

Outthink. Outperform.

3Q19: Lacklustre recovery; downgrading to Sell

MRCB reported a core net profit of RM2.5m in 3Q19, improving from a core net loss of RM43.9m in 2Q19. However, the earnings recovery was below market and our expectations. A low construction profit margin, slow property development progress billings and high tax rate dragged down earnings. We now expect a core net loss in 2019E and cut earnings by 11-46% in 2020-21E to reflect lower construction and property earnings. We downgrade our call to **SELL** and lower our target price to RM0.58 based on a 40% discount to our reduced RNAV estimate.

Shored up by exceptional gain

MRCB reported a net profit of RM17.7m in 9M19, declining 76% yoy from RM74.8m in 9M18. The result continues to lag the market consensus full-year net profit forecast of RM59.8m and our previous estimate of RM86.8m. Excluding the exceptional net gain of RM55m from the disposal of its 30% stake in St Regis Hotel recognised in 2Q19, the core net loss was RM37.3m in 9M19.

Weak property sales

MRCB achieved pre-sales of RM398m in 9M19, mainly from its Sentral Suites and 9 Seputeh projects. It delayed launches of new property projects as market sentiment remains weak and is focusing on selling its inventories. Unbilled sales of RM1.7bn will shore up its property earnings as progress billings accelerate in 4Q19 and 2020.

Slow pick-up in LRT3 progress

Progress billings for LRT3 remain slow on the reduced new contract value agreed with the government. MRCB's share of works for the LRT3 is RM5.7bn, contributing 25% of its order book of RM22.3bn (remaining order book is RM20.9bn) as at end-3Q19. LRT3 contributed net profit of RM1.2m in 9M19 compared to RM20.7m in 9M18.

Downgrade to SELL

We cut our RNAV/share estimate to RM0.97 from RM1.23 to reflect higher net debt and a lower property development valuation, especially the KL Sports City project, of which MRCB has disposed an 80% stake to EPF. Based on an unchanged 40% discount to RNAV, we cut our TP to RM0.58 from RM0.74. We downgrade our call to **SELL** from **Hold**. Key upside risks are stronger property sales and progress billings.

Earnings & Valuation Summary

| FYE 31 Dec | 2017 | 2018 | 2019E | 2020E | 2021E |
|-----------------------|---------|---------|---------|---------|---------|
| Revenue (RMm) | 2,640.6 | 1,870.7 | 1,147.2 | 1,388.5 | 1,476.5 |
| EBITDA (RMm) | 177.2 | 122.8 | 37.4 | 100.0 | 104.3 |
| Pretax profit (RMm) | 269.2 | 123.0 | 51.2 | 55.1 | 62.1 |
| Net profit (RMm) | 161.9 | 101.2 | 21.1 | 37.9 | 41.8 |
| EPS (sen) | 6.6 | 2.3 | 0.5 | 0.9 | 0.9 |
| PER (x) | 11.6 | 33.0 | 158.1 | 88.2 | 80.1 |
| Core net profit (RMm) | 111.5 | 48.8 | (36.9) | 37.9 | 41.8 |
| Core EPS (sen) | 4.4 | 1.1 | (0.8) | 0.9 | 0.9 |
| Core EPS growth (%) | 271.4 | (54.9) | NA | NA | 3.4 |
| Core PER (x) | 17.4 | 68.4 | NA | 88.2 | 80.1 |
| Net DPS (sen) | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |
| Dividend Yield (%) | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 |
| EV/EBITDA (x) | 17.1 | 24.2 | 36.5 | 129.2 | 45.6 |
| Chg in core EPS (%) | | | NA | (11.2) | (46.2) |
| Affin/Consensus (x) | | | 0.4 | 0.3 | 0.3 |

Source: Company, Bloomberg, Affin Hwang forecasts

Affin Hwang Investment Bank Bhd (14389-U)

Results Note

MRCB

MRC MK

Sector: Construction & Infra

RM0.76 @ 21 November 2019

SELL (downgrade)

Downside 24%

Price Target: RM0.58

Previous Target: RM0.74



Price Performance

| | 1M | 3M | 12M |
|-------------|------|------|------|
| Absolute | 4.9% | 0.7% | 2.7% |
| Rel to KLCI | 3.5% | 0.8% | 9.4% |

Stock Data

| | |
|-------------------------------------|-----------|
| Issued shares (m) | 4,412 |
| Mkt cap (RMm)/(US\$m) | 3,311/799 |
| Avg daily vol - 6mth (m) | 6.6 |
| 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) (3Q19) | (1,272) |
| ROE (2019E) | 0.4% |
| Derivatives | Yes |
| (Warr 17/27, WP RM0.225, EP RM1.25) | |
| Shariah Compliant | Yes |

Key Shareholders

| | |
|-----------------------|-------|
| EPF | 35.9% |
| Gapurna Sdn Bhd | 15.5% |
| LTH | 6.1% |
| Bank Kerjasama Rakyat | 3.9% |

Source: Affin Hwang, Bloomberg

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Fig 1: Results comparison

| FYE 31 Dec (RMm) | 3Q18 | 2Q19 | 3Q19 | QoQ % chg | YoY % chg | 9M18 | 9M19 | YoY % chg | Comment |
|---------------------------|---------------|---------------|--------------|----------------|----------------|--------------|---------------|----------------|--|
| Revenue | 663.8 | 241.0 | 372.7 | 54.7 | (43.8) | 1,496.6 | 847.8 | (43.4) | Lower construction (-25% yoy), property development (-58% yoy) and building services revenue (-1% yoy), partially offset by higher investment & others revenue (+27% yoy). |
| Op costs | (625.0) | (279.9) | (342.5) | 22.4 | (45.2) | (1,391.3) | (825.4) | (40.7) | |
| EBITDA | 38.8 | (38.9) | 30.2 | NA | (22.0) | 105.3 | 22.4 | (78.7) | Lower operating profit across all segments; construction (-93% yoy), property development (-21% yoy) and building services (-35% yoy). |
| <i>EBITDA margin (%)</i> | <i>5.8</i> | <i>(16.2)</i> | <i>8.1</i> | <i>24.3ppt</i> | <i>2.3ppt</i> | 7.0 | 2.6 | (4.4ppt) | |
| Depreciation | (6.3) | (16.6) | (15.5) | (6.6) | 145.1 | (21.6) | (45.5) | 110.6 | St Regis Hotel stake sale gain of RM58m in 2Q19. |
| EBIT | 32.4 | (55.6) | 14.7 | NA | (54.7) | 83.6 | (23.1) | (127.7) | |
| Int expense | (15.1) | (2.2) | (13.7) | 528.8 | (9.4) | (36.1) | (38.6) | 7.0 | |
| Int and other inc | (59.0) | 8.3 | 10.5 | 27.4 | NA | (32.0) | 30.4 | (194.8) | |
| Associates | 13.2 | 1.3 | 2.7 | 111.5 | (79.6) | 29.7 | 5.9 | (80.1) | |
| Exceptional items | 68.9 | 58.0 | 0.0 | (100.0) | (100.0) | 68.9 | 58.0 | (15.8) | |
| Pretax profit | 40.5 | 9.8 | 14.3 | 45.4 | (64.7) | 114.1 | 32.5 | (71.5) | |
| Core pretax profit | (28.4) | (48.2) | 14.3 | NA | (150.3) | 45.2 | (25.5) | (156.4) | |
| Tax | (22.0) | (2.2) | (12.1) | 457.9 | (45.0) | (37.7) | (21.1) | (44.0) | |
| <i>Tax rate (%)</i> | <i>80.8</i> | <i>25.4</i> | <i>104.5</i> | <i>79.1ppt</i> | <i>23.7ppt</i> | 44.7 | 79.4 | 34.7ppt | |
| Minority interests | 1.3 | 3.4 | 0.3 | (89.7) | (74.1) | (1.6) | 6.3 | (502.6) | |
| Net profit | 19.8 | 11.1 | 2.5 | (77.2) | (87.3) | 74.8 | 17.7 | (76.3) | Below expectations. |
| EPS (sen) | 0.5 | 0.6 | 0.1 | (90.0) | (86.7) | 1.7 | 0.4 | (76.5) | |
| Core net profit | (32.6) | (43.9) | 2.5 | NA | (107.7) | 22.4 | (37.3) | (266.5) | Below expectations. Excludes 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 | 3,557 | 4,626 | (23) |
| Property investment | 1,314 | 1,314 | 0 |
| Construction | 160 | 160 | 0 |
| Car park & REIT | 530 | 530 | 0 |
| Total | 5,560 | 6,629 | (16) |
| Net cash/(debt) | (1,272) | (1,209) | 5 |
| RNAV | 4,288 | 5,420 | (21) |
| No. of shares | 4,400 | 4,400 | 0 |
| RNAV / share | 0.97 | 1.23 | (21) |
| Target price @ 40% discount | 0.58 | 0.74 | (21) |

Source: Affin Hwang estimates

Important Disclosures and Disclaimer

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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