



Company report

MRCB

(MRC MK EQUITY, MYRS.KL)

24 Nov 2020

Revenue recognitions slowed down by Covid-19 pandemic

HOLD

(Maintained)

Thong Pak Leng

thong-pak-leng@ambankgroup.com

03-2036 2025

Rationale for report: Company results/update

Price	RM0.46
Fair Value	RM0.47
52-week High/Low	RM0.81/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	10.3	59.3	72.1
FD Core EPS (sen)	0.5	0.2	1.4	1.6
FD Core EPS growth (%)	(76.2)	(56.5)	474.3	21.6
Consensus Net Profit (RM mil)	-	40.0	63.7	82.7
DPS (sen)	1.7	0.2	0.7	0.8
PE (x)	85.2	195.7	34.1	28.0
EV/EBITDA (x)	24.8	39.4	21.2	20.3
Div yield (%)	3.8	0.4	1.5	1.7
ROE (%)	0.5	0.2	1.2	1.5
Net Gearing (%)	27.4%	36.0%	36.4%	39.1%

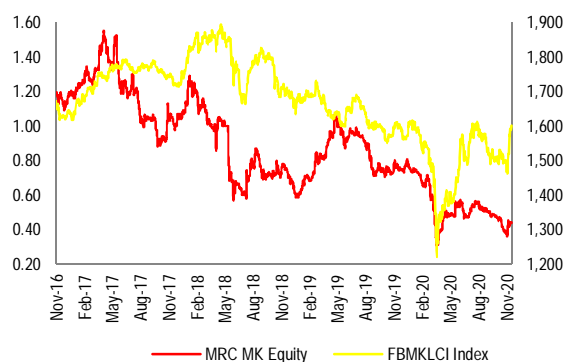
Stock and Financial Data

Shares Outstanding (million)	4,412.0
Market Cap (RM mil)	2,029.5
Book Value (RM/share)	1.03
P/BV (x)	0.4
ROE (%)	0.7
Net Gearing (%)	27.4%

Major Shareholders	EPF	35.9%
	Gapurma Sdn Bhd	15.5%
	LTH	5.9%

Free Float	42.7%
Avg Daily Value (RM mil)	3.23

Price performance	3mth	6mth	12mth
Absolute (%)	(12.4)	(13.2)	(37.0)
Relative (%)	9.1	(13.4)	(38.2)



Investment Highlights

- We maintain HOLD on MRCB with an unchanged fair value of RM0.47. We cut our FY20 net earnings by 75% to reflect the timing of revenue recognition in: (i) property development; and (ii) engineering, construction & environment divisions while retaining FY21F–FY22F numbers.
- MRCB registered a 9MFY20 net loss of RM203mil. Excluding the exceptional items of impairment of contract assets, trade and other receivables totalling RM202.5mil made in 2QFY20, MRCB posted a 9MFY20 core net loss of RM0.5mil vs. a net profit of RM17.4mil YoY. Revenue rose 5% YoY on the back of higher contribution from the property development & investment division while 9MFY20 RM0.5mil core net loss was due to higher operating costs. MRCB made a RM0.9mil net profit in 3QFY20.
- The property development & investment division's 9MFY20 revenue climbed 32% YoY to RM489.4mil but EBIT was 50% lower at RM34.3mil for the same period. Higher revenue was mainly contributed by the property development project in Melbourne, 1060 Carnegie, upon the progressive handover and financial settlement of purchased units following its completion in December 2019. Meanwhile, there have been some delays in settlements and a slowdown in sales as the Victoria state in Australia implemented much tougher movement restrictions starting 7 July 2020. On a positive note, MRCB bagged new sales of RM126mil as of 9MFY20 while unbilled sales of RM1.2bil provide better earnings visibility in the medium term.
- The engineering, construction & environment divisions reported its 9MFY20 revenue and core operating loss of RM363.2mil and RM1mil respectively. MRCB George Kent Sdn Bhd's LRT3 project contributed a minimal PAT of RM1.6mil on a deferment of progress billings. The division has open tenders worth RM2.7bil while its remaining order book stands at RM20.5bil.
- The LRT3 project, which is currently 39% completed, should see a stronger profit recognition pick-up in 2021, albeit at a slower pace of work due to stricter standard operating procedures to curb the spread of Covid-19. Management indicated it should achieve 40% by the end of FY20.
- Management noted that the key priority for FY20 is to enhance cash flow by monetising its inventory of unsold completed stock and focusing on its projects in hand. We believe the long-term outlook for MRCB remains stable premised on its strong property unbilled sales of RM1.2bil and a robust outstanding order book of RM20.5bil. As there is little upside potential, we maintain our HOLD recommendation on MRCB.

EXHIBIT 1: EARNINGS SUMMARY

YE to Dec (RM mil)	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ %	YoY %	9MFY19	9MFY20	YTD %
Revenue	371.7	472.6	425.8	167.2	297.6	78.0%	-19.9%	846.8	890.6	5.2%
Operating costs	(330.9)	(449.3)	(375.5)	(162.3)	(466.6)	187.4%	41.0%	(736.0)	(1,004.5)	36.5%
EBIT	25.3	7.1	35.9	(7.7)	(186.6)	2320.5%	-838.5%	65.3	(159.3)	-344.2%
Net finance expenses	(13.7)	12.6	(12.6)	(13.1)	(11.7)	-10.8%	-14.1%	(38.6)	(37.5)	-3.0%
Associate contributions	2.7	0.7	3.6	2.2	3.5	56.1%	30.2%	5.9	9.3	57.7%
Profit before tax	14.3	20.4	26.9	(222.0)	7.6	-103.4%	-46.6%	32.5	(187.5)	-676.7%
Taxation	(12.1)	(13.1)	(11.2)	2.6	(6.8)	-366.2%	-43.6%	(21.1)	(15.5)	-26.7%
PATMI	2.5	6.0	15.7	(219.7)	0.9	-100.4%	-63.5%	17.7	(203.0)	-1246.5%
Adjustments	(0.2)	0.5	(0.9)	203.4	0.0	-100.0%	-100.0%	(0.5)	202.5	-43461.9%
Core PATMI	2.3	6.5	14.8	(16.3)	0.9	-105.7%	-59.6%	17.2	(0.5)	-103.1%
EPS (sen)	0.1	0.1	0.3	(0.4)	0.0	-105.7%	-59.6%	0.4	(0.0)	-103.1%
EBIT margin (%)	6.8%	1.5%	8.4%	-4.6%	-62.7%			7.7%	-17.9%	
Effective tax rate (%)	84.8%	64.2%	41.8%	1.2%	89.6%			65.0%	-8.3%	
Core PATMI margin (%)	0.6%	1.4%	3.5%	-9.7%	0.3%			2.0%	-0.1%	

Source: Company/ AmInvestment Bank Bhd

EXHIBIT 2: SOP VALUATION

DEVELOPMENT PROPERTIES	Outstanding GDV (RMmil)	NPV @12% (RMmil)	Stake	% of SOP
KL Sentral: Lot F	2,993.0	46.0	74.0%	
PJ Sentral Garden City	2,619.0	54.4	100.0%	
Penang Sentral	2,865.0	59.6	100.0%	
Cyberjaya City Centre	5,350.0	77.9	70.0%	
Kwasa Sentral	10,555.0	153.6	70.0%	
Pulai Land, Johor	770.0	16.0	100.0%	
9 Seputeh	2,680.0	55.7	100.0%	
Lot 349, Sentral Suites	1,529.0	31.8	100.0%	
Carnegie, Melbourne	305.0	6.3	100.0%	
Bukit Rahman Putra	547.0	11.4	100.0%	
Bandar Sri Iskandar (Phase 2C, 2D & 3)	766.0	11.1	70.0%	
Unbilled sales		49.2	100.0%	
Bukit Jalil Sentral	20,700.0	95.8	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		785.7	-	
Property (60% discount to NPV)		314.3		9.3%
Investment properties @ 30% discount		931.9	100.0%	27.6%
Construction (9x FY21 earnings -excluding LRT3)		260.9	100.0%	7.7%
LRT 3 (NPV, WACC 13%)		206.1	50.0%	6.1%
MRCB Quill REIT (market value)		260.1	27.9%	7.7%
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		3,382.1		
Net cash/(debt)		(1,311.2)		
Fair value		2,070.9		
Share base (mil shares)		4,399.9		
Fair value per share		0.47		

Source: AmInvestment 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	177.7	134.1	95.0	178.4	193.0
Depreciation/Amortisation	(50.9)	(61.7)	(65.2)	(71.1)	(72.5)
Operating income (EBIT)	126.7	72.4	29.8	107.4	120.5
Other income & associates	25.5	6.6	6.7	6.8	7.0
Net interest	(23.4)	(26.0)	(28.5)	(32.7)	(33.7)
Exceptional items	1.4	0.0	0.0	0.0	0.0
Pretax profit	148.7	53.0	8.0	81.5	93.7
Taxation	(46.1)	(34.3)	(3.2)	(28.5)	(28.1)
Minority interests	(1.5)	5.0	5.5	6.3	6.5
Net profit	101.2	23.7	10.3	59.3	72.1
Core net profit	99.8	23.7	10.3	59.3	72.1
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	527.2	530.4	534.5
Inventories	1,043.7	963.2	909.6	936.4	988.7
Trade receivables	1,733.8	873.1	1,147.8	1,207.0	1,302.0
Other current assets	149.5	975.2	975.5	973.9	986.0
Total current assets	3,478.7	3,328.4	3,560.1	3,647.7	3,811.1
Trade payables	1,364.2	947.9	1,145.2	1,184.5	1,247.8
Short-term borrowings	729.4	824.8	719.0	723.3	728.8
Other current liabilities	15.4	98.6	99.0	99.7	99.9
Total current liabilities	2,109.0	1,871.3	1,963.2	2,007.4	2,076.4
Long-term borrowings	769.9	1,003.3	1,533.8	1,560.8	1,704.9
Other long-term liabilities	570.9	806.9	512.7	601.4	624.7
Total long-term liabilities	1,340.8	1,810.2	2,046.5	2,162.2	2,329.6
Shareholders' funds	4,832.4	4,791.6	4,793.1	4,821.7	4,858.7
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	8.0	81.5	93.7
Depreciation/Amortisation	50.9	61.7	65.2	71.1	72.5
Net change in working capital	2,182.4	(208.8)	(23.4)	(46.1)	(83.8)
Others	(1,201.7)	(251.3)	(138.3)	2.2	(81.5)
Cash flow from operations	1,180.5	(345.4)	(88.6)	108.6	0.9
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	424.7	31.3	149.6
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(106.2)	(108.5)	(8.8)	(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	415.9	0.6	114.5
Net cash flow	25.7	(168.9)	226.3	3.1	4.1
Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	464.0	469.8	300.9	527.2	530.4
Net cash/(debt) c/f	489.7	300.9	527.2	530.4	534.5
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	(33.7)	(29.5)	9.5	14.7	3.2
EBITDA growth (%)	(46.1)	(24.5)	(29.2)	87.8	8.1
Pretax margin (%)	8.0	4.0	0.6	4.9	5.5
Net profit margin (%)	5.4	1.8	0.7	3.6	4.2
Interest cover (x)	5.4	2.8	1.0	3.3	3.6
Effective tax rate (%)	31.0	64.7	40.0	35.0	30.0
Dividend payout (%)	75.9	323.6	85.0	51.8	48.7
Receivable turnover (days)	338.3	241.5	289.9	265.7	277.8
Inventory turnover (days)	188.2	277.6	236.5	203.2	205.4
Payable turnover (days)	259.5	319.8	264.3	256.4	259.5

Source: AmlInvestment Bank Bhd estimates

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment's views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment's affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment's prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.