



AmInvestment Bank

Company report

MRCB

(MRC MK EQUITY, MYRS.KL)

27 Feb 2018

FY18 profit falls by 37.1% YoY

HOLD

(Downgraded)

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03-2036 2025

Rationale for report: Company results/update

Price RM0.80
Fair Value RM0.83
52-week High/Low RM1.18/RM0.55

Key Changes

Fair value 
EPS 

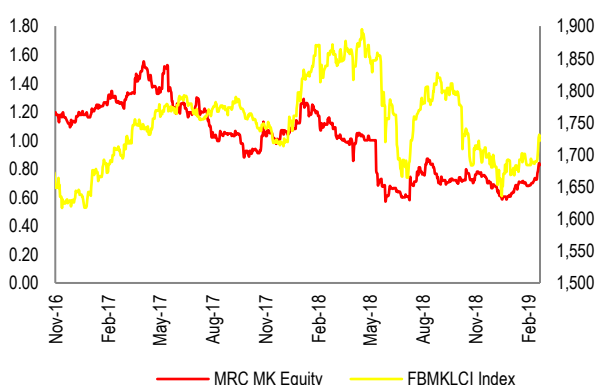
YE to Dec (RM mil)	FY18	FY19F	FY20F	FY21F
Revenue (RM mil)	1,870.7	2,190.4	2,345.9	2,494.9
Core net profit (RM mil)	99.8	129.4	146.4	163.3
FD Core EPS (sen)	2.3	2.9	3.3	3.7
FD Core EPS growth (%)	(37.1)	29.7	13.2	11.5
Consensus Net Profit (RM mil)	-	128.4	165.4	-
DPS (sen)	1.7	1.4	1.5	1.7
PE (x)	35.2	27.2	24.0	21.5
EV/EBITDA (x)	23.2	18.0	17.1	15.6
Div yield (%)	2.2	1.7	1.9	2.1
ROE (%)	2.1	2.7	3.0	3.3
Net Gearing (%)	19.6%	13.8%	19.4%	20.0%

Stock and Financial Data

Shares Outstanding (million)	4,399.9
Market Cap (RM mil)	3,607.9
Book Value (RM/share)	1.09
P/BV (x)	0.7
ROE (%)	4.6
Net Gearing (%)	48.3

Major Shareholders	EPF	36.0%
	Gapurna Sdn Bhd	16.1%
	LTH	7.0%
Free Float	41.0%	
Avg Daily Value (RM mil)	10.81	

Price performance	3mth	6mth	12mth
Absolute (%)	14.7	7.2	(24.2)
Relative (%)	15.5	13.2	(20.3)



Investment Highlights

- We downgrade MRCB to HOLD from BUY after the recent run-up in the share price, capping further upside. We revised our fair value to RM0.83 from RM0.84 (based on SOP valuation, Exhibit 2). We cut our FY19–FY20 earnings by 11.5% and 10.7% respectively to reflect the timing in revenue recognition in the property development & investment division; and introduce our FY21 net profit forecast at RM163.3mil.
- MRCB's FY18 net profit of RM99.8mil (-37.1% YoY) is within our forecast but above consensus, constituting 104% and 114% of our and consensus estimates respectively. The fall in net profit was mainly due to: (i) the absence of RM1.1bil in revenue from the redevelopment of the KL Sports City in Bukit Jalil; (ii) the timing in income recognition of the LRT3; (iii) the discontinuation of toll collection revenue from the EDL; and (iv) property development projects that are still in the early phase of construction.
- The property development & investment division contributed 55.7% and 58.5% to the group's FY18 revenue and EBIT respectively. MRCB registered new sales of RM496.6mil while unbilled sales of RM1.56bil shall provide greater earnings visibility the medium term.
- MRCB is stepping up its efforts to market the 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 currently has open tenders valued at RM2.9bil while its remaining order book now stands at RM21.5bil, indicating a stable income over the next 2–3 years.
- MRCB's net gearing has been reduced to 20% from 50% YoY following the compensation of RM1,325.8mil received from the EDL termination.
- Going forward, management will remain focused in its core businesses while exploring more opportunities in unlocking its land value through land sales. Moreover, with the resumption of LRT3 works, although at a lower contract value, the project will still be able to generate positive cash flow for the group, hence brightening its earnings visibility.

EXHIBIT 1: EARNINGS SUMMARY

YE to Dec (RM mil)	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	QoQ %	YoY %	FY17	FY18	YTD %
Revenue	265.7	427.6	405.2	663.8	374.1	-43.6%	40.8%	2,640.6	1,870.7	-29.2%
Operating costs	(197.8)	(405.2)	(363.9)	(624.8)	(284.0)	-54.5%	43.6%	(2,373.5)	(1,677.9)	-29.3%
EBIT	48.0	15.9	47.8	39.0	64.6	65.8%	34.6%	247.2	167.2	-32.4%
Net finance expenses	69.9	4.0	(10.5)	(11.7)	(25.7)	119.7%	-136.8%	(28.4)	(44.0)	54.9%
Associate contributions	10.8	10.7	5.8	13.2	(4.2)	-131.8%	-138.9%	25.0	25.5	1.8%
Profit before tax	128.7	30.6	43.0	40.5	34.7	-14.4%	-73.1%	243.9	148.7	-39.0%
Taxation	(30.8)	(4.9)	(10.8)	(22.0)	(8.4)	-62.1%	-72.9%	(67.8)	(46.1)	-32.0%
PATMI	98.6	21.5	33.4	19.8	26.4	33.4%	-73.2%	161.8	101.2	-37.5%
Adjustments	(3.2)	0.1	(0.6)	(0.1)	(0.8)	1201.5%	-73.9%	(3.2)	(1.4)	-55.9%
Core PATMI	95.3	21.6	32.8	19.7	25.6	29.5%	-73.2%	158.6	99.8	-37.1%
EPS (sen)	2.2	0.5	0.8	0.5	0.6	33.4%	-73.2%	3.7	2.3	-37.5%
EBIT margin (%)	18.1%	3.7%	11.8%	5.9%	17.3%			9.4%	8.9%	
Effective tax rate (%)	24.0%	16.1%	25.0%	54.4%	24.1%			27.8%	31.0%	
Core PATMI margin (%)	35.9%	5.1%	8.1%	3.0%	6.8%			6.0%	5.3%	

Source: Company/ AmlInvestment Bank Bhd

EXHIBIT 2: SOP VALUATIONS

	Outstanding GDV (RMmil)	NPV @13% (RMmil)	Stake	% of SOP
DEVELOPMENT PROPERTIES				
KL Sentral: Lot F	2,993.0	60.6	74.0%	
PJ Sentral Garden City	2,619.0	71.7	100.0%	
Penang Sentral	2,865.0	78.4	100.0%	
Cyberjaya City Centre	5,350.0	102.5	70.0%	
Kwasa Sentral	10,555.0	202.2	70.0%	
Pulai Land, Johor	770.0	21.1	100.0%	
9 Seputeh	2,680.0	73.3	100.0%	
Lot 349, Sentral Suites	1,529.0	41.8	100.0%	
Carnegie, Melbourne	305.0	8.3	100.0%	
Bukit Rahman Putra	547.0	15.0	100.0%	
Bandar Sri Iskandar (Phase 2C, 2D & 3)	766.0	14.7	70.0%	
Unbilled sales		77.7	100.0%	
Bukit Jalil Sentral	20,700.0	106.2	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		990.4	-	
Property (40% discount to NPV)		594.2		13.0%
Investment properties (book value)		1,311.6	100.0%	28.8%
Construction (10x FY19 earnings -excluding LRT3)		431.3	100.0%	9.5%
LRT 3 (NPV, WACC 11%)		199.5	50.0%	4.4%
MRCB Quill REIT (market value)		331.9	27.9%	7.3%
Investments in JV (book value)		547.7	-	12.0%
Proceeds from sale of Bukit Jalil Sentral land		1,140.8	80.0%	25.0%
Total SOP		4,557.0		
Net cash/(debt)		(947.7)		
Fair value		3,609.3		
Share base (mil shares)		4,399.9		
Fair value per share		0.83		

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	2,190.4	2,345.9	2,494.9
EBITDA	267.2	192.8	232.4	261.5	290.1
Depreciation/Amortisation	(25.4)	(25.5)	(29.9)	(32.0)	(34.0)
Operating income (EBIT)	241.7	167.2	202.5	229.5	256.1
Other income & associates	25.0	25.5	26.0	26.5	27.0
Net interest	(28.4)	(44.0)	(41.2)	(44.1)	(46.9)
Exceptional items	3.2	1.4	0.0	0.0	0.0
Pretax profit	243.9	148.7	187.3	211.9	236.2
Taxation	(67.8)	(46.1)	(56.2)	(63.6)	(70.9)
Minority interests	(14.2)	(1.5)	(1.7)	(1.9)	(2.0)
Net profit	161.8	101.2	129.4	146.4	163.3
Core net profit	158.6	99.8	129.4	146.4	163.3
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	735.1	747.1	760.4
Inventories	885.1	1,043.7	594.5	629.7	667.3
Trade receivables	3,020.6	1,733.8	1,620.3	1,954.8	2,078.9
Other current assets	1,342.0	149.5	113.0	146.9	158.1
Total current assets	5,971.9	3,478.7	3,062.8	3,478.5	3,664.8
Trade payables	1,296.2	1,364.2	1,288.0	1,364.4	1,445.7
Short-term borrowings	2,490.6	729.4	980.1	747.1	760.4
Other current liabilities	217.9	15.4	18.0	19.3	20.5
Total current liabilities	4,004.8	2,109.0	2,286.1	2,130.8	2,226.7
Long-term borrowings	891.2	769.9	431.4	966.0	1,011.6
Other long-term liabilities	493.3	570.9	335.8	389.7	449.4
Total long-term liabilities	1,384.6	1,340.8	767.2	1,355.7	1,460.9
Shareholders' funds	4,817.2	4,832.4	4,900.4	4,980.9	5,069.7
Minority interests	104.5	68.0	79.6	85.3	90.7
BV/share (RM)	1.10	1.10	1.11	1.13	1.15
Cash Flow (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Pretax profit	243.9	148.7	187.3	211.9	236.2
Depreciation/Amortisation	25.4	25.5	29.9	32.0	34.0
Net change in working capital	(2,806.3)	2,182.4	489.2	(292.1)	(79.1)
Others	1,653.8	(1,196.2)	(193.0)	(71.7)	(53.0)
Cash flow from operations	(883.2)	1,160.5	513.4	(119.9)	138.1
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)	(87.8)	301.7	58.8
Equity raised/(repaid)	1,789.8	0.0	0.0	0.0	0.0
Dividends paid	(70.1)	(106.2)	(61.5)	(65.9)	(74.6)
Others	(354.7)	(1,253.5)	0.0	0.0	0.0
Cash flow from financing	1,816.9	(2,195.5)	(149.3)	235.8	(15.8)
Net cash flow	(123.2)	5.8	265.2	12.1	13.3
Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	592.8	464.0	469.8	735.1	747.1
Net cash/(debt) c/f	469.5	469.8	735.1	747.1	760.4
Key Ratios (YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue growth (%)	9.7	(29.2)	17.1	7.1	6.4
EBITDA growth (%)	(53.9)	(27.8)	20.6	12.5	10.9
Pretax margin (%)	9.2	8.0	8.6	9.0	9.5
Net profit margin (%)	6.1	5.4	5.9	6.2	6.5
Interest cover (x)	8.5	3.8	4.9	5.2	5.5
Effective tax rate (%)	27.8	31.0	30.0	30.0	30.0
Dividend payout (%)	47.5	75.9	47.5	45.0	45.7
Receivable turnover (days)	417.5	338.3	270.0	304.1	304.1
Inventory turnover (days)	117.6	188.2	136.5	95.2	94.9
Payable turnover (days)	180.4	259.5	221.0	206.3	205.6

Source: AmlInvestment Bank Bhd estimates

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