | |
| **Pretax Profit** | **8.4** | **26.9** | ***219.3*** | **20.4** | **26.9** | ***31.5*** |
| Taxation | (6.9) | (11.2) | | (13.1) | (11.2) | |
| Minority Interest/disct. ops | 2.6 | 0.0 | | (1.3) | 0.0 | |
| **Net Profit** | **4.1** | **15.6** | ***278.4*** | **6.0** | **15.6** | ***159.5*** |
| **Core Net Profit** | **4.1** | **15.6** | ***278.4*** | **6.0** | **15.6** | ***159.5*** |
| | | | | | | |
| Core EPS (sen) | 0.1 | 0.4 | | 0.1 | 0.4 | |
| Gross DPS (sen) | 0.0 | 0.0 | | 1.0 | 0.0 | |
| BV/share (RM) | 1.10 | 1.09 | | 1.09 | 1.09 | |
| | | | | | | |
| EBIT Margin (%) | 5.9 | 7.6 | | 4.4 | 7.6 | |
| Pretax Margin (%) | 3.6 | 6.3 | | 4.3 | 6.3 | |
| Effective Tax (%) | 81.5 | 41.8 | | 64.2 | 41.8 | |
| | | | | | | |
| **Segmental Breakdown (RM m)** | | | | | | |
| **Turnover** | | | | | | |
| Construction | 132.7 | 174.8 | *31.7* | 258.7 | 174.8 | *(32.4)* |
| Property development & investment | 85.1 | 236.4 | *177.8* | 195.3 | 236.4 | *21.0* |
| Infrastructure & concession | 0.0 | 0.0 | *n/m* | 0.0 | 0.0 | *n/m* |
| Facilities management & parking | 13.1 | 12.7 | *(3.7)* | 14.3 | 12.7 | *(11.3)* |
| Investment holding & Others | 3.1 | 1.9 | *(39.6)* | 3.4 | 1.9 | *(45.1)* |
| **Total** | **234.1** | **425.8** | ***81.9*** | **471.6** | **425.8** | ***(9.7)*** |
| | | | | | | |
| **EBIT** | | | | | | |
| Construction | 16.7 | 12.6 | *(24.8)* | 19.8 | 12.6 | *(36.5)* |
| Property development & investment | 3.0 | 20.6 | *n/m* | 7.0 | 20.6 | *194.8* |
| Infrastructure & concession | 0.0 | 0.0 | *n/m* | 0.0 | 0.0 | *n/m* |
| Facilities management & parking | (0.4) | 2.4 | *n/m* | 2.3 | 2.4 | *2.7* |
| Investment holding & Others | 11.1 | 9.4 | *(15.5)* | 11.7 | 9.4 | *(19.4)* |
| **Total** | **13.8** | **32.4** | ***134.9*** | **21.0** | **32.4** | ***54.2*** |
| | | | | | | |
| **EBIT margin (%)** | | | | | | |
| Construction | 12.6 | 7.2 | | 7.6 | 7.2 | |
| Property development & investment | 3.5 | 8.7 | | 3.6 | 8.7 | |
| Infrastructure & concession | n/m | n/m | | n/m | n/m | |
| Facilities management & parking | (2.8) | 18.8 | | 16.3 | 18.8 | |
| Investment holding & Others | n/m | n/m | | n/m | n/m | |
| **Total** | **5.9** | **7.6** | | **4.4** | **7.6** | |

Source: Company, KAF

# Disclosure Appendix

## Recommendation structure

**Absolute performance, long term (fundamental) recommendation**: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

**Performance parameters and horizon:** Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

**Market or sector view:** This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

**Target price:** The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

## Disclaimer



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