



AmInvestment Bank

MRCB

(MRC MK EQUITY, MYRS.KL)

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Company report

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2036 2025

Stronger performance expected in 2H17

BUY

(Maintained)

Rationale for report: Company result

Price	RM1.19
Fair Value	RM1.89
52-week High/Low	RM1.80/RM1.13

Key Changes

Fair value	↔
EPS	↔

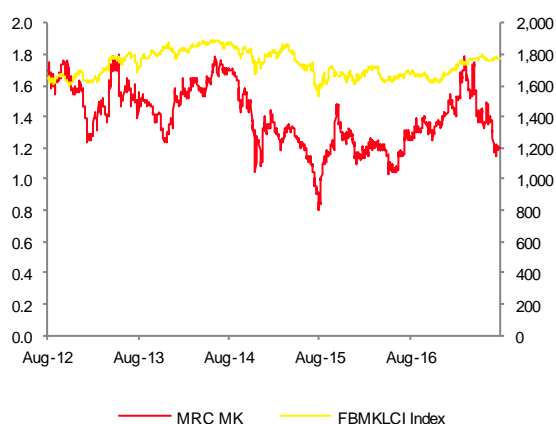
YE to Dec	FY16	FY17F	FY18F	FY19F
Revenue (RM mil)	2,408.1	1,933.5	2,275.6	2,734.6
Core net profit (RM mil)	267.4	115.2	150.1	198.9
FD Core EPS (sen)	6.1	6.5	8.0	10.1
FD Core EPS growth (%)	254.0	6.7	22.5	25.7
Consensus Net Profit (RM mil)	-	126.7	149.4	181.3
DPS (sen)	2.0	2.0	2.0	2.0
PE (x)	19.4	18.2	14.9	11.8
EV/EBITDA (x)	7.7	15.3	12.8	10.1
Div yield (%)	1.2	1.2	1.2	1.2
ROE (%)	10.3	4.3	6.1	7.7
Net Gearing (%)	69.5	131.0	126.7	117.3

Stock and Financial Data

Shares Outstanding (million)	1,760.1
Market Cap (RMmil)	2,094.5
Book Value (RM/share)	1.64
P/BV (x)	0.7
ROE (%)	10.3
Net Gearing (%)	69.5

Major Shareholders	Employees Provident Fund Board (36.5%)
	Gapurna Sdn Bhd (15.5%)
	Lembaga Tabung Haji (9.3%)
Free Float	38.8
Avg Daily Value (RMmil)	11.0

Price performance	3mth	6mth	12mth
Absolute (%)	(15.6)	(16.2)	(4.8)
Relative (%)	(15.4)	(19.4)	(9.1)



Investment Highlights

- We maintain our BUY call on MRCB with an unchanged fair value of RM1.89, based on a 10% discount to its RNAV. We make no changes to our earnings forecasts.
- MRCB's 1HFY17 net profit of RM33.8mil made up 29% of our full-year forecast and 27% of consensus. We deem this to be broadly in line, as we expect a stronger performance in 2H17, from both its property and construction divisions. No dividend was declared, as expected.
- The positive performance was mainly due to lower finance costs, higher interest income and a stronger performance from its engineering and construction division.
- The property development division registered a 29% YoY growth in revenue to RM486.5mil in 1HFY17, generated mainly by its Sentral Residences in KL Sentral and Easton Burwood in Melbourne, as well as 9 Seputeh in Jalan Klang Lama, PJ Sentral Garden City, Menara MRCB in Putrajaya and SIDEC residential project in Perak. However, operating profit for the division dropped 30% YoY to RM79.8mil, as there was a gain from disposals of non-core assets of RM44.4mil and higher contribution of rental income from Menara Shell in 1H16.
- We are encouraged by the positive performance at MRCB's property division. Its unbilled property sales stood at RM1.55bil as at end-1HFY17, compared to RM1.5bil at end-1Q17. It recorded 1HFY17 total property sales of RM942mil, and we believe it will be able to achieve its target of RM1.2bn of total property sales in FY17.
- MRCB's engineering, construction and environment division's operating profit grew 415% YoY to RM15.3mil on the back of a 110% YoY increase in revenue to RM2698.9mil. The major contributor to revenue was mainly the refurbishment and upgrading of facilities works to the National Sports Complex in Bukit Jalil. Construction order book remained at RM6.3bil as at end-1HFY17, with a total unbilled portion of RM5.5bil. It won RM409mil of new projects in YTD.
- We believe the outlook for MRCB in 2017 remains positive. Its LRT3 PDP project, a 50:50 joint venture with George Kent Sdn Bhd, is taking off with physical work commencing in 2Q17 and completion scheduled for 2020. We also expect further asset disposals this year, with the Eastern Dispersal Link Highway in Johor, Menara Celcom in PJ Sentral and Ascott Sentral in KL Sentral among the assets that are most likely to be disposed of.

EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM m)	2QFY17	2QFY16	1QFY17	YoY (%)	QoQ (%)	1HFY17	1HFY16	YoY (%)
Revenue	756.5	389.2	524.9	94.4	44.1	1,281.4	825.2	55.3
EBIT	64.8	109.5	65.6	(40.9)	(1.3)	130.3	174.1	(25.1)
Finance costs	(37.4)	(44.4)	(35.2)	(15.8)	6.3	(72.6)	(91.1)	(20.4)
Share of profit from associates	4.2	6.7	(2.4)	(36.8)	(273.1)	1.8	7.0	(74.7)
Share of profit from JVs	2.6	2.0	1.3	31.2	99.1	3.9	2.4	60.6
EIs/Others				<i>nm</i>				
Pretax profit	34.2	73.8	29.3	(53.7)	16.8	63.4	92.4	(31.3)
Tax	(8.1)	(16.7)	(8.9)	(51.4)	(8.4)	(17.0)	(21.9)	(22.4)
Non-controlling interests	2.7	11.6	9.9	(76.7)	(72.9)	12.6	20.6	(38.8)
Net Profit	23.4	45.5	10.5	(48.6)	123.4	33.8	49.9	(32.2)
Core Profit	23.4	45.5	10.5	(48.6)	123.4	33.8	49.9	(32.2)
<i>EBIT Margin (%)</i>	8.6%	28.1%	12.5%			10.2%	21.1%	
<i>Pretax Margin (%)</i>	4.5%	19.0%	5.6%			5.0%	11.2%	
<i>Effective tax rate (%)</i>	29.6%	25.6%	29.1%			29.4%	26.4%	
<i>Core net Margin (%)</i>	3.1%	11.7%	2.0%			2.6%	6.0%	

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: RNAV CALCULATION

Divisions/Operations	Size (acres)	Value (RM) psf	mil	/share	Method	Effective stake (%)
Landbank						
Kota Kinabalu, Sabah	3	32	3.8	0.00	MV	100
Bandar Seri Iskandar	4,000	3	365.9	0.15	MV	70
Development properties						
Senawang Sentral			5.8	0.00	NPV @ 13%	100.0
St.Regis Service Residences (Lot C)			1.1	0.00	NPV @ 13%	30.0
Q Sentral (Lot B)			6.5	0.00	NPV @ 13%	66.0
Sentral Residences (Lot D)			12.9	0.01	NPV @ 13%	51.0
Lot F - Office Towers			250.3	0.11	NPV @ 13%	100.0
9 Seputeh, Old Klang Road			119.2	0.05	NPV @ 13%	100.0
Suria Subang, Subang Jaya			37.5	0.02	NPV @ 13%	100.0
Selborn 2, Shah Alam			17.0	0.01	NPV @ 13%	100.0
Lot 349, privatization agreement, Brickfields			138.8	0.06	NPV @ 13%	100.0
The Grid, Kia Peng			35.0	0.01	NPV @ 13%	100.0
Semarak City, Setapak			182.1	0.08	NPV @ 13%	100.0
3 Residences, Kajang			15.8	0.01	NPV @ 13%	100.0
Lot 2C4, Putrajaya			21.6	0.01	NPV @ 13%	70.0
PJ Sentral Phase 1			186.4	0.08	NPV @ 13%	100.0
MX-1, KWASA Damansara, Sg.Buloh			420.6	0.18	NPV @ 13%	70.0
Rahman Putra, Sg.Buloh			47.9	0.02	NPV @ 13%	100.0
German Embassy land, Jln Kia Peng			114.5	0.05	NPV @ 13%	100.0
Cyberjaya City Centre Phase 1, Cyberjaya			240.8	0.10	NPV @ 13%	70.0
KL Sports City land swap			563.4	0.24	NPV @ 13%	85.0
Batu Ferringghi land			33.2	0.01	NPV @ 13%	100.0
Penang Sentral			225.1	0.09	NPV @ 13%	100.0
Pulai Land			130.4	0.05	NPV @ 13%	100.0
Burwood			6.8	0.00	NPV @ 13%	100.0
Unbilled sales			112.0	0.05	NPV @ 13%	100.0
Investment properties						
Celcom-Axiata (Lot 8)		450,908	402.6	0.17	NOI@6.25%	100.0
Plaza Alam Sentral, Shah Alam		433,349	105.7	0.04	NOI@6.5%	100.0
Kompleks Sentral, Segambut Industrial Park		484,689	45.0	0.02	NOI@6.75%	100.0
Ascott Residences (Ilot 348)		143 rooms	114.4	0.05	RM0.8mil/room	100.0
St. Regis Hotel (Lot C)		208 rooms	62.4	0.03	RM1mil/room	30.0
Expressways						
Eastern Dispersal Link (EDL)			383.5	0.16	DCF @ 7%	100.0
Construction & Infrastructure						
Construction			362.8	0.15	8x ave.FY16F net profit	
Facilities management			28.2	0.01	6x FY16F net profit	
Listed-investments						
MRCB-Quill REIT			224.8	0.09	Market Value	31.2
Gross RNAV			5,454.8	2.39		
Net debt			(1,815.4)	(0.76)	As at 31 December 2015	
Proceeds from ESOS/warrant conversions			1,343.4	0.57	Warrants exercise price: RM2.30	
Total RNAV			4,982.8	2.19		
FD no of shares			2,376.7			
RNAV/share			2.10			
Fair Value (less: 10% discount)			1.89			

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART

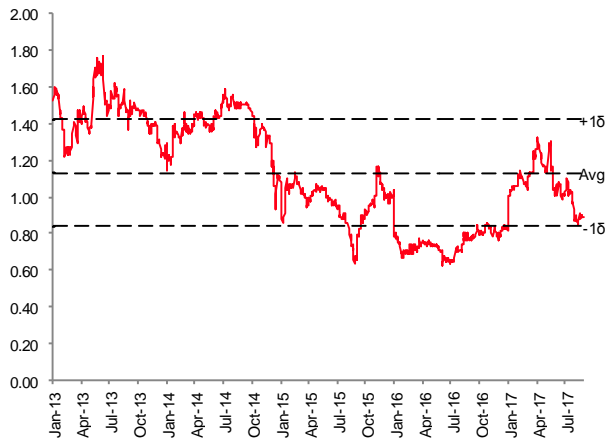


EXHIBIT 4: PE BAND CHART

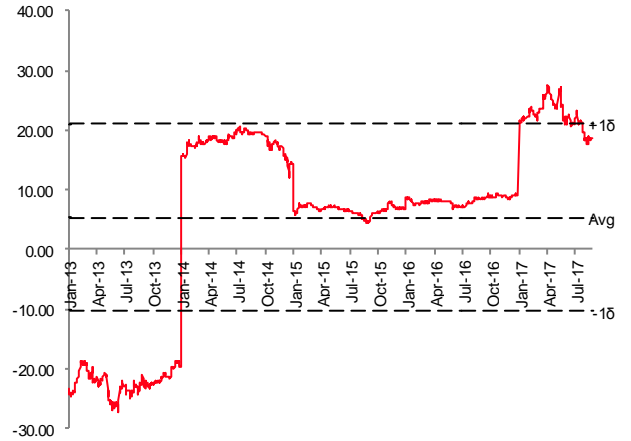


EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	1,696.7	2,408.1	1,933.5	2,275.6	2,734.6
EBITDA	242.3	535.9	341.6	411.9	520.7
Depreciation/Amortisation	(64.2)	-	(36.3)	(67.2)	(125.5)
Operating income (EBIT)	178.2	535.9	305.4	344.7	395.2
Other income & associates	7.9	32.7	68.1	51.1	83.6
Net interest	(145.5)	(175.9)	(156.7)	(165.8)	(162.3)
Exceptional items	329.6	-	-	-	-
Pretax profit	370.1	392.6	216.7	229.9	316.4
Taxation	(6.1)	(73.5)	(63.6)	(62.5)	(85.8)
Minorities/pref dividends	(33.6)	(51.7)	(38.0)	(17.4)	(31.7)
Net profit	330.4	267.4	115.2	150.1	198.9
Core net profit	0.8	267.4	115.2	150.1	198.9
Balance Sheet (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Fixed assets	337.5	437.8	321.0	297.1	272.5
Intangible assets	317.1	252.9	303.2	296.3	289.3
Other long-term assets	3,741.0	3,895.9	3,854.9	3,839.5	3,799.2
Total non-current assets	4,395.5	4,586.6	4,479.0	4,432.9	4,361.0
Cash & equivalent	339.2	722.2	199.3	178.6	239.3
Stock	63.1	57.5	57.6	67.4	80.1
Trade debtors	1,113.8	1,580.6	1,430.2	1,683.3	2,022.9
Other current assets	1,178.1	805.4	1,457.1	1,633.1	1,810.4
Total current assets	2,694.3	3,165.6	3,144.3	3,562.4	4,152.7
Trade creditors	1,199.3	1,586.4	1,420.0	1,640.1	1,948.3
Short-term borrowings	1,049.5	806.3	683.4	698.4	713.5
Other current liabilities	47.1	42.6	25.3	25.3	25.3
Total current liabilities	2,295.9	2,435.2	2,128.7	2,363.8	2,687.0
Long-term borrowings	2,345.9	2,130.8	2,847.0	2,852.2	2,852.4
Other long-term liabilities	135.2	161.2	135.2	135.2	135.2
Total long-term liabilities	2,481.2	2,292.0	2,982.2	2,987.4	2,987.6
Shareholders' funds	2,260.1	2,925.8	2,404.1	2,518.4	2,681.6
Minority interests	52.6	99.2	108.3	125.6	157.3
BV/share (RM)	1.27	1.64	1.35	1.41	1.50
Cash Flow (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Pretax profit	370.1	392.6	216.7	229.9	316.4
Depreciation/Amortisation	64.2	-	36.3	67.2	125.5
Net change in working capital	606.2	-	(211.8)	(218.9)	(221.4)
Others	(900.1)	(533.9)	(131.7)	(113.5)	(169.4)
Cash flow from operations	140.4	(141.3)	(90.5)	(35.3)	51.2
Capital expenditure	(1,135.6)	-	10.0	30.0	30.0
Net investments & sale of fixed assets	696.6	626.5	-	-	-
Others	29.8	16.4	-	-	-
Cash flow from investing	(409.3)	642.9	10.0	30.0	30.0
Debt raised/(repaid)	(295.9)	(461.2)	100.3	20.3	15.3
Equity raised/(repaid)	0.8	401.9	-	-	-
Dividends paid	(82.4)	(76.6)	(35.7)	(35.7)	(35.7)
Others	677.5	(112.2)	-	-	-
Cash flow from financing	299.9	(248.1)	64.5	(15.5)	(20.5)
Net cash flow	31.0	253.5	(15.9)	(20.8)	60.7
Net cash/(debt) b/f	308.2	339.2	215.3	199.3	178.6
Net cash/(debt) c/f	339.2	592.8	199.3	178.6	239.3
Key Ratios (YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue growth (%)	12.0	41.9	(19.7)	17.7	20.2
EBITDA growth (%)	(17.6)	121.1	(36.3)	20.6	26.4
Pretax margin (%)	21.8	16.3	11.2	10.1	11.6
Net profit margin (%)	19.5	11.1	6.0	6.6	7.3
Interest cover (x)	1.2	3.0	1.9	2.1	2.4
Effective tax rate (%)	1.6	18.7	29.3	27.2	27.1
Dividend payout (%)	13.5	13.4	31.0	23.8	18.0
Debtors turnover (days)	240	240	270	270	270
Stock turnover (days)	20	17	15	15	15
Creditors turnover (days)	371	466	370	365	365

Source: Company, AmlInvestment Bank Bhd estimates

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