



AmInvestment Bank

Company report

MRCB

(MRC MK EQUITY, MYRS.KL)

22 Nov 2019

9MFY19 net profit plunges 76.8% YoY

UNDERWEIGHT

(Maintained)

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03-2036 2025

Rationale for report: Company results/update

Price	RM0.76
Fair Value	RM0.60
52-week High/Low	RM1.15/RM0.57

Key Changes

Fair value	⬇️
EPS	⬇️

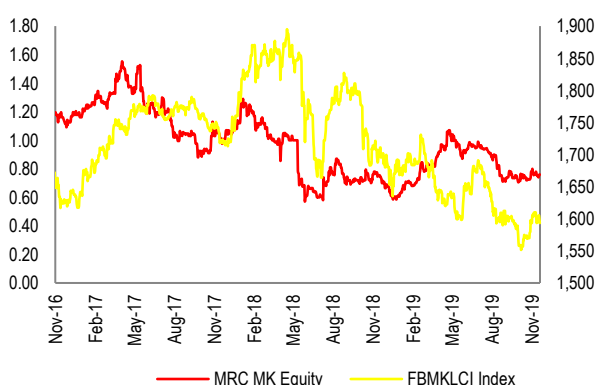
YE to Dec (RM mil)	FY18	FY19F	FY20F	FY21F
Revenue (RM mil)	1,870.7	1,224.7	1,690.1	1,963.0
Core net profit (RM mil)	99.8	25.4	55.2	82.4
FD Core EPS (sen)	2.3	0.6	1.3	1.9
FD Core EPS growth (%)	(37.1)	(74.6)	117.6	49.3
Consensus Net Profit (RM mil)	-	59.8	114.0	154.4
DPS (sen)	1.7	0.3	0.6	0.9
PE (x)	33.5	131.7	60.5	40.5
EV/EBITDA (x)	22.2	46.8	30.7	23.0
Div yield (%)	2.3	0.4	0.8	1.2
ROE (%)	2.1	0.5	1.1	1.7
Net Gearing (%)	19.6%	6.3%	14.4%	17.6%

Stock and Financial Data

Shares Outstanding (million)	4,412.0
Market Cap (RM mil)	3,353.2
Book Value (RM/share)	1.10
P/BV (x)	0.7
ROE (%)	1.3
Net Gearing (%)	19.6%

Major Shareholders	EPF	35.9%
	Gapurna Sdn Bhd	15.5%
	LTH	6.1%
Free Float	42.5%	
Avg Daily Value (RM mil)	6.35	

Price performance	3mth	6mth	12mth
Absolute (%)	1.3	(17.1)	5.4
Relative (%)	4.1	1.4	10.0



Investment Highlights

- We maintain our **UNDERWEIGHT** recommendation on MRCB with a lower fair value of RM0.60 (from RM0.63) based on SOP valuations (Exhibit 2). We cut our FY19–FY21 earnings forecasts by 57%, 34% and 25% respectively to reflect the timing of revenue recognition in both the: (i) property development; and (ii) engineering, construction & environment divisions.
- MRCB's 9MFY19 net profit of RM17.2mil (-76.8% YoY) came in below our and market expectations, at 29% and 28% full-year estimates respectively.
- Revenue fell by 43% YoY mainly due to lower contribution from the property development & investment and engineering, and construction & environment divisions. Moreover, MRCB's high-rise residential development projects are still in the early phase of construction, hence the lower revenue recognition. Meanwhile, the retiming of income recognition from the LRT3 project also impacted the group's revenue.
- The property development & investment division's 9MFY19 revenue and EBIT dropped by 58% and 21% YoY respectively. Nevertheless, MRCB registered new sales of RM398mil while unbilled sales of RM1.7bil shall provide better earnings visibility the medium term.
- The engineering, construction & environment division's 9MFY19 revenue and EBIT tumbled by 25% and 93% YoY respectively. The significant drop in revenue and profit 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 lower PBT of RM1.2mil, as compared with RM20.7mil YoY as a result of deferment of progress billings. Meanwhile, the engineering, construction & environment division currently has open tenders valued at RM1.2bil. Its remaining order book now stands at RM20.9bil.
- We believe earnings shall improve after 2HFY20, with the completion and handover of several property development projects; with the pace of construction progress beginning to pick up in 2020. We reduce our FY19–21 earnings forecasts by 57%, 34% and 25% respectively and maintaining our **UNDERWEIGHT** call.
- Our **UNDERWEIGHT** recommendation 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)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	QoQ %	YoY %	9MFY18	9MFY19	YTD %
Revenue	663.8	374.1	234.1	241.0	371.7	54.3%	-44.0%	1,496.6	846.8	-43.4%
Operating costs	(624.8)	(299.3)	(201.7)	(203.3)	(330.9)	62.8%	-47.0%	(1,378.7)	(736.0)	-46.6%
EBIT	39.0	64.6	18.9	21.1	25.3	19.7%	-35.2%	102.6	65.3	-36.4%
Net finance expenses	(11.7)	(25.7)	(12.4)	(12.6)	(13.7)	8.7%	16.6%	(18.2)	(38.6)	111.6%
Associate contributions	13.2	(4.2)	1.9	1.3	2.7	109.1%	-79.9%	29.7	5.9	-80.2%
Profit before tax	40.5	34.7	8.4	9.8	14.3	45.4%	-64.7%	114.1	32.5	-71.5%
Taxation	(22.0)	(8.4)	(6.9)	(2.2)	(12.1)	457.9%	-45.0%	(37.7)	(21.1)	-44.0%
PATMI	19.8	26.4	4.1	11.1	2.5	-77.2%	-87.3%	74.8	17.7	-76.3%
Adjustments	(0.1)	(0.8)	(0.2)	(0.1)	(0.2)	228.8%	269.2%	(0.6)	(0.5)	-17.6%
Core PATMI	19.7	25.6	4.0	11.0	2.3	-79.3%	-88.5%	74.2	17.2	-76.8%
EPS (sen)	0.4	0.6	0.1	0.2	0.1	-79.3%	-88.5%	1.7	0.4	-76.8%
EBIT margin (%)	5.9%	17.3%	8.1%	8.8%	6.8%			6.9%	7.7%	
Effective tax rate (%)	54.4%	24.1%	81.5%	22.1%	84.8%			33.1%	65.0%	
Core PATMI margin (%)	3.0%	6.8%	1.7%	4.6%	0.6%			5.0%	2.0%	

Source: Company/ AmlInvestment Bank Bhd

EXHIBIT 2: SOP VALUATIONS

DEVELOPMENT PROPERTIES	Outstanding GDV (RMmil)	NPV @13% (RMmil)	Stake	% of SOP
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%	
Development properties total NPV		873.2	-	
Property (50% discount to NPV)		436.6		11.1%
Investment properties (book value)		1,331.3	100.0%	34.0%
Construction (10x FY20 earnings -excluding LRT3)		190.8	100.0%	4.9%
LRT 3 (NPV, WACC 12.5%)		212.1	50.0%	5.4%
MRCB Quill REIT (market value)		309.6	27.9%	7.9%
Investments in JV (book value)		297.8	-	7.6%
Proceeds from sale of Bukit Jalil Sentral land		1,140.8	80.0%	29.1%
Total SOP		3,919.0		
Net cash/(debt)		(1,290.1)		
Fair value		2,628.9		
Share base (mil shares)		4,399.9		
Fair value per share		0.60		

Source: AmlInvestment Bank Bhd

EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue	2,640.6	1,870.7	1,224.7	1,690.1	1,963.0
EBITDA	267.2	192.8	77.9	131.9	182.8
Depreciation/Amortisation	(25.4)	(25.5)	(16.7)	(23.1)	(26.8)
Operating income (EBIT)	241.7	167.2	61.2	108.9	156.0
Other income & associates	25.0	25.5	9.7	9.9	10.1
Net interest	(28.4)	(44.0)	(23.0)	(31.8)	(36.9)
Exceptional items	3.2	1.4	0.0	0.0	0.0
Pretax profit	243.9	148.7	47.9	87.0	129.2
Taxation	(67.8)	(46.1)	(21.6)	(30.5)	(45.2)
Minority interests	(14.2)	(1.5)	(1.0)	(1.3)	(1.6)
Net profit	161.8	101.2	25.4	55.2	82.4
Core net profit	158.6	99.8	25.4	55.2	82.4
Balance Sheet (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
PPE	614.2	665.4	698.6	733.6	770.2
Intangible assets	225.6	226.7	226.7	226.7	226.7
Other long-term assets	3,378.7	3,977.4	4,042.9	4,111.8	4,184.1
Total non-current assets	4,218.6	4,869.4	4,968.3	5,072.1	5,181.0
Cash & equivalent	724.2	551.6	726.7	731.0	737.5
Inventories	885.1	1,043.7	349.5	472.2	540.0
Trade receivables	3,020.6	1,733.8	906.0	1,408.3	1,635.7
Other current assets	1,342.0	149.5	71.5	111.1	128.4
Total current assets	5,971.9	3,478.7	2,053.6	2,722.6	3,041.5
Trade payables	1,296.2	1,364.2	757.2	1,023.2	1,169.9
Short-term borrowings	2,490.6	729.4	968.9	731.0	737.5
Other current liabilities	217.9	15.4	10.1	13.9	16.2
Total current liabilities	4,004.8	2,109.0	1,736.2	1,768.1	1,923.5
Long-term borrowings	891.2	769.9	62.9	704.1	864.1
Other long-term liabilities	493.3	570.9	335.8	389.7	449.4
Total long-term liabilities	1,384.6	1,340.8	398.7	1,093.8	1,313.5
Shareholders' funds	4,817.2	4,832.4	4,844.7	4,873.5	4,916.4
Minority interests	104.5	68.0	44.5	61.4	71.4
BV/share (RM)	1.10	1.10	1.10	1.11	1.12
Cash Flow (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Pretax profit	243.9	148.7	47.9	87.0	129.2
Depreciation/Amortisation	25.4	25.5	16.7	23.1	26.8
Net change in working capital	(2,806.3)	2,182.4	909.8	(355.3)	(146.1)
Others	1,653.8	(1,196.2)	(138.0)	(23.6)	(21.3)
Cash flow from operations	(883.2)	1,160.5	836.4	(268.8)	(11.5)
Capital expenditure	(176.0)	0.0	(33.3)	(34.9)	(36.7)
Net investments & sale of fixed assets	(23.0)	0.0	(65.6)	(68.9)	(72.3)
Others	(858.0)	1,040.7	0.0	0.0	0.0
Cash flow from investing	(1,057.0)	1,040.7	(98.8)	(103.8)	(109.0)
Debt raised/(repaid)	452.0	(835.8)	(467.5)	403.3	166.4
Equity raised/(repaid)	1,789.8	0.0	0.0	0.0	0.0
Dividends paid	(70.1)	(106.2)	(13.2)	(26.3)	(39.5)
Others	(354.7)	(1,253.5)	0.0	0.0	0.0
Cash flow from financing	1,816.9	(2,195.5)	(480.7)	377.0	126.9
Net cash flow	(123.2)	5.8	256.9	4.3	6.4
Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	592.8	464.0	469.8	726.7	731.0
Net cash/(debt) c/f	469.5	469.8	726.7	731.0	737.5
Key Ratios (YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue growth (%)	9.7	(29.2)	(34.5)	38.0	16.1
EBITDA growth (%)	(53.9)	(27.8)	(59.6)	69.3	38.5
Pretax margin (%)	9.2	8.0	3.9	5.1	6.6
Net profit margin (%)	6.1	5.4	2.1	3.3	4.2
Interest cover (x)	8.5	3.8	2.7	3.4	4.2
Effective tax rate (%)	27.8	31.0	45.0	35.0	35.0
Dividend payout (%)	47.5	75.9	51.9	47.7	48.0
Receivable turnover (days)	417.5	338.3	270.0	304.1	304.1
Inventory turnover (days)	117.6	188.2	207.6	88.7	94.1
Payable turnover (days)	180.4	259.5	316.1	192.2	203.9

Source: AmlInvestment Bank Bhd estimates

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