



AmInvestment Bank

Company report

MRCB

(MRC MK EQUITY, MYRS.KL)

28 Aug 2020

Earnings heavily impacted by Covid-19 pandemic

HOLD

(Maintained)

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03-2036 2025

Rationale for report: Company results/update

Price RM0.52
Fair Value RM0.47
52-week High/Low RM0.82/RM0.28

Key Changes

Fair value [↑](#)
EPS [↔](#)

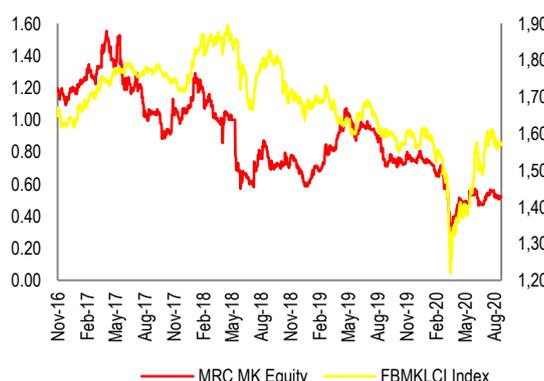
YE to Dec (RM mil)	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	1,319.4	1,445.1	1,658.0	1,710.6
Core net profit (RM mil)	23.7	41.7	59.3	74.8
FD Core EPS (sen)	0.5	0.9	1.3	1.7
FD Core EPS growth (%)	(76.2)	75.8	42.0	26.3
Consensus Net Profit (RM mil)	-	42.9	65.5	82.7
DPS (sen)	1.7	0.5	0.7	0.8
PE (x)	96.3	54.8	38.6	30.5
EV/EBITDA (x)	23.4	25.0	21.7	19.9
Div yield (%)	3.4	1.0	1.3	1.5
ROE (%)	0.5	0.9	1.2	1.5
Net Gearing (%)	27.4%	40.2%	43.8%	43.9%

Stock and Financial Data

Shares Outstanding (million)	4,412.0
Market Cap (RM mil)	2,294.3
Book Value (RM/share)	1.09
P/BV (x)	0.5
ROE (%)	0.7
Net Gearing (%)	27.4%

Major Shareholders	EPF	35.9%
	Gapurna Sdn Bhd	15.5%
	LTH	5.9%
Free Float	42.7%	
Avg Daily Value (RM mil)	3.73	

Price performance	3mth	6mth	12mth
Absolute (%)	(1.9)	(19.0)	(29.7)
Relative (%)	(5.1)	(10.1)	(29.3)



Investment Highlights

- We maintain HOLD on MRCB with a higher fair value of RM0.47 (vs. RM0.45 previously) as we roll over our valuation to FY21 (Exhibit 2). No changes to our FY20–FY22 earnings forecasts.
- MRCB registered a 1HFY20 net loss of RM204mil. Excluding the exceptional items such as impairment of contract assets, trade and other receivables amounting RM202.5mil, MRCB posted a RM1.5mil core net loss vs. a RM15mil YoY net profit. It decided on the impairments as it believes there is a high possibility the receivables from some of the completed construction projects will not be recovered as a result of the pandemic. Revenue rose 24.8% YoY mainly due to higher contribution from the property development & investment division whereby its revenue recognition came in earlier than expected.
- The property development & investment division's 1HFY20 revenue surged by 115% YoY to RM336.4mil contributed by: (i) the 1060 Carnegie project in Melbourne which has been completed in December 2019; (ii) Suites in KL Sentral; and (iii) TRIA 9 Seputeh. However, the division's operating profit fell by 43% to RM27mil mainly due to cost incurred during the MCO period while construction completely halted. On a positive note, MRCB bagged new sales of RM86mil as of 1HFY20 while unbilled sales of RM1.3bil shall provide better earnings visibility in the medium term.
- The engineering, construction & environment division's 1HFY20 revenue fell by 15% YoY to RM231mil but EBIT was 15% higher at RM2mil. The stronger EBIT was mainly contributed by a higher share of JV earnings. MRCB George Kent Sdn Bhd's LRT3 project contributed a minimal PAT of RM1.4mil on a deferment of progress billings. The engineering, construction & environment division has open tenders worth RM2.5bil while its remaining order book stands at RM20.7bil.
- The LRT3 project, which is currently 33% completed, should see a stronger recognition in 2H2020, albeit at a slower pace of work due to the implementation of stricter standard operating procedures to prevent the spread of Covid-19. Management indicated it should achieve 40% by the end of FY20.
- Despite a weak 1HFY20, we make no changes to our FY20–FY22 net earnings forecasts as we expect stronger recognitions in 2HFY20 and beyond. We believe the long-term outlook for MRCB remains stable premised on its strong property unbilled sales of RM1.3bil and a robust outstanding order book of RM20.7bil. As there is little upside potential, we maintain our HOLD recommendation on MRCB.

EXHIBIT 1: EARNINGS SUMMARY

YE to Dec (RM mil)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ %	YoY %	1HFY19	1HFY20	YTD %
Revenue	241.0	371.7	472.6	425.8	167.2	-60.7%	-30.6%	475.0	592.9	24.8%
Operating costs	(203.3)	(330.9)	(429.7)	(375.5)	(162.3)	-56.8%	-20.2%	(405.0)	(537.9)	32.8%
EBIT	21.1	25.3	26.7	35.9	(7.7)	-121.5%	-136.5%	40.0	27.3	-31.8%
Net finance expenses	(12.6)	(13.7)	(7.0)	(12.6)	(13.1)	4.4%	4.7%	(25.0)	(25.7)	3.1%
Associate contributions	1.3	2.7	0.7	3.6	2.2	-37.9%	74.5%	3.2	5.8	80.5%
Profit before tax	9.8	14.3	20.4	26.9	(222.0)	-926.4%	-2359.8%	18.2	(195.2)	-1169.9%
Taxation	(2.2)	(12.1)	(13.1)	(11.2)	2.6	-122.9%	-218.2%	(9.0)	(8.7)	-4.1%
PATMI	11.1	2.5	6.0	15.7	(219.7)	-1499.2%	-2086.6%	15.2	(204.0)	-1442.6%
Adjustments	(0.1)	(0.2)	0.5	(0.9)	203.4	-22876.4%	-278720.5%	(0.2)	202.5	-89307.0%
Core PATMI	11.0	2.3	6.5	14.8	(16.3)	-209.9%	-248.1%	15.0	(1.5)	-109.8%
EPS (sen)	0.2	0.1	0.1	0.3	(0.4)	-209.9%	-248.1%	0.3	(0.0)	-109.8%
EBIT margin (%)	8.8%	6.8%	5.7%	8.4%	-4.6%			8.4%	4.6%	
Effective tax rate (%)	22.1%	84.8%	64.2%	41.8%	1.2%			49.5%	-4.4%	
Core PATMI margin (%)	4.6%	0.6%	1.4%	3.5%	-9.7%			3.2%	-0.2%	

Source: Company/ AmlInvestment Bank Bhd

EXHIBIT 2: SOP VALUATION

DEVELOPMENT PROPERTIES	Outstanding GDV (RMmil)	NPV @12% (RMmil)	Stake	% of SOP
KL Sentral: Lot F	2,993.0	48.5	74.0%	
PJ Sentral Garden City	2,619.0	57.3	100.0%	
Penang Sentral	2,865.0	62.7	100.0%	
Cyberjaya City Centre	5,350.0	82.0	70.0%	
Kwasa Sentral	10,555.0	161.8	70.0%	
Pulai Land, Johor	770.0	16.9	100.0%	
9 Seputeh	2,680.0	58.7	100.0%	
Lot 349, Sentral Suites	1,529.0	33.5	100.0%	
Carnegie, Melbourne	305.0	6.7	100.0%	
Bukit Rahman Putra	547.0	12.0	100.0%	
Bandar Sri Iskandar (Phase 2C, 2D & 3)	766.0	11.7	70.0%	
Unbilled sales		54.6	100.0%	
Bukit Jalil Sentral	20,700.0	104.8	20.0%	
Landbank surplus				
Suria Subang		20.9	100.0%	
Selbourne 2 Shah Alam		15.5	100.0%	
Metro Spectacular Land, Jalan Putra		80.5	51.0%	
Development properties total NPV		828.0	-	
Property (60% discount to NPV)		331.2		9.8%
Investment properties @ 30% discount		931.9	100.0%	27.5%
Construction (9x FY21 earnings -excluding LRT3)		270.6	100.0%	8.0%
LRT3 (NPV, WACC 13%)		206.1	50.0%	6.1%
MRCB Quill REIT (market value)		236.1	27.9%	7.0%
Investments in JV @ 10% discount		268.0	-	7.9%
Proceeds from sale of Bukit Jalil Sentral land		1,140.8	80.0%	33.7%
Total SOP		3,384.8		
Net cash/(debt)		(1,311.2)		
Fair value		2,073.6		
Share base (mil shares)		4,399.9		
Fair value per share		0.47		

Source: AmlInvestment Bank Bhd

EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	1,870.7	1,319.4	1,445.1	1,658.0	1,710.6
EBITDA	198.3	153.7	168.8	203.0	222.2
Depreciation/Amortisation	(50.9)	(61.7)	(65.2)	(71.1)	(72.5)
Operating income (EBIT)	147.3	92.0	103.6	131.9	149.7
Other income & associates	25.5	6.6	6.7	6.8	7.0
Net interest	(44.0)	(45.6)	(49.9)	(57.3)	(59.1)
Exceptional items	1.4	0.0	0.0	0.0	0.0
Pretax profit	148.7	53.0	60.4	81.4	97.6
Taxation	(46.1)	(34.3)	(24.1)	(28.5)	(29.3)
Minority interests	(1.5)	5.0	5.5	6.3	6.5
Net profit	101.2	23.7	41.7	59.3	74.8
Core net profit	99.8	23.7	41.7	59.3	74.8
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
PPE	665.4	600.4	630.5	662.0	695.1
Intangible assets	226.7	224.3	224.3	224.3	224.3
Other long-term assets	3,977.4	4,109.2	4,180.2	4,254.7	4,332.9
Total non-current assets	4,869.4	4,933.9	5,034.9	5,140.9	5,252.3
Cash & equivalent	551.6	516.9	721.7	726.0	731.9
Inventories	1,043.7	963.2	855.7	1,030.7	1,025.2
Trade receivables	1,733.8	873.1	1,147.8	1,316.9	1,283.1
Other current assets	149.5	975.2	944.8	974.5	986.8
Total current assets	3,478.7	3,328.4	3,670.0	4,048.1	4,027.0
Trade payables	1,364.2	947.9	835.0	1,005.7	1,000.4
Short-term borrowings	729.4	824.8	721.7	726.0	731.9
Other current liabilities	15.4	98.6	99.0	99.7	99.9
Total current liabilities	2,109.0	1,871.3	1,655.7	1,831.4	1,832.2
Long-term borrowings	769.9	1,003.3	1,933.0	2,119.0	2,144.2
Other long-term liabilities	570.9	806.9	512.7	601.4	624.7
Total long-term liabilities	1,340.8	1,810.2	2,445.7	2,720.4	2,768.9
Shareholders' funds	4,832.4	4,791.6	4,811.4	4,839.9	4,879.6
Minority interests	68.0	31.9	34.9	40.1	41.4
BV/share (RM)	1.10	1.09	1.09	1.10	1.11
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	148.7	53.0	60.4	81.4	97.6
Depreciation/Amortisation	50.9	61.7	65.2	71.1	72.5
Net change in working capital	2,182.4	(208.8)	(279.8)	(172.7)	34.1
Others	(1,201.7)	(251.3)	(128.6)	(29.1)	(82.9)
Cash flow from operations	1,180.5	(345.4)	(282.9)	(49.2)	121.3
Capital expenditure	0.0	0.0	(30.0)	(31.5)	(33.1)
Net investments & sale of fixed assets	0.0	0.0	(71.0)	(74.5)	(78.3)
Others	1,040.7	158.0	0.0	0.0	0.0
Cash flow from investing	1,040.7	158.0	(101.0)	(106.1)	(111.4)
Debt raised/(repaid)	(835.8)	1,139.9	826.6	190.3	31.1
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(106.2)	(108.5)	(22.0)	(30.7)	(35.1)
Others	(1,253.5)	(1,013.0)	0.0	0.0	0.0
Cash flow from financing	(2,195.5)	18.5	804.6	159.6	(4.0)
Net cash flow	25.7	(168.9)	420.8	4.3	6.0
Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	464.0	469.8	300.9	721.7	726.0
Net cash/(debt) c/f	489.7	300.9	721.7	726.0	731.9
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	(29.2)	(29.5)	9.5	14.7	3.2
EBITDA growth (%)	(25.8)	(22.5)	9.8	20.2	9.5
Pretax margin (%)	8.0	4.0	4.2	4.9	5.7
Net profit margin (%)	5.4	1.8	2.9	3.6	4.4
Interest cover (x)	3.3	2.0	2.1	2.3	2.5
Effective tax rate (%)	31.0	64.7	40.0	35.0	30.0
Dividend payout (%)	75.9	323.6	52.6	51.8	46.9
Receivable turnover (days)	338.3	241.5	289.9	289.9	273.8
Inventory turnover (days)	188.2	277.6	229.7	207.6	219.3
Payable turnover (days)	259.5	319.8	225.2	202.6	214.0

Source: AmlInvestment Bank Bhd estimates

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