

27 Aug 2020

Hold

Price
RM0.52

Target Price
RM0.56

Bloomberg code
MRC MK

MRCB

Core RM23m loss in 2Q

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)	(58.8)	(36.4)	39.4	89.9
DPS (Sen)	1.8	1.0	0.2	0.3	1.0
Core PE (x)	34.0	81.9	81.7	58.6	30.9
Div yield (%)	2.1	1.2	0.3	0.6	1.9
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	0.5	0.5	0.5

Source: Company, KAF

- We maintain our Hold rating on MRCB with an unchanged TP of RM0.56 (25% discount to NAV).
- MRCB reported 2Q20 core losses of RM23m against 61% revenue shrinkage QoQ. This brought 1H core losses to RM7m against core profits of RM23m a year earlier.
- Nevertheless, we keep our FY20F core net profit forecast of RM14m on expectations of a gradual pick-up in 2H20, as lockdown restrictions begin to ease.
- The 25% YoY jump in topline was largely attributable to maiden contributions from the completed 1080 Carnegie development in Melbourne. During the period, the group booked in profits from 79 units. Other key development projects that contributed to topline growth include:
 - Sentral Suites (34% completed; target – 45% by end-2020)
 - TRIA @ 9 Seputeh (27% completed; target – 40% by end-2020).
- The increased property turnover offset an 18% YoY decline in construction revenues, which was impacted by halt in project work at the height of Covid-19.
- At half time, new property sales stood at RM86m (unbilled sales: RM1.3b), and rose further to RM102m as of July. With bookings of ~RM160m, the group is confident of hitting its FY20F sales target of RM250m-RM300m.
- On the contrary, the group has been able to recognize penalties for the cancelled units (booked as other income).
- Overall, MRCB's unsold property inventory stood at RM533m. Bulk of it comes from 1080 Carnegie (RM136m), 9 Seputeh (RM158m – 51 units) and St. Regis (RM190m – 30 units left as of end-June). It is also working hard to sell more units involving Tria and Vivo Phase 1 at 9 Seputeh.
- While a total of 98 units of 1080 Carnegie have been sold to-date, 15 of these units have being subsequently cancelled, with another 24 more expected by year-end. Management has yet to start re-marketing efforts, as the property market in Melbourne is rather slow at the moment.
- As of 30 June, MRCB's active tenderbook was RM2.5b with outstanding orderbook at RM22b.
- On the other hand, the 50%-owned LRT 3 project only chalked up paltry profits of RM1.4m against RM1m a year earlier.
- We understand that the arbitration process to resolve a shareholder dispute at the LRT 3 turnkey level could yield some results by next month-end.

- Construction progress has reached 33% ahead of its 40% completion target by year-end. In any case, While profit recognition should pick-up in 2H, albeit at a slower pace due to stricter SOP's under Covid-19 guidelines.
- During the quarter, the group made a one-off impairments totaling RM197m for certain completed projects after taking into account its recoverability during the pandemic.
- Excluding this one-off charge, we estimate its construction division to have eked out a small EBIT of RM1m in 1H20 (2Q20: RM11m loss).
- With FY20 shaping up to be a washout year, management foresees the group's profitability to rebound in FY21F-22F. Apart from LRT 3, the group is banking on increased contributions from two key developments; namely 1080 Carnegie and Sentral Suites to improve earnings visibility.

Exhibit 1: Financial results

YE 31 Dec (RM m)	1H19	1H20	% YoY	1Q20	2Q20	% QoQ
Turnover	475.0	592.9	24.8	425.8	167.2	(60.7)
EBIT	38.8	14.9	(61.5)	32.4	(17.4)	n/m
Interest Expense	(25.0)	(25.7)		(12.6)	(13.1)	
Interest Income	9.2	6.9		3.5	3.3	
Pre-Exceptionals Profit	23.0	(4.0)		23.3	(27.2)	
Exceptionals	(8.0)	(197.0)		0.0	(197.0)	
Pre-Associates/JV Profit	15.0	(201.0)		23.3	(224.2)	
Associates/JVs	3.2	5.8		3.6	2.2	
Pretax Profit	18.2	(195.2)	n/m	26.9	(222.0)	n/m
Taxation	(9.0)	(8.7)		(11.2)	2.6	
Minority Interest/disc. ops	6.0	(0.1)		0.0	(0.1)	
Net Profit	15.2	(204.0)	n/m	15.6	(219.6)	n/m
Core Net Profit	23.2	(7.0)	n/m	15.6	(22.6)	n/m
Core EPS (sen)	0.5	(0.2)		0.4	(0.5)	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	1.11	1.03		1.09	1.03	
EBIT Margin (%)	8.2	2.5		7.6	(10.4)	
Pretax Margin (%)	3.8	(32.9)		6.3	(132.8)	
Effective Tax (%)	49.5	(4.4)		41.8	1.2	
Segmental Breakdown (RM m)						
Turnover						
Construction	283.5	231.5	(18.3)	174.8	56.7	(67.6)
Property development & investment	156.4	336.4	115.2	236.4	100.0	(57.7)
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	25.9	22.2	(14.3)	12.7	9.6	(24.5)
Investment holding & Others	9.2	2.8	(69.2)	1.9	1.0	(46.6)
Total	475.0	592.9	24.8	425.8	167.2	(60.7)
EBIT						
Construction	1.5	(195.7)	n/m	12.6	(208.2)	n/m
Property development & investment	47.0	22.6	(51.9)	20.6	2.0	(90.1)
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	0.1	3.2	n/m	2.4	0.9	(63.9)
Investment holding & Others	(8.3)	(10.9)	n/m	9.4	(20.3)	n/m
Total	38.8	14.9	(61.5)	32.4	(17.4)	n/m
EBIT margin (%)						
Construction	0.5	(84.5)		7.2	n/m	
Property development & investment	30.0	6.7		8.7	2.0	
Infrastructure & concession	n/m	n/m		n/m	n/m	
Facilities management & parking	0.3	14.6		18.8	9.0	
Investment holding & Others	n/m	n/m		n/m	n/m	
Total	8.2	2.5		7.6	(10.4)	

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.

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