Revenue jumps

MRCB's net profit fell 22% yoy to RM62m in 9M17, mainly due to lower one-off gains. Core net profit increased 24% yoy to RM57m in 9M17, mainly due to higher construction and property development progress billings. We lift our EPS forecasts by 3-15% in FY17-18E to reflect stronger construction earnings with improvement in profit margin. We lift our TP to RM1.02 from RM0.94, based on a 10% discount to RNAV. Maintain HOLD.

Above expectations

MRCB's revenue surged 50% qoq and 106% yoy to RM1.13bn in 3Q17 due to the one-off recognition of RM1.13bn revenue (accounting convention) for the National Stadium Complex (NSC). But we gather that no earnings were recognised for the NSC project as this forms the land cost for the 70-acre land near the NSC as payment from the government. But net profit fell 22% yoy to RM62m in 9M17 due to lower one-off gains of RM5.4m in 9M17 compared to RM44.4m in 9M16.

Surge in construction earnings

Construction operating profit jumped 366% yoy to RM46.5m in 9M17 due to higher progress billings and higher margin of 2.9% in 9M17 compared to 2.1% in 9M16. Its new projects with better margins such as LRT3 and Kwasa Damansara have not started to contribute significantly to earnings and profit margin depressed by the NSC project revenue, which did not contribute to earnings. Property earnings fell 51% yoy due to the absence of a RM44.4m gain from disposal of non-core assets and loss of rental income of RM6.7m from Menara Shell, which was disposed in Dec 2016.

Maintain HOLD

MRCB achieved property sales of RM1,157m in 9M17 with the maiden launches for the Sentral Suites (Tower 1-3) and Kalista, Bukit Rahman Putra, projects. It could exceed its target sales of RM1.2bn in FY17. We revise up our fully-diluted RNAV/share to RM1.28 from RM1.17 to reflect higher valuation for its EDL concession and construction division (higher earnings and PER of 14x vs 12x previously). Maintain HOLD call with a TP raised to RM1.02 from RM0.94, based on 20% discount to RNAV. Key upside/downside risks are stronger/weaker property sales and higher/lower construction margin.

Earnings & Valuation Summary

FYE 31 Dec	2015	2016	2017E	2018E	2019E
Revenue (RMm)	1,696.7	2,408.1	3,173.3	2,409.0	2,650.0
EBITDA (RMm)	249.4	364.8	323.8	396.7	513.9
Pretax profit (RMm)	370.1	392.6	163.7	308.6	458.1
Net profit (RMm)	330.4	267.4	92.0	212.4	318.8
EPS (sen)	10.6	13.8	3.6	4.8	7.3
PER (x)	9.2	7.1	27.2	20.2	13.5
Core net profit (RMm)	1.0	114.0	86.6	212.4	318.8
Core EPS (sen)	0.0	3.4	3.4	4.8	7.3
Core EPS growth (%)	(12.8)	335.3	15.9	20.4	36.9
Core PER (x)	>100	29.1	28.9	20.2	13.5
Net DPS (sen)	2.5	2.8	2.8	2.8	2.8
Dividend Yield (%)	2.6	2.8	2.8	2.8	2.8
EV/EBITDA (x)	21.0	23.8	15.7	16.0	12.9
Chg in EPS (%)			15.1	3.4	0.7
Affin/Consensus (x)			0.8	1.4	1.6

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

MRCB

MRC MK
Sector: Construction & Infrastructure

RM0.98 @ 21 November 2017

HOLD (maintain)

Upside 4%

Price Target: RM1.02

Previous Target: RM0.94

	1M	3M	12M
Absolute	-7.1%	-5.3%	-15.4%
Rel to KLCI	-8.4%	-2.5%	-20.0%

Stock Data

Issued shares (m)	4,386.7
Mkt cap (RMm)/(US$m)	4277.1/1034.3
Avg daily vol - 6mth (m)	10.5
52-wk range (RM)	0.87-1.57
Est free float	41.0%
BV per share (RM)	1.20
P/BV (x)	0.81
Net cash/ (debt) (RMm) (3Q17)	(3,403)
ROE (2017E)	2.4%
Derivatives	Yes
Warr 2018 (RM0.05, EP: RM2.30)	
Warr 2022 (RM0.295, EP: RM1.25)	
Shariah Compliant	Yes

Key Shareholders

EPF	34.9%
Gapurna Sdn Bhd	16.6%
Lembaga Tabung Haji	7.4%

Source: Affin Hwang, Bloomberg

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Potential compensation for EDL

MRCB is negotiating compensation from the government for the Eastern Dispersal Link (EDL) concession following the surprise waiver of toll collection from 1 January 2018 onwards announced during Budget 2018. Ideally, MRCB hopes that the government will take over the RM1,059m debt from the concession and compensate MRCB for the waiver of toll collection either through annuity payments or acquiring its equity in the concession.

De-gearing efforts ongoing

MRCB's net gearing has improved to about 0.35x from 1.1x as at 30 September 2017 post-rights issue. The potential sale of a 80% stake in the Bukit Jalil project to EPF, disposal of Celcom building, Ascott serviced apartment and EDL will turn MRCB to net cash, even after acquiring the Kwasa Damansara land (illustrated in Figure 4).

Fig 1: Results comparison

FYE 31 Dec (RMm)	3Q17	QoQ % chg	YoY % chg	9M17	YoY % chg	Comment
Revenue	**1,134.1**	***49.9***	***105.7***	**2,415.5**	***75.5***	9M17: Higher construction (+237% yoy) revenue on the back of high order book and one-off NSC project contribution in 3Q17. But lower property revenue (-10% yoy) due to near completion of some projects.
Op costs	(1,056.9)	*52.4*	*131.0*	(2,240.1)	*89.5*	Higher operating costs for National Stadium project and high promotional cost for property development.
EBITDA	90.4	*43.8*	*(3.7)*	182.5	*(5.9)*	
EBITDA margin (%)	*8.0*	*-0.3ppt*	*-7.6ppt*	*7.6*	*-6.5ppt*	
Depreciation	(13.1)	0.0	*0.0*	(13.1)	*(66.7)*	
EBIT	**77.3**	***55.4***	***(4.3)***	**169.4**	***9.5***	
Int expense	(41.4)	*10.9*	*(1.2)*	(114.0)	*(14.3)*	Despite higher borrowings, lower interest expense due to capitalisation of interest cost for National Stadium project.
Int and other inc	7.9	*(29.5)*	*(2.2)*	40.2	*(37.0)*	
Associates	8.6	*26.1*	*(41.9)*	14.8	*(39.0)*	
Exceptional items	0.0	*(100.0)*	*NA*	5.4	*(87.8)*	Gain from sale of non-core subsidiaries.
Pretax profit	**52.3**	***53.1***	***(15.1)***	**115.8**	***(24.8)***	Decline in PBT due to lower exceptional gain.
Core pretax profit	**52.3**	***72.2***	***(15.1)***	**110.4**	***0.7***	Higher operating profit for construction arm but lower for property development division.
Tax	(21.8)	*>100*	*(0.9)*	(38.8)	*(11.6)*	
Tax rate (%)	*49.9*	*20.2ppt*	*4.0ppt*	38.4	*9.9ppt*	
Minority interests	(2.4)	*(10.3)*	*(76.3)*	(15.0)	*(51.2)*	
Net profit	**28.1**	***20.2***	*(4.4)*	**61.9**	***(21.9)***	Above expectation due to strong construction earnings.
EPS (sen)	1.3	*19.6*	*(14.1)*	2.9	*91.3*	
Core net profit	**28.1**	***37.1***	***(4.4)***	**56.5**	***24.1***	Above expectation due to strong construction earnings.

Source: Affin Hwang estimates, Company

Fig 2: Segmental operating profit

FYE 31 Dec (RMm)	3Q16	2Q17	3Q17	*QoQ % chg*	*YoY % chg*	9M16	9M17	*YoY % chg*
Engineering & construction	7.0	14.0	31.3	*>100*	*>100*	10.0	46.5	*>100*
Property	70.5	29.7	32.7	*10.2*	*(53.6)*	228.2	112.5	*(50.7)*
Infrastructure	13.7	11.5	12.7	*10.3*	*(7.4)*	46.4	41.7	*(10.1)*
Building services	0.4	7.1	0.3	*(95.3)*	*(24.2)*	12.5	11.2	*(10.4)*
Others	(1.5)	5.1	2.4	*(53.0)*	*NA*	(20.0)	2.9	*NA*
Total	**90.2**	**67.4**	**79.4**	*17.8*	*(11.9)*	**277.1**	**214.8**	***(22.5)***

Source: Affin Hwang estimates, Company

Fig 3: Segmental operating profit margin

FYE 31 Dec (%)	3Q16	2Q17	3Q17	*QoQ ppt*	*YoY ppt*	9M16	9M17	*YoY ppt*
Engineering & construction	4.8	3.0	3.4	*0.4*	*(1.4)*	2.1	2.9	*0.8*
Property	19.9	12.2	18.8	*6.6*	*(1.1)*	31.2	17.0	*(14.2)*
Infrastructure	48.7	40.4	43.9	*3.5*	*(4.9)*	54.3	48.5	*(5.9)*
Building services	2.9	55.7	2.7	*(53.0)*	*(0.2)*	23.8	26.6	*2.8*
Total	**16.4**	**8.9**	**7.0**	***(1.9)***	***(9.4)***	**20.1**	**8.9**	***(11.2)***

Source: Affin Hwang estimates, Company

Fig 4: Potential de-gearing exercises and impact

RM mil	FYE 2013	30.09.17	After Rights Issue	EPF to subscribe in the Bkt Jalil Project	Acquire Kwasa	Dispose Celcom	Dispose Ascott	Dispose EDL
Bank Borrowings	2,226	3,124	2,357	2,357	3,094	2,863	2,863	2,863
EDL Financing	1,277	1,059	1,059	1,059	1,059	1,059	1,059	-
Loan Stock	7	-	-	-	-	-	-	-
Total Borrowings	3,510	4,183	3,416	3,416	4,153	3,922	3,922	2,863
Cash & Bank Balances	(603)	(780)	(1,745)	(2,885)	(2,885)	(2,946)	(3,076)	(3,076)
Net Borrowings/(Cash)	2,907	3,403	1,671	531	1,268	976	846	-213
Total Equity	1,737	3,106	4,838	4,838	4,838	4,838	4,838	4,838
Net Gearing (times)	1.67	1.10	0.35	0.11	0.26	0.20	0.17	(0.04)
Cumulative Reduction		0.57	1.32	1.56	1.41	1.47	1.50	NA

Source: Company

Fig 5: Change in RNAV and target price assumptions

Segment	New value (RMm)	Old value (RMm)
Property development	3,659	3,626
Property investment	410	410
Construction	796	505
Concession	353	220
Car Park & REIT	583	583
Total	**5,803**	**5,346**
Net cash/(debt)	(203)	(203)
RNAV	**5,600**	**5,143**
No. of shares	4,385	4,385
RNAV / share	**1.28**	**1.17**
Fully-diluted no. of shares	4,385	4,385
Fully-diluted RNAV	**1.28**	**1.17**
Target price @ 20% discount	1.02	0.94

Source: Affin Hwang estimates

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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