Securities

AFFIN HWANG CAPITAL

Out think. Out perform.

1Q19: Result disappoints

Results Note

MRCB

MRC MK
Sector: Construction & Infra

RM0.93 @ 30 May 2019

HOLD (downgrade)

Downside 3%

Price Target: RM0.90

Previous Target: RM0.98

MRCB's 1Q19 result was disappointing. Net profit plunged 81% yoy and 84% qoq to RM4m in 1Q19. Lower joint venture (JV) income for LRT Line 3 (LRT3) project due to the government's project review to reduce cost. Slower progress billings for ongoing property projects while several projects were completed in 2018. We cut our core EPS forecasts by 11-23% in 2019-21E to reflect the lower property earnings. We downgrade our call to HOLD from Buy with a reduced target price (TP) of RM0.90, based on 40% discount to RNAV.

Disappointing result

Net profit of RM4m (-81% yoy) in 1Q19 was only 4% of market consensus and our previous 2019 forecasts of RM108-116m. We were surprised by the low property earnings and JV income. Revenue fell 45% yoy and 37% qoq to RM234m mainly due to slower progress billings for its property development division. Construction completion of VIVO (9 Seputeh) and Kalista Park Homes (Bukit Rahman Putra) resulted in revenue from sales in these 2 projects no longer being progressively recognised. LRT3 contributed PAT of RM0.5m in 1Q19 compared to RM9m in 1Q18 to JV income.

Weak property sales

MRCB achieved pre-sales of RM75m in 1Q19, mainly from its Sentral Suites condominium project in KL Sentral. It remains optimistic of achieving its target property sales of RM0.8bn in 2019 with new bookings for its 9 Seputeh project that is pending the signing of Sales and Purchase Agreements (SPA). Unbilled sales of RM1.6bn will shore up its property earnings as progress billings accelerate in 2H19.

Downgrade to HOLD

MRCB sold its 30% stake in the St Regis Hotel and Residences project to CMY Capital for RM117.3m on 23 May 2019. Net disposal gain of about RM54m will boost its earnings in 2Q19. Hence, we upgrade our net profit forecast by 27% to RM137m in 2019E to reflect the gain despite cutting our core net profit forecast. We cut our RNAV/share estimate to RM1.50 from RM1.63 to reflect higher net debt, lower investment properties' valuation and rolling forward our valuation base year to 2020E. Based on the same 40% discount to TP, we cut our TP to RM0.90 from RM0.98. We downgrade our call to HOLD from Buy after the strong share price outperformance of 63% over the past 12 months. 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	1,610.1	1,677.5	2,267.4
EBITDA (RMm)	177.2	122.8	141.0	159.0	284.6
Pretax profit (RMm)	269.2	123.0	173.8	169.2	317.1
Net profit (RMm)	161.9	101.2	137.2	119.7	225.4
EPS (sen)	6.6	2.3	3.1	2.7	5.1
PER (x)	14.2	40.4	29.8	34.2	18.2
Core net profit (RMm)	111.5	48.8	83.2	119.7	225.4
Core EPS (sen)	4.4	1.1	1.9	2.7	5.1
Core EPS growth (%)	271.4	(54.9)	27.3	23.0	54.0
Core PER (x)	21.3	83.7	49.2	34.2	18.2
Net DPS (sen)	1.8	1.8	1.8	1.8	1.8
Dividend Yield (%)	1.9	1.9	1.9	1.9	1.9
EV/EBITDA (x)	19.7	28.4	39.4	34.7	33.1
Chg in core EPS (%)			(23.0)	(25.2)	(10.5)
Affin/Consensus (x)			1.2	0.8	1.1

Source: Company, Bloomberg, Affin Hwang forecasts

Price Performance

	1M	3M	12M
Absolute	-9.7%	19.2%	63.2%
Rel to KLCI	-9.4%	24.4%	71.4%

Stock Data

Issued shares (m)	4,400
Mkt cap (RMm)/(US$m)	4,092/976
Avg daily vol - 6mth (m)	14.5
52-wk range (RM)	0.55-1.15
Est free float	35.9%
BV per share (RM)	1.10
P/BV (x)	0.8
Net cash/ (debt) (RMm) (1Q19)	(1,104)
ROE (2019E)	2.8%
Derivatives	Yes
(Warr 17/27, WP RM0.27, EP RM1.25)	
Shariah Compliant	Yes

Key Shareholders

EPF	36.0%
Gapurna Sdn Bhd	16.1%
LTH	6.7%
Bank Kerjasama Rakyat	3.9%

Source: Affin Hwang, Bloomberg

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

LRT3 contribution to pick up in 2H19

Progress billings for LRT3 is also 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% of its order book of RM22.6bn (remaining order book is RM21.4bn).

Fig 1: Results comparison

FYE 31 Dec (RMm)	1Q18	4Q18	1Q19	QoQ % chg	YoY % chg	Comment
Revenue	**427.6**	**374.1**	**234.1**	***(37.4)***	***(45.3)***	Lower construction (-5% yoy) and property development revenue (-61% yoy), partially offset by higher building services revenue (+8% yoy)
Op costs	(412.9)	(353.9)	(213.4)	*(39.7)*	*(48.3)*	
EBITDA	**14.7**	**20.3**	**20.7**	***2.1***	***40.4***	
EBITDA margin (%)	*3.4*	*5.4*	*8.8*	*3.4ppt*	*2.0ppt*	
Depreciation	(6.5)	(15.7)	(13.3)	*(15.1)*	*106.5*	
EBIT	**8.3**	**4.5**	**7.3**	***61.7***	***(11.3)***	Lower property operating profit (-88% yoy) was partly offset by higher construction earnings (+4% yoy).
Int expense	(4.3)	(7.2)	(12.4)	*71.3*	*190.4*	
Int and other inc	15.9	14.6	11.5	*(21.0)*	*(27.4)*	
Associates	10.7	(4.2)	1.9	*n.m*	*(81.8)*	Lower contribution from LRT3 JV project.
Exceptional items	0.0	0.0	0.0	-	-	
Pretax profit	**30.6**	**7.7**	**8.4**	***9.3***	***(72.5)***	Lower JV income and property development earnings in 1Q19 compared to 1Q18.
Core pretax profit	**30.6**	**7.7**	**8.4**	***9.3***	***(72.5)***	
Tax	(4.9)	(7.4)	(6.9)	*(7.1)*	*39.1*	
Tax rate (%)	*24.8*	*62.0*	*105.9*	*43.9ppt*	*37.2ppt*	
Discontinued operations	0.0	26.0	0.0	*(100.0)*	*#DIV/0!*	
Minority interests	(4.1)	0.1	2.6	*2,936.5*	*(163.0)*	
Net profit	**21.5**	**26.4**	**4.1**	***(84.3)***	*(80.8)*	Below expectations.
EPS (sen)	0.5	0.6	0.1	*(85.0)*	*(81.6)*	
Core net profit	**21.5**	**26.4**	**4.1**	***(84.3)***	***(80.8)***	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	4,902	4,859	1
Property investment	1,314	1,557	(16)
Construction	958	958	0
Car Park & REIT	530	530	0
Total	**7,703**	**7,904**	**(3)**
Net cash/(debt)	(1,104)	(721)	53
RNAV	**6,599**	**7,183**	**(8)**
No. of shares	4,400	4,400	0
RNAV / share	**1.50**	**1.63**	**(8)**
Target price @ 40% discount	**0.90**	**0.98**	**(8)**

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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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 2142 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com