



AmInvestment Bank

## Company report

## MRCB

(MRC MK EQUITY, MYRS.KL)

27 Feb 2020

FY19 net profit plunges 76.2% YoY

UNDERWEIGHT

(Maintained)

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03-2036 2025

Rationale for report: Company results/update

Price RM0.65  
Fair Value RM0.58  
52-week High/Low RM1.15/RM0.63

## Key Changes

Fair value   
EPS

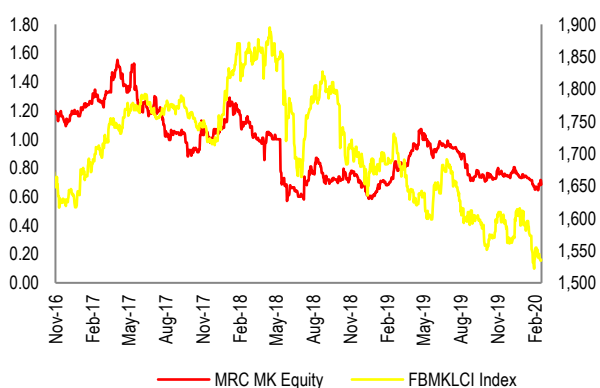
YE to Dec (RM mil)	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	1,319.4	1,690.1	1,963.0	1,731.4
Core net profit (RM mil)	23.7	43.6	69.2	72.3
FD Core EPS (sen)	0.5	1.0	1.6	1.6
FD Core EPS growth (%)	(76.2)	83.8	58.7	4.5
Consensus Net Profit (RM mil)	-	69.0	76.6	-
DPS (sen)	1.7	0.5	0.8	0.8
PE (x)	122.2	66.5	41.9	40.1
EV/EBITDA (x)	3.0	24.8	19.6	20.4
Div yield (%)	2.6	0.8	1.2	1.2
ROE (%)	26.8	0.9	1.4	1.5
Net Gearing (%)	27.4%	32.9%	35.1%	32.4%

## Stock and Financial Data

Shares Outstanding (million)	4,412.0
Market Cap (RM mil)	2,867.8
Book Value (RM/share)	1.08
P/BV (x)	0.6
ROE (%)	0.9
Net Gearing (%)	19.6%

Major Shareholders	EPF	35.9%
	Gapurna Sdn Bhd	15.5%
	LTH	6.0%
Free Float	42.7%	
Avg Daily Value (RM mil)	5.67	

Price performance	3mth	6mth	12mth
Absolute (%)	(7.9)	(7.3)	(15.7)
Relative (%)	(0.2)	(4.5)	(6.7)



## Investment Highlights

- We maintain UNDERWEIGHT on MRCB with a lower fair value of RM0.58 (from RM0.60) based on SOP valuations (Exhibit 2). We cut our FY20–FY21 earnings forecasts by 21% and 16% respectively to reflect the timing of revenue recognition in: (i) property development; and (ii) engineering, construction & environment divisions. We introduce FY22 net earnings forecast at RM72.3mil.
- MRCB's FY19 net profit of RM23.7mil (-76.2% YoY) came in within our expectation but above consensus. Revenue fell by 29.5% YoY mainly due to lower contribution from the property development & investment, and engineering, and construction & environment divisions. The company's high-rise residential development projects are still in the early phase of construction, hence the lower revenue recognition. Management indicated stronger contributions from these projects beginning 2QFY20. The retiming of income recognition from the LRT3 project also impacted its revenue.
- The property development & investment division's FY19 revenue and EBIT dropped by 45.6% and 21.5% YoY to RM566.7mil and RM76.8mil respectively due to the abovementioned reason. MRCB registered new sales of RM537mil (YoY-RM496.6mil) while unbilled sales of RM1.6bil shall provide better earnings visibility the medium term. MRCB is targeting new sales of RM550mil for FY20.
- The engineering, construction & environment division's FY19 revenue and EBIT dipped by 10.4% and 59.0% YoY to RM679.5mil and RM23.1mil respectively. The sharp drop was mainly due to the cost incurred while awaiting the completion of the final accounts of completed projects. MRCB George Kent Sdn Bhd's LRT3 project contributed a lower PBT of RM0.6mil, vs. RM14.6mil YoY due to a deferment of progress billings. The engineering, construction & environment division has open tenders worth RM1.4bil while its remaining order book stands at RM20.7bil.
- We believe earnings shall improve after 2HFY20, with the completion and handover of several property development projects as the pace of construction progress starts to pick up in 2020. Nonetheless, we remain prudent in our revenue assumption while revising our FY20–21 net earnings forecasts downwards by 21 and 16% respectively.
- Our UNDERWEIGHT call is due to: 1) a limited upside to the share price; 2) a generally weak investor sentiment on the property/construction sector, particularly among larger developers; and 3) the still sluggish demand for local properties. We may upgrade the stock to a HOLD/BUY if: 1) there's a sharp retracement in its share price while fundamentals persist; 2) surprises in earnings; and 3) major catalysts such as M&A and huge contract awards.

## EXHIBIT 1: EARNINGS SUMMARY

YE to Dec (RM mil)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	QoQ %	YoY %	FY18	FY19	YTD %
Revenue	374.1	234.1	241.0	371.7	472.6	27.1%	26.3%	1,870.7	1,319.4	-29.5%
Operating costs	(293.8)	(201.7)	(203.3)	(330.9)	(429.7)	29.8%	46.3%	(1,672.5)	(1,165.7)	-30.3%
<b>EBIT</b>	<b>64.6</b>	<b>18.9</b>	<b>21.1</b>	<b>25.3</b>	<b>26.7</b>	<b>5.7%</b>	<b>-58.6%</b>	<b>167.2</b>	<b>92.0</b>	<b>-45.0%</b>
Net finance expenses	(25.7)	(12.4)	(12.6)	(13.7)	(7.0)	-48.8%	-72.8%	(44.0)	(45.6)	3.7%
Associate contributions	(4.2)	1.9	1.3	2.7	0.7	-73.9%	-116.6%	25.5	6.6	-74.2%
Profit before tax	34.7	8.4	9.8	14.3	20.4	43.1%	-41.1%	148.7	53.0	-64.4%
Taxation	(8.4)	(6.9)	(2.2)	(12.1)	(13.1)	8.3%	57.1%	(46.1)	(34.3)	-25.7%
<b>PATMI</b>	<b>26.4</b>	<b>4.1</b>	<b>11.1</b>	<b>2.5</b>	<b>6.0</b>	<b>139.4%</b>	<b>-77.2%</b>	<b>101.2</b>	<b>23.7</b>	<b>-76.5%</b>
Adjustments	(0.8)	(0.2)	(0.1)	(0.2)	0.5	-294.6%	-155.2%	(1.4)	0.0	-100.0%
<b>Core PATMI</b>	<b>25.6</b>	<b>4.0</b>	<b>11.0</b>	<b>2.3</b>	<b>6.5</b>	<b>185.2%</b>	<b>-74.6%</b>	<b>99.8</b>	<b>23.7</b>	<b>-76.2%</b>
EPS (sen)	0.6	0.1	0.2	0.1	0.1	185.2%	-74.6%	2.3	0.5	-76.2%
EBIT margin (%)	17.3%	8.1%	8.8%	6.8%	5.7%			8.9%	7.0%	
Effective tax rate (%)	24.1%	81.5%	22.1%	84.8%	64.2%			31.0%	64.7%	
Core PATMI margin (%)	6.8%	1.7%	4.6%	0.6%	1.4%			5.3%	1.8%	

Source: Company/ AmInvestment Bank Bhd

## EXHIBIT 2: SOP VALUATIONS

	Outstanding GDV (RMmil)	NPV @13% (RMmil)	Stake	% of SOP
<b>DEVELOPMENT PROPERTIES</b>				
KL Sentral: Lot F	2,993.0	53.7	74.0%	
PJ Sentral Garden City	2,619.0	63.5	100.0%	
Penang Sentral	2,865.0	69.5	100.0%	
Cyberjaya City Centre	5,350.0	90.8	70.0%	
Kwasa Sentral	10,555.0	179.1	70.0%	
Pulai Land, Johor	770.0	18.7	100.0%	
9 Seputeh	2,680.0	65.0	100.0%	
Lot 349, Sentral Suites	1,529.0	37.1	100.0%	
Carnegie, Melbourne	305.0	7.4	100.0%	
Bukit Rahman Putra	547.0	13.3	100.0%	
Bandar Sri Iskandar (Phase 2C, 2D & 3)	766.0	13.0	70.0%	
Unbilled sales		41.4	100.0%	
Bukit Jalil Sentral	20,700.0	104.0	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>873.2</b>	-	
Property (50% discount to NPV)		436.6		11.3%
Investment properties (book value)		1,331.3	100.0%	34.3%
Construction (10x FY20 earnings -excluding LRT3)		150.8	100.0%	3.9%
LRT 3 (NPV, WACC 12.5%)		212.1	50.0%	5.5%
MRCB Quill REIT (market value)		309.6	27.9%	8.0%
Investments in JV (book value)		297.8	-	7.7%
Proceeds from sale of Bukit Jalil Sentral land		1,140.8	80.0%	29.4%
<b>Total SOP</b>		<b>3,879.0</b>		
Net cash/(debt)		(1,311.2)		
<b>Fair value</b>		<b>2,567.8</b>		
Share base (mil shares)		4,399.9		
<b>Fair value per share</b>		<b>0.58</b>		

Source: AmInvestment Bank Bhd

## EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	1,870.7	1,319.4	1,690.1	1,963.0	1,731.4
EBITDA	198.3	1,420.2	180.8	235.4	219.8
Depreciation/Amortisation	(50.9)	(61.7)	(71.9)	(79.5)	(73.1)
Operating income (EBIT)	147.3	1,358.4	108.9	156.0	146.7
Other income & associates	25.5	6.6	6.7	6.8	7.0
Net interest	(44.0)	(45.6)	(58.4)	(67.8)	(59.8)
Exceptional items	1.4	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>148.7</b>	<b>1,319.4</b>	<b>57.2</b>	<b>95.0</b>	<b>93.9</b>
Taxation	(46.1)	(34.3)	(20.0)	(33.2)	(28.2)
Minority interests	(1.5)	5.0	6.5	7.5	6.6
<b>Net profit</b>	<b>101.2</b>	<b>1,290.2</b>	<b>43.6</b>	<b>69.2</b>	<b>72.3</b>
Core net profit	99.8	1,290.2	43.6	69.2	72.3
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
PPE	665.4	600.4	630.5	662.0	695.1
Intangible assets	226.7	224.3	224.3	224.3	224.3
Other long-term assets	3,977.4	4,109.2	4,180.2	4,254.7	4,332.9
<b>Total non-current assets</b>	<b>4,869.4</b>	<b>4,933.9</b>	<b>5,034.9</b>	<b>5,140.9</b>	<b>5,252.3</b>
Cash & equivalent	551.6	516.9	722.0	727.1	732.7
Inventories	1,043.7	963.2	456.2	551.2	469.0
Trade receivables	1,733.8	873.1	1,342.4	1,559.2	1,298.7
Other current assets	149.5	975.2	963.3	1,000.1	988.6
<b>Total current assets</b>	<b>3,478.7</b>	<b>3,328.4</b>	<b>3,483.9</b>	<b>3,837.5</b>	<b>3,489.0</b>
Trade payables	1,364.2	947.9	988.3	1,194.2	1,016.2
Short-term borrowings	729.4	824.8	722.0	727.1	732.7
Other current liabilities	15.4	98.6	99.8	100.7	99.9
<b>Total current liabilities</b>	<b>2,109.0</b>	<b>1,871.3</b>	<b>1,810.1</b>	<b>2,022.0</b>	<b>1,848.8</b>
Long-term borrowings	769.9	1,003.3	1,584.6	1,703.0	1,584.1
Other long-term liabilities	570.9	806.9	512.7	601.4	624.7
<b>Total long-term liabilities</b>	<b>1,340.8</b>	<b>1,810.2</b>	<b>2,097.3</b>	<b>2,304.4</b>	<b>2,208.8</b>
<b>Shareholders' funds</b>	<b>4,832.4</b>	<b>4,791.6</b>	<b>4,813.2</b>	<b>4,847.4</b>	<b>4,884.6</b>
Minority interests	68.0	31.9	40.9	47.5	41.9
BV/share (RM)	1.10	1.09	1.10	1.10	1.11
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Pretax profit	148.7	1,319.4	57.2	95.0	93.9
Depreciation/Amortisation	50.9	61.7	71.9	79.5	73.1
Net change in working capital	2,182.4	(208.8)	79.3	(105.0)	163.9
Others	(1,201.7)	(251.3)	(142.9)	(46.6)	(65.5)
<b>Cash flow from operations</b>	<b>1,180.5</b>	<b>921.1</b>	<b>65.5</b>	<b>22.8</b>	<b>265.4</b>
Capital expenditure	0.0	0.0	(30.0)	(31.5)	(33.1)
Net investments & sale of fixed assets	0.0	0.0	(71.0)	(74.5)	(78.3)
Others	1,040.7	158.0	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>1,040.7</b>	<b>158.0</b>	<b>(101.0)</b>	<b>(106.1)</b>	<b>(111.4)</b>
Debt raised/(repaid)	(835.8)	1,139.9	478.5	123.5	(113.3)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(106.2)	(108.5)	(22.0)	(35.1)	(35.1)
Others	(1,253.5)	(1,013.0)	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>(2,195.5)</b>	<b>18.5</b>	<b>456.5</b>	<b>88.4</b>	<b>(148.4)</b>
<b>Net cash flow</b>	<b>25.7</b>	<b>1,097.6</b>	<b>421.1</b>	<b>5.1</b>	<b>5.6</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>464.0</b>	<b>469.8</b>	<b>300.9</b>	<b>722.0</b>	<b>727.1</b>
<b>Net cash/(debt) c/f</b>	<b>489.7</b>	<b>1,567.4</b>	<b>722.0</b>	<b>727.1</b>	<b>732.7</b>
<b>Key Ratios (YE 31 Dec)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Revenue growth (%)	(29.2)	(29.5)	28.1	16.1	(11.8)
EBITDA growth (%)	(25.8)	616.4	(87.3)	30.2	(6.6)
Pretax margin (%)	8.0	100.0	3.4	4.8	5.4
Net profit margin (%)	5.4	97.8	2.6	3.5	4.2
Interest cover (x)	3.3	29.8	1.9	2.3	2.5
Effective tax rate (%)	31.0	2.6	35.0	35.0	30.0
Dividend payout (%)	75.9	6.0	50.3	50.7	48.5
Receivable turnover (days)	338.3	241.5	289.9	289.9	273.8
Inventory turnover (days)	188.2	277.6	153.3	93.6	107.5
Payable turnover (days)	259.5	319.8	209.1	202.9	233.0

Source: AmlInvestment Bank Bhd estimates

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