



AmInvestment Bank

Company report

MRCB

(MRC MK EQUITY, MYRS.KL)

27 Aug 2019

1HFY19 net profit plunges 72.5% YoY

UNDERWEIGHT

(Maintained)

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03-2036 2025

Rationale for report: Company results/update

Price RM0.74
Fair Value RM0.65
52-week High/Low RM1.15/RM0.57

Key Changes

Fair value
EPS

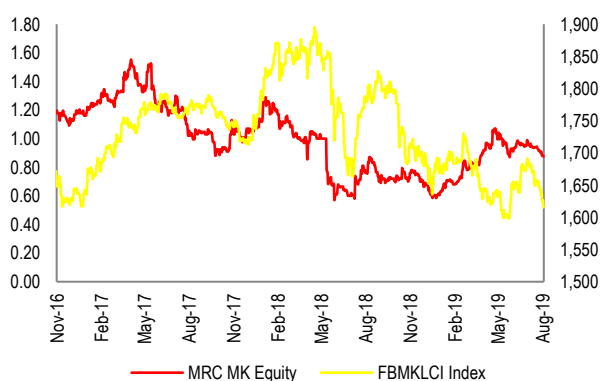
YE to Dec (RM mil)	FY18	FY19F	FY20F	FY21F
Revenue (RM mil)	1,870.7	1,224.7	1,690.1	1,963.0
Core net profit (RM mil)	99.8	59.4	84.2	109.6
FD Core EPS (sen)	2.3	1.4	1.9	2.5
FD Core EPS growth (%)	(37.1)	(40.5)	41.8	30.2
Consensus Net Profit (RM mil)	-	94.3	127.0	169.6
DPS (sen)	1.7	0.7	0.9	1.2
PE (x)	32.6	54.8	38.6	29.7
EV/EBITDA (x)	21.8	35.5	26.1	20.8
Div yield (%)	2.4	0.9	1.2	1.6
ROE (%)	2.1	1.2	1.7	2.2
Net Gearing (%)	19.6%	6.1%	13.8%	16.6%

Stock and Financial Data

Shares Outstanding (million)	4,412.0
Market Cap (RM mil)	3,264.9
Book Value (RM/share)	1.10
P/BV (x)	0.8
ROE (%)	1.7
Net Gearing (%)	19.6%

Major Shareholders	EPF	35.9%
	Gapurna Sdn Bhd	15.5%
	LTH	6.3%
Free Float	42.4%	
Avg Daily Value (RM mil)	5.51	

Price performance	3mth	6mth	12mth
Absolute (%)	(16.9)	(16.9)	(16.9)
Relative (%)	(7.5)	(7.5)	(7.5)



Investment Highlights

- We maintain our **UNDERWEIGHT** recommendation on MRCB with a lower fair value of RM0.65 (from RM0.77) based on SOP valuation (Exhibit 2). We cut our FY19–FY21 earnings forecasts by 35%, 16% and 8% respectively to reflect the timing of revenue recognition in both the property development, and engineering, construction & environment divisions.
- MRCB's 1HFY19 net profit of RM15.0mil (-72.5% YoY) came in below our and market expectations, at 16.3% of our and 15.8% of consensus full-year estimates.
- Revenue fell by 43% YoY mainly due to lower revenue contribution from both the property development & investment and engineering and construction & environment divisions.
- MRCB's 1HFY19 PBT plunged by 75.2% to RM18.2mil, impacted by the lower revenue recognised during the period as well as the deferment and retiming of income recognition from the LRT3 project.
- The property development & investment division's 1HFY19 revenue and EBIT dropped by 62% and 15% YoY respectively. MRCB registered new sales of RM244mil while unbilled sales of RM1.8bil shall provide better earnings visibility the medium term.
- The engineering, construction & environment division's 1HFY19 revenue and EBIT tumbled by 26% and 96% YoY respectively. The division suffered a loss of RM15.2mil in 2QFY19 due to lower revenue and costs incurred while awaiting the completion of the final accounts of completed projects. The engineering, construction & environment division currently has open tenders valued at RM1.6bil while its remaining order book now stands at RM21.2bil.
- Management expects stronger earnings in 2HFY19, with higher revenue recognitions. Nonetheless, most projects are still in early stages, hence we believe the company may not be able to match previous year's earnings level. As a result, we reduce our FY19–21 earnings forecasts by 35%, 16% and 8% respectively.
- 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 share prices 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)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	QoQ %	YoY %	1HFY18	1HFY19	YTD %
Revenue	405.2	663.8	374.1	234.1	241.0	3.0%	-40.5%	832.8	475.0	-43.0%
Operating costs	(348.6)	(624.8)	(299.3)	(201.7)	(203.3)	0.8%	-41.7%	(753.9)	(405.0)	-46.3%
EBIT	47.8	39.0	64.6	18.9	21.1	11.8%	-55.8%	63.7	40.0	-37.2%
Net finance expenses	(10.5)	(11.7)	(25.7)	(12.4)	(12.6)	1.2%	19.3%	(6.5)	(25.0)	282.1%
Associate contributions	5.8	13.2	(4.2)	1.9	1.3	-34.3%	-78.0%	16.5	3.2	-80.5%
Profit before tax	43.0	40.5	34.7	8.4	9.8	16.8%	-77.2%	73.6	18.2	-75.2%
Taxation	(10.8)	(22.0)	(8.4)	(6.9)	(2.2)	-68.4%	-79.8%	(15.7)	(9.0)	-42.5%
PATMI	33.4	19.8	26.4	4.1	11.1	167.4%	-66.9%	55.0	15.2	-72.4%
Adjustments	(0.6)	(0.1)	(0.8)	(0.2)	(0.1)	-52.6%	-88.0%	(0.5)	(0.2)	-54.8%
Core PATMI	32.8	19.7	25.6	4.0	11.0	175.9%	-66.6%	54.5	15.0	-72.5%
EPS (sen)	0.7	0.4	0.6	0.1	0.2	175.9%	-66.6%	1.2	0.3	-72.5%
EBIT margin (%)	11.8%	5.9%	17.3%	8.1%	8.8%			7.6%	8.4%	
Effective tax rate (%)	25.0%	54.4%	24.1%	81.5%	22.1%			21.3%	49.5%	
Core PATMI margin (%)	8.1%	3.0%	6.8%	1.7%	4.6%			6.5%	3.2%	

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	45.4	74.0%	
PJ Sentral Garden City	2,619.0	53.7	100.0%	
Penang Sentral	2,865.0	58.7	100.0%	
Cyberjaya City Centre	5,350.0	76.8	70.0%	
Kwasa Sentral	10,555.0	151.4	70.0%	
Pulai Land, Johor	770.0	15.8	100.0%	
9 Seputeh	2,680.0	54.9	100.0%	
Lot 349, Sentral Suites	1,529.0	31.3	100.0%	
Carnegie, Melbourne	305.0	6.3	100.0%	
Bukit Rahman Putra	547.0	11.2	100.0%	
Bandar Sri Iskandar (Phase 2C, 2D & 3)	766.0	11.0	70.0%	
Unbilled sales		40.7	100.0%	
Bukit Jalil Sentral	20,700.0	90.4	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		764.5	-	
Property (40% discount to NPV)		458.7		11.4%
Investment properties (book value)		1,331.3	100.0%	33.0%
Construction (10x FY20 earnings -excluding LRT3)		291.0	100.0%	7.2%
LRT 3 (NPV, WACC 12.5%)		200.6	50.0%	5.0%
MRCB Quill REIT (market value)		309.6	27.9%	7.7%
Investments in JV (book value)		297.8	-	7.4%
Proceeds from sale of Bukit Jalil Sentral land		1,140.8	80.0%	28.3%
Total SOP		4,029.8		
Net cash/(debt)		(1,209.1)		
Fair value		2,820.8		
Share base (mil shares)		4,399.9		
Fair value per share		0.65		

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	100.0	150.6	195.5
Depreciation/Amortisation	(25.4)	(25.5)	(16.7)	(23.1)	(26.8)
Operating income (EBIT)	241.7	167.2	83.3	127.5	168.8
Other income & associates	25.0	25.5	26.0	26.5	27.0
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	86.2	122.2	158.9
Taxation	(67.8)	(46.1)	(25.9)	(36.7)	(47.7)
Minority interests	(14.2)	(1.5)	(1.0)	(1.3)	(1.6)
Net profit	161.8	101.2	59.4	84.2	109.6
Core net profit	158.6	99.8	59.4	84.2	109.6
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	729.2	735.9	744.4
Inventories	885.1	1,043.7	342.2	466.1	535.8
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	2,048.8	2,721.3	3,044.3
Trade payables	1,296.2	1,364.2	741.5	1,009.9	1,160.8
Short-term borrowings	2,490.6	729.4	972.2	735.9	744.4
Other current liabilities	217.9	15.4	10.1	13.9	16.2
Total current liabilities	4,004.8	2,109.0	1,723.8	1,759.7	1,921.4
Long-term borrowings	891.2	769.9	54.1	679.0	822.7
Other long-term liabilities	493.3	570.9	335.8	389.7	449.4
Total long-term liabilities	1,384.6	1,340.8	389.9	1,068.7	1,272.0
Shareholders' funds	4,817.2	4,832.4	4,861.1	4,905.8	4,962.8
Minority interests	104.5	68.0	44.5	61.4	71.4
BV/share (RM)	1.10	1.10	1.11	1.12	1.13
Cash Flow (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Pretax profit	243.9	148.7	86.2	122.2	158.9
Depreciation/Amortisation	25.4	25.5	16.7	23.1	26.8
Net change in working capital	(2,806.3)	2,182.4	901.3	(354.0)	(143.9)
Others	1,653.8	(1,196.2)	(142.3)	(29.8)	(23.8)
Cash flow from operations	(883.2)	1,160.5	861.9	(238.5)	18.0
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)	(473.0)	388.5	152.2
Equity raised/(repaid)	1,789.8	0.0	0.0	0.0	0.0
Dividends paid	(70.1)	(106.2)	(30.7)	(39.5)	(52.7)
Others	(354.7)	(1,253.5)	0.0	0.0	0.0
Cash flow from financing	1,816.9	(2,195.5)	(503.7)	349.0	99.5
Net cash flow	(123.2)	5.8	259.4	6.7	8.5
Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	592.8	464.0	469.8	729.2	735.9
Net cash/(debt) c/f	469.5	469.8	729.2	735.9	744.4
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)	(48.1)	50.6	29.9
Pretax margin (%)	9.2	8.0	7.0	7.2	8.1
Net profit margin (%)	6.1	5.4	4.8	5.0	5.6
Interest cover (x)	8.5	3.8	3.6	4.0	4.6
Effective tax rate (%)	27.8	31.0	30.0	30.0	30.0
Dividend payout (%)	47.5	75.9	51.7	46.9	48.0
Receivable turnover (days)	417.5	338.3	270.0	304.1	304.1
Inventory turnover (days)	117.6	188.2	206.5	87.3	93.1
Payable turnover (days)	180.4	259.5	313.8	189.1	201.8

Source: AmlInvestment Bank Bhd estimates

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