



AmInvestment Bank

## Company report

## MRCB

(MRC MK EQUITY, MYRS.KL)

23 Nov 2018

9MFY18 profit grows 17.2% YoY

HOLD

(Maintained)

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03-2036 2025

Rationale for report: Company results

Price RM0.73  
Fair Value RM0.83  
52-week High/Low RM1.31/RM0.55

## Key Changes

Fair value ↕  
EPS ↕

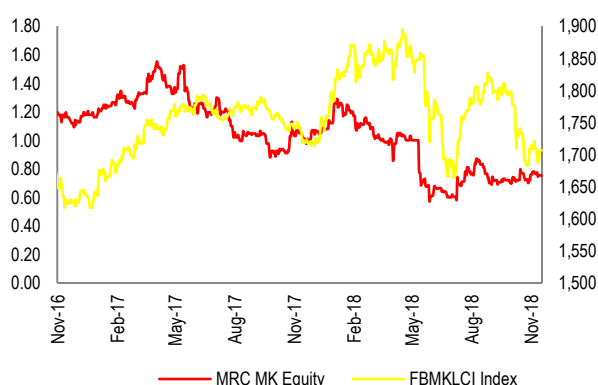
YE to Dec (RM mil)	FY17	FY18F	FY19F	FY20F
Revenue (RM mil)	2,823.7	1,851.7	2,136.4	2,292.0
Core net profit (RM mil)	164.3	97.8	146.3	163.9
FD Core EPS (sen)	3.7	2.2	3.3	3.7
FD Core EPS growth (%)	(38.3)	(40.5)	49.6	12.0
Consensus Net Profit (RM mil)	-	109.0	143.0	170.1
DPS (sen)	1.7	1.1	1.5	1.7
PE (x)	19.5	32.8	21.9	19.6
EV/EBITDA (x)	14.5	20.3	18.4	16.9
Div yield (%)	2.4	1.5	2.1	2.3
ROE (%)	4.8	2.0	3.0	3.3
Net Gearing (%)	55.2%	22.9%	23.3%	25.0%

## Stock and Financial Data

Shares Outstanding (million)	4,395.1
Market Cap (RM mil)	3,208.4
Book Value (RM/share)	1.11
P/BV (x)	0.7
ROE (%)	4.8
Net Gearing (%)	55.2

Major Shareholders	EPF	35.5%
	Gapurna Sdn Bhd	16.6%
	LTH	7.0%
Free Float	40.9%	
Avg Daily Value (RM mil)	14.90	

Price performance	3mth	6mth	12mth
Absolute (%)	(9.6)	9.1	(23.8)
Relative (%)	(1.1)	(5.6)	(25.1)



## Investment Highlights

- We maintain our HOLD call on MRCB with an unchanged FV of RM0.83 per share, based on SOP valuation (Exhibit 2). We revised our FY18 earnings upwards by 9% to reflect the timing in revenue recognition in the property development & investment division while leaving our FY19 and FY20 forecasts unchanged.
- MRCB's 9MFY18 net profit of RM74.2mil (+17.2 YoY) is above our forecast but below consensus, constituting 83% and 68% of our and consensus full-year estimates. The increase in net profit was mainly due to lower net finance expenses (-81.4%). Meanwhile MRCB Quill Mall contributed PAT of RM13.8mil to the group.
- The property development & investment division's EBIT declined by 20.6% YoY to RM88.9mil as new projects were still at the early phase of construction. Nonetheless, unbilled sales of RM1.62bil (QoQ: RM1.70bil) will be progressively recognized over FY18-FY21. MRCB will continue to focus its marketing efforts on its residential development projects, namely Sentral Suites, KL Sentral (GDV: RM1,529mil), 1060 Carnegie, Melbourne (GDV: RM305 million) and Kalista Park Homes, Bukit Rahman Putra (GDV: RM101mil), and the remaining unsold units in the Sentral Residences, Q Sentral and VIVO in 9 Seputeh.
- The engineering, construction & environment division's EBIT came in at RM44.8mil (-3.7% YoY), contributed by the MRT2 V210 package and rehabilitation project at Sungai Pahang. The 50% JV venture, MRCB George Kent Sdn Bhd (MRCB-GK), the project delivery partner for the LRT3 project contributed RM20.7mil PAT to the group. MRCB's remaining order book now stands at RM4.8bil, indicating stable income for the construction division over the next 2-3 years. Its external order book is expected to increase further by RM17bil once the LRT3 contract is finalized and the Bukit Jalil corporate exercise is completed.
- MRCB's net gearing remained high at 72% vs. 70% QoQ. However, the compensation of RM1,325.8mil received from the EDL termination; disposals of Ascott Sentral and Menara Celcom; and the Bukit Jalil corporate exercise shall reduce its net gearing to below 20%.
- The government's decision to continue the LRT3 and compensate for the EDL has cleared the uncertainties in MRCB and thus provide better visibility for the future. We believe the outlook for MRCB remains stable premised on its strong property unbilled sales of RM1.62bil, a robust outstanding construction order book of RM4.8bil and outstanding LRT jobs of RM11.86bil.

## EXHIBIT 1: EARNINGS SUMMARY

YE to Dec (RM mil)	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	QoQ %	YoY %	9MFY17	9MFY18	YTD %
Revenue	1,129.8	448.7	427.6	405.2	663.8	63.8%	-41.3%	2,374.9	1,496.6	-37.0%
Operating costs	(1,047.0)	(266.9)	(405.2)	(363.9)	(624.8)	71.7%	-40.3%	(2,175.7)	(1,394.0)	-35.9%
<b>EBIT</b>	<b>82.8</b>	<b>113.6</b>	<b>15.9</b>	<b>47.8</b>	<b>39.0</b>	<b>-18.4%</b>	<b>-53.0%</b>	<b>199.2</b>	<b>102.6</b>	<b>-48.5%</b>
Net finance expenses	(37.8)	7.7	4.0	(10.5)	(11.7)	11.2%	-69.0%	(98.3)	(18.2)	-81.4%
Associate contributions	8.6	10.8	10.7	5.8	13.2	128.7%	54.3%	14.2	29.7	108.6%
Profit before tax	53.6	132.1	30.6	43.0	40.5	-5.9%	-24.5%	115.2	114.1	-1.0%
Taxation	(20.7)	(28.6)	(4.9)	(10.8)	(22.0)	104.8%	6.7%	(37.0)	(37.7)	2.1%
<b>PATMI</b>	<b>30.6</b>	<b>104.3</b>	<b>21.5</b>	<b>33.4</b>	<b>19.8</b>	<b>-40.8%</b>	<b>-35.3%</b>	<b>63.3</b>	<b>74.8</b>	<b>18.2%</b>
Adjustments	(0.1)	(3.3)	0.1	(0.6)	(0.1)	-89.3%	12.1%	0.0	(0.6)	-1767.6%
<b>Core PATMI</b>	<b>30.5</b>	<b>101.0</b>	<b>21.6</b>	<b>32.8</b>	<b>19.7</b>	<b>-39.9%</b>	<b>-35.4%</b>	<b>63.3</b>	<b>74.2</b>	<b>17.2%</b>
EPS (sen)	0.7	2.3	0.5	0.7	0.4	-39.9%	-35.4%	1.4	1.7	17.2%
EBIT margin (%)	7.3%	25.3%	3.7%	11.8%	5.9%			8.4%	6.9%	
Effective tax rate (%)	38.5%	21.6%	16.1%	25.0%	54.4%			32.1%	33.1%	
Core PATMI margin (%)	2.7%	22.5%	5.1%	8.1%	3.0%			2.7%	5.0%	

Source: Company/ AmlInvestment Bank Bhd

## EXHIBIT 2: SOP VALUATIONS

	Outstanding GDV (RMmil)	NPV @11% (RMmil)	Stake	% of SOP
<b>DEVELOPMENT PROPERTIES</b>				
KL Sentral: Lot F	2,993.0	113.5	74.0%	
PJ Sentral Garden City	2,619.0	159.2	100.0%	
Penang Sentral	2,865.0	146.9	100.0%	
Cyberjaya City Centre	5,350.0	192.0	70.0%	
Kwasa Sentral	10,555.0	378.8	70.0%	
Pulai Land, Johor	770.0	46.8	100.0%	
9 Seputeh	2,680.0	137.4	100.0%	
Lot 349, Sentral Suites	1,529.0	93.0	100.0%	
Carnegie, Melbourne	305.0	18.5	100.0%	
Bukit Rahman Putra	547.0	33.3	100.0%	
Bandar Sri Iskandar (Phase 2C, 2D & 3)	766.0	32.6	70.0%	
Unbilled sales		117.3	100.0%	
Bukit Jalil Sentral	20,700.0	149.5	20.0%	
Landbank surplus				
Suria Subang		20.9	100.0%	
Selbourne 2 Shah Alam		15.5	100.0%	
Metro Spectacular Land, Jalan Putra		80.5	51.0%	
<b>Development properties total NPV</b>		<b>1,735.6</b>	-	
Property (40% discount to NPV)		1,041.4		15.6%
Investment properties (book value)		1,267.8	100.0%	19.0%
Construction (10x FY19 earnings -excluding LRT3)		500.1	100.0%	7.5%
LRT 3 (NPV, WACC 11%)		212.1	50.0%	3.2%
MRCB Quill REIT (market value)		323.0	27.9%	4.8%
Investments in JV (book value)		308.2	-	4.6%
Proceeds from termination of EDL		1,325.8		19.9%
Proceeds from sale of Bukit Jalil Sentral land		1,140.8	80.0%	17.1%
Proceeds from Warrants B		548.1	-	8.2%
<b>Total SOP</b>		<b>6,667.4</b>		
Net cash/(debt)		(2,657.6)		
<b>Fair value</b>		<b>4,009.8</b>		
Enlarged share base (mil shares)		4,823.1		
<b>Fair value per share</b>		<b>0.83</b>		

Source: AmlInvestment Bank Bhd

## EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue	2,408.1	2,823.7	1,851.7	2,136.4	2,292.0
EBITDA	577.8	403.4	213.1	236.6	264.8
Depreciation/Amortisation	(75.2)	(68.2)	(61.2)	(63.2)	(64.4)
Operating income (EBIT)	502.6	335.2	152.0	173.4	200.4
Other income & associates	32.7	25.0	25.5	75.5	75.6
Net interest	(152.5)	(90.6)	(36.5)	(42.2)	(45.2)
Exceptional items	1.0	3.3	0.0	0.0	0.0
<b>Pretax profit</b>	<b>382.8</b>	<b>269.7</b>	<b>140.9</b>	<b>206.7</b>	<b>230.8</b>
Taxation	(75.5)	(65.5)	(33.8)	(49.6)	(55.4)
Minority interests	(51.7)	(14.2)	(9.3)	(10.8)	(11.6)
<b>Net profit</b>	<b>255.5</b>	<b>189.9</b>	<b>97.8</b>	<b>146.3</b>	<b>163.9</b>
Core net profit	254.5	186.6	97.8	146.3	163.9
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>
PPE	437.8	614.2	645.0	677.2	711.1
Intangible assets	252.9	225.6	225.6	225.6	225.6
Other long-term assets	3,862.2	3,378.7	5,155.9	5,219.5	5,286.3
<b>Total non-current assets</b>	<b>4,552.9</b>	<b>4,218.6</b>	<b>6,026.5</b>	<b>6,122.3</b>	<b>6,223.0</b>
Cash & equivalent	722.2	724.2	730.0	742.1	755.5
Inventories	816.2	885.1	498.7	602.0	605.0
Trade receivables	1,334.9	3,020.6	1,040.0	1,229.1	1,303.0
Other current assets	45.0	1,342.0	105.3	125.0	141.2
<b>Total current assets</b>	<b>2,918.2</b>	<b>5,971.9</b>	<b>2,374.0</b>	<b>2,698.2</b>	<b>2,804.6</b>
Trade payables	1,314.6	1,296.2	1,213.5	1,454.9	1,416.3
Short-term borrowings	806.3	2,490.6	1,133.3	989.4	755.5
Other current liabilities	68.7	217.9	204.4	208.4	210.6
<b>Total current liabilities</b>	<b>2,189.6</b>	<b>4,004.8</b>	<b>2,551.3</b>	<b>2,652.8</b>	<b>2,382.3</b>
Long-term borrowings	2,130.8	891.2	711.0	906.6	1,257.4
Other long-term liabilities	161.4	493.3	266.9	239.0	270.6
<b>Total long-term liabilities</b>	<b>2,292.2</b>	<b>1,384.6</b>	<b>917.9</b>	<b>1,145.5</b>	<b>1,528.0</b>
<b>Shareholders' funds</b>	<b>2,924.6</b>	<b>4,817.2</b>	<b>4,866.7</b>	<b>4,947.1</b>	<b>5,036.4</b>
Minority interests	99.3	104.5	68.5	79.1	84.8
BV/share (RM)	0.67	1.10	1.11	1.13	1.15
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>
Pretax profit	382.8	269.7	140.9	206.7	230.8
Depreciation/Amortisation	75.2	68.2	61.2	63.2	64.4
Net change in working capital	(56.5)	(1,155.2)	3,405.9	(47.2)	(113.3)
Others	(246.7)	(287.6)	(64.9)	(100.7)	(110.1)
<b>Cash flow from operations</b>	<b>154.8</b>	<b>(1,104.9)</b>	<b>3,543.1</b>	<b>122.1</b>	<b>71.8</b>
Capital expenditure	(130.7)	(176.0)	(30.7)	(32.2)	(33.9)
Net investments & sale of fixed assets	(288.4)	(23.0)	(60.6)	(63.6)	(66.8)
Others	78.0	(843.3)	(1,600.0)	0.0	0.0
<b>Cash flow from investing</b>	<b>(341.1)</b>	<b>(1,042.3)</b>	<b>(1,691.3)</b>	<b>(95.8)</b>	<b>(100.6)</b>
Debt raised/(repaid)	39.8	452.0	(1,537.5)	51.7	116.8
Equity raised/(repaid)	401.7	1,789.8	0.0	0.0	0.0
Dividends paid	(49.8)	(70.1)	(48.3)	(65.9)	(74.6)
Others	46.1	(130.8)	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>437.8</b>	<b>2,040.9</b>	<b>(1,585.8)</b>	<b>(14.2)</b>	<b>42.2</b>
<b>Net cash flow</b>	<b>251.5</b>	<b>(106.4)</b>	<b>266.0</b>	<b>12.1</b>	<b>13.4</b>
<b>Adjustments</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash/(debt) b/f</b>	<b>339.2</b>	<b>592.8</b>	<b>464.0</b>	<b>730.0</b>	<b>742.1</b>
<b>Net cash/(debt) c/f</b>	<b>590.8</b>	<b>486.4</b>	<b>730.0</b>	<b>742.1</b>	<b>755.5</b>
<b>Key Ratios (YE 31 Dec)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>
Revenue growth (%)	41.9	17.3	(34.4)	15.4	7.3
EBITDA growth (%)	0.7	(30.2)	(47.2)	11.0	11.9
Pretax margin (%)	15.9	9.5	7.6	9.7	10.1
Net profit margin (%)	10.6	6.7	5.3	6.8	7.1
Interest cover (x)	3.3	3.7	4.2	4.1	4.4
Effective tax rate (%)	19.7	24.3	24.0	24.0	24.0
Dividend payout (%)	23.6	40.5	49.4	45.0	45.5
Receivable turnover (days)	202.3	390.5	205.0	210.0	207.5
Inventory turnover (days)	66.6	110.0	136.4	94.0	96.1
Payable turnover (days)	188.9	168.7	247.4	228.0	228.6

Source: AmlInvestment Bank Bhd estimates

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