2Q19: Core net loss incurred

MRCB reported a surprise core net loss of RM44m in 2Q19 (core net loss of RM40m in 6M19). Its construction division incurred losses while its property arm saw slow progress billings and sales. But an exceptional gain of RM55m from the disposal of its 30% stake in St Regis Hotel recognised in 2Q19 lifted its net profit to RM15m in 6M19. We cut our core 2019-21 EPS forecasts by 61-66% to reflect lower construction and property earnings, but reiterate our HOLD call with a lower target price of RM0.74, based on a 40% discount to RNAV.

Surprise loss

Net profit of RM15m (-72% yoy) in 6M19 was only 11-16% of market consensus and our previous 2019 forecast of RM94-137m. We were surprised by the low property earnings and JV income. Revenue fell 43% yoy to RM475m in 6M19, mainly due to slow progress billings for its property development division. The Klang Valley LRT Line 3 (LRT3) project contributed PAT of RM1m in 6M19 compared to RM15m in 6M18 to JV income due to work delays caused by the re-modelling of the project to reduce costs. Both its construction and property divisions incurred operating losses due to slow progress billings and high operating costs.

Weak property sales

MRCB achieved pre-sales of RM244m in 6M19 (compared to RM75m in 1Q19), mainly from its Sentral Suites and TRIA condominium, 9 Seputeh, projects. There are property bookings worth RM130-140m pending the signing of Sales and Purchase Agreements (SPA). MRCB launched the Alstonia Hilltop projects with gross development value (GDV) of RM247m with an initial take-up rate of 8%. It delayed further launches of new property projects as market sentiment remained weak. Unbilled sales of RM1.8bn will likely shore up its property earnings as progress billings accelerate in 2H19.

Still a HOLD

MRCB sold its 30% stake in the St Regis Hotel and Residences project to CMY Capital for RM117.3m on 23 May 2019. The net disposal gain of about RM55m boosted its earnings in 2Q19. We cut our RNAV/share estimate to RM1.23 from RM1.50 to reflect the higher net debt, lower property development DCF and lower construction arm valuation. Based on the same 40% discount to TP, we cut our TP to RM0.74 from RM0.90, but reiterate our HOLD call on valuation. Key upside/downside risks are stronger/weaker property sales and progress billings.

Earnings & Valuation Summary

FYE 31 Dec	2017	2018	2019E	2020E	2021E
Revenue (RMm)	2,640.6	1,870.7	1,198.1	1,268.0	1,652.7
EBITDA (RMm)	177.2	122.8	84.2	92.4	132.7
Pretax profit (RMm)	269.2	123.0	103.3	62.1	112.5
Net profit (RMm)	161.9	101.2	86.8	42.7	77.6
EPS (sen)	6.6	2.3	2.0	1.0	1.8
PER (x)	11.3	32.1	37.5	76.2	42.0
Core net profit (RMm)	111.5	48.8	32.8	42.7	77.6
Core EPS (sen)	4.4	1.1	0.7	1.0	1.8
Core EPS growth (%)	271.4	(54.9)	(12.9)	9.1	29.3
Core PER (x)	17.0	66.6	99.2	76.2	42.0
Net DPS (sen)	1.8	1.8	1.8	1.8	1.8
Dividend Yield (%)	2.4	2.4	2.4	2.4	2.4
EV/EBITDA (x)	16.8	23.7	35.7	53.6	49.5
Chg in core EPS (%)			(60.5)	(64.3)	(65.6)
Affin/Consensus (x)			0.9	0.3	0.5

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

MRCB

MRC MK
Sector: Construction & Infra

RM0.74 @ 26 August 2019

HOLD (maintain)

Upside/downside: 0%

Price Target: RM0.74

Previous Target: RM0.90

Price Performance

	1M	3M	12M
Absolute	-19.1%	-16.9%	-3.3%
Rel to KLCI	-16.7%	-17.0%	9.3%

Stock Data

Issued shares (m)	4,412
Mkt cap (RMm)/(US$m)	3,265/777
Avg daily vol - 6mth (m)	11.6
52-wk range (RM)	0.57-1.15
Est free float	37%
BV per share (RM)	1.10
P/BV (x)	0.7
Net cash/ (debt) (RMm) (2Q19)	(1,209)
ROE (2019E)	1.8%
Derivatives	Yes
(Warr 17/27, WP RM0.22, EP RM1.25)	
Shariah Compliant	Yes

Key Shareholders

EPF	35.9%
Gapurna Sdn Bhd	15.5%
LTH	6.2%
Bank Kerjasama Rakyat	3.9%

Source: Affin Hwang, Bloomberg

Loong Chee Wei, CFA
(603) 2146 7548
cheewei.loong@affinhwang.com

LRT3 contribution likely to pick up in 2H19

Progress billings for LRT3 are expected to pick up in 2H19 with the reduced new contract value agreed with the government. MRCB's share of works for the LRT3 is RM5.7bn, contributing 25% to its order book of RM22.6bn.

Fig 1: Results comparison

FYE 31 Dec (RMm)	2Q18	1Q19	2Q19	QoQ % chg	YoY % chg	6M18	6M19	YoY % chg	6M19 Comment
Revenue	**405.2**	**234.1**	**241.0**	***3.0***	***(40.5)***	**832.8**	**475.0**	***(43.0)***	Lower construction (-26% yoy), property development (-62% yoy) and building services revenue (-1% yoy), partially offset by higher investment & others revenue (+22% yoy).
Op costs	(353.5)	(213.4)	(279.9)	*31.2*	*(20.8)*	(766.4)	(482.8)	*(37.0)*	
EBITDA	**51.8**	**20.7**	**(38.9)**	***(288.3)***	***(175.2)***	**66.5**	**(7.8)**	***(111.8)***	
EBITDA margin (%)	*12.8*	*8.8*	*(16.2)*	*(25.0ppt)*	*(28.9ppt)*	*8.0*	*(1.6)*	*(2.6ppt)*	
Depreciation	(8.8)	(13.3)	(16.6)	*24.6*	*88.2*	(15.3)	(30.0)	*96.3*	
EBIT	**42.9**	**7.3**	**(55.6)**	***(857.3)***	***(229.4)***	**51.2**	**(37.8)**	***(173.9)***	Lower operating profit across all segments; construction (-96% yoy), property development (-15% yoy) and building services (-91% yoy).
Int expense	(16.8)	(12.4)	(2.2)	*(82.5)*	*(87.0)*	(21.0)	(25.0)	*18.7*	
Int and other inc	(20.2)	11.5	8.3	*(28.3)*	*(140.9)*	(4.3)	19.8	*(557.1)*	
Associates	5.8	1.9	1.3	*(34.3)*	*(78.0)*	16.5	3.2	*(80.5)*	
Exceptional items	31.3	0.0	58.0	*#DIV/0!*	*85.3*	31.3	58.0	*85.3*	St Regis Hotel stake sale gain of RM58m in 2Q19.
Pretax profit	**43.0**	**8.4**	**9.8**	***16.8***	***(77.2)***	**73.6**	**18.2**	***(75.2)***	
Core pretax profit	**11.7**	**8.4**	**(48.2)**	***(672.5)***	***(510.7)***	**42.3**	**(39.8)**	***(194.0)***	
Tax	(10.8)	(6.9)	(2.2)	*(68.4)*	*(79.8)*	(15.7)	(9.0)	*(42.5)*	
Tax rate (%)	*28.9*	*105.9*	*25.4*	*(80.6ppt)*	*(3.5ppt)*	*21.3*	*49.5*	*(5.1ppt)*	
Minority interests	1.2	2.6	3.4	*31.8*	*188.6*	(2.9)	6.0	*(304.9)*	
Net profit	**33.4**	**4.1**	**11.1**	***167.4***	*(66.9)*	**55.0**	**15.2**	***(72.4)***	Below expectations. Exclude one-off gains.
EPS (sen)	0.8	0.1	0.6	*566.7*	*(21.1)*	1.3	0.3	*(72.8)*	
Core net profit	**9.7**	**4.1**	**(43.9)**	***n.m***	***n.m***	**31.2**	**(39.8)**	***n.m***	Below expectations. Exclude one-off gains.

Source: Affin Hwang, Company data

Fig 2: Changes in RNAV and target price

Segment	New value (RMm)	Old value (RMm)	Change (%)
Property development	4,626	4,902	(6)
Property investment	1,314	1,314	0
Construction	160	958	(83)
Car Park & REIT	530	530	0
Total	**6,629**	**7,703**	**(14)**
Net cash/(debt)	(1,209)	(1,104)	9
RNAV	**5,420**	**6,599**	**(18)**
No. of shares	4,400	4,400	0
RNAV / share	**1.23**	**1.50**	**(18)**
Target price @ 40% discount	**0.74**	**0.90**	**(18)**

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

This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com