



Company report

MRCB

(MRC MK EQUITY, MYRS.KL)

31 May 2019

1QFY19 net profit tumbles 81.6% YoY

UNDERWEIGHT

(Downgraded)

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Rationale for report: Company results/update

Price **RM0.93**
 Fair Value **RM0.77**
 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	1,844.3	1,999.9	2,148.9
Core net profit (RM mil)	99.8	91.9	100.5	119.4
FD Core EPS (sen)	2.3	2.1	2.3	2.7
FD Core EPS growth (%)	(37.1)	(7.8)	9.3	18.8
Consensus Net Profit (RM mil)	-	115.7	147.6	203.7
DPS (sen)	1.7	1.0	1.1	1.3
PE (x)	41.0	44.5	40.7	34.2
EV/EBITDA (x)	26.1	27.7	26.6	23.1
Div yield (%)	1.9	1.1	1.2	1.4
ROE (%)	2.1	1.9	2.0	2.4
Net Gearing (%)	19.6%	11.1%	16.5%	17.8%

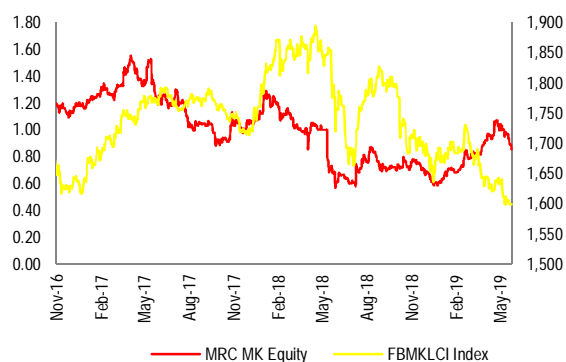
Stock and Financial Data

Shares Outstanding (million) 4,399.9
 Market Cap (RM mil) 4,087.4
 Book Value (RM/share) 1.10
 P/BV (x) 0.8
 ROE (%) 2.1
 Net Gearing (%) 19.6%

Major Shareholders
 EPF 36.0%
 Gapurma Sdn Bhd 16.1%
 LTH 6.7%

Free Float 41.3%
 Avg Daily Value (RM mil) 13.70

Price performance	3mth	6mth	12mth
Absolute (%)	7.5	22.1	29.9
Relative (%)	(18.1)	15.2	42.4



Investment Highlights

- We downgrade MRCB to UNDERWEIGHT from HOLD recommendation with a lower fair value of RM0.77 (from RM0.83) based on SOP valuation (Exhibit 2). We cut our FY19–FY21 earnings by 29%, 31% and 27% respectively to reflect the timing in revenue recognition in the property development & investment and engineering, construction & environment divisions.
- MRCB's 1QFY19 net profit of RM4.0mil (-81.6% YoY) is below our and market expectations, at 3% of both ours and consensus full-year estimates.
- Revenue dropped by 45% YoY mainly due to lower revenue contribution from both the property development & investment and engineering and construction & environment divisions as the construction of VIVO (9 Seputeh) and Kalista Park Homes (Bukit Rahman Putra) has been completed.
- MRCB's 1QFY19 PBT plunged by 72.5% to RM8.4mil, impacted by the lower revenue recognised during the period as well as the deferment and retiming of income recognition from the LRT 3 project.
- The property development & investment division contributed 36% and 14% to the group's 1QFY19 revenue and EBIT respectively. MRCB registered new sales of RM75mil while unbilled sales of RM1.6bil shall provide better earnings visibility the medium term.
- The engineering, construction & environment division contributed 57% and 67% to the group's 1QFY19 revenue and EBIT respectively. Despite a 31% YoY decline in revenue, this division's EBIT grew by 4% to RM16.7mil. The engineering, construction & environment division currently has open tenders valued at RM1.4bil while its remaining order book now stands at RM22.6bil, indicating a stable income over the next 2–3 years.
- Our UNDERWEIGHT recommendation downgrade is due to: 1) a limited upside on 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)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	QoQ %	YoY %	1QFY18	1QFY19	YTD %
Revenue	427.6	405.2	663.8	374.1	234.1	-37.4%	-45.3%	427.6	234.1	-45.3%
Operating costs	(405.2)	(363.9)	(624.8)	(284.0)	(201.7)	-29.0%	-50.2%	(405.2)	(201.7)	-50.2%
EBIT	15.9	47.8	39.0	64.6	18.9	-70.8%	18.8%	15.9	18.9	18.8%
Net finance expenses	4.0	(10.5)	(11.7)	(25.7)	(12.4)	-51.8%	-410.5%	4.0	(12.4)	-410.5%
Associate contributions	10.7	5.8	13.2	(4.2)	1.9	-146.1%	-81.8%	10.7	1.9	-81.8%
Profit before tax	30.6	43.0	40.5	34.7	8.4	-75.7%	-72.5%	30.6	8.4	-72.5%
Taxation	(4.9)	(10.8)	(22.0)	(8.4)	(6.9)	-17.8%	39.1%	(4.9)	(6.9)	39.1%
PATMI	21.5	33.4	19.8	26.4	4.1	-84.3%	-80.8%	21.5	4.1	-80.8%
Adjustments	0.1	(0.6)	(0.1)	(0.8)	(0.2)	-81.8%	-246.7%	0.1	(0.2)	-246.7%
Core PATMI	21.6	32.8	19.7	25.6	4.0	-84.4%	-81.6%	21.6	4.0	-81.6%
EPS (sen)	0.5	0.8	0.5	0.6	0.1	-84.3%	-80.8%	0.5	0.1	-80.8%
EBIT margin (%)	3.7%	11.8%	5.9%	17.3%	8.1%			3.7%	8.1%	
Effective tax rate (%)	16.1%	25.0%	54.4%	24.1%	81.5%			16.1%	81.5%	
Core PATMI margin (%)	5.1%	8.1%	3.0%	6.8%	1.7%			5.1%	1.7%	

Source: Company/ AmInvestment Bank Bhd

EXHIBIT 2: SOP VALUATIONS

	Outstanding GDV (RMmil)	NPV @13% (RMmil)	Stake	% of SOP
DEVELOPMENT PROPERTIES				
KL Sentral: Lot F	2,993.0	50.9	74.0%	
PJ Sentral Garden City	2,619.0	60.2	100.0%	
Penang Sentral	2,865.0	65.8	100.0%	
Cyberjaya City Centre	5,350.0	86.1	70.0%	
Kwasa Sentral	10,555.0	169.8	70.0%	
Pulai Land, Johor	770.0	17.7	100.0%	
9 Seputeh	2,680.0	61.6	100.0%	
Lot 349, Sentral Suites	1,529.0	35.1	100.0%	
Carnegie, Melbourne	305.0	7.0	100.0%	
Bukit Rahman Putra	547.0	12.6	100.0%	
Bandar Sri Iskandar (Phase 2C, 2D & 3)	766.0	12.3	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		827.1	-	
Property (40% discount to NPV)		496.3		11.5%
Investment properties (book value)		1,311.6	100.0%	30.4%
Construction (10x FY19 earnings -excluding LRT3)		291.2	100.0%	6.7%
LRT 3 (NPV, WACC 11%)		200.6	50.0%	4.6%
MRCB Quill REIT (market value)		329.1	27.9%	7.6%
Investments in JV (book value)		547.7	-	12.7%
Proceeds from sale of Bukit Jalil Sentral land		1,140.8	80.0%	26.4%
Total SOP		4,317.3		
Net cash/(debt)		(947.7)		
Fair value		3,369.6		
Share base (mil shares)		4,399.9		
Fair value per share		0.77		

Source: AmInvestment Bank Bhd

EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue	2,640.6	1,870.7	1,844.3	1,999.9	2,148.9
EBITDA	267.2	192.8	167.3	184.2	215.7
Depreciation/Amortisation	(25.4)	(25.5)	(25.2)	(27.3)	(29.3)
Operating income (EBIT)	241.7	167.2	142.1	156.9	186.4
Other income & associates	25.0	25.5	26.0	26.5	27.0
Net interest	(28.4)	(44.0)	(34.7)	(37.6)	(40.4)
Exceptional items	3.2	1.4	0.0	0.0	0.0
Pretax profit	243.9	148.7	133.4	145.8	173.0
Taxation	(67.8)	(46.1)	(40.0)	(43.7)	(51.9)
Minority interests	(14.2)	(1.5)	(1.5)	(1.6)	(1.7)
Net profit	161.8	101.2	91.9	100.5	119.4
Core net profit	158.6	99.8	91.9	100.5	119.4
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	732.1	739.9	749.3
Inventories	885.1	1,043.7	509.9	549.5	585.9
Trade receivables	3,020.6	1,733.8	1,364.3	1,666.4	1,790.6
Other current assets	1,342.0	149.5	98.1	128.0	138.8
Total current assets	5,971.9	3,478.7	2,704.3	3,083.9	3,264.6
Trade payables	1,296.2	1,364.2	1,104.7	1,190.7	1,269.5
Short-term borrowings	2,490.6	729.4	976.1	739.9	749.3
Other current liabilities	217.9	15.4	15.2	16.5	17.7
Total current liabilities	4,004.8	2,109.0	2,096.0	1,947.0	2,036.5
Long-term borrowings	891.2	769.9	295.5	816.0	888.8
Other long-term liabilities	493.3	570.9	335.8	389.7	449.4
Total long-term liabilities	1,384.6	1,340.8	631.3	1,205.7	1,338.2
Shareholders' funds	4,817.2	4,832.4	4,880.5	4,932.7	4,995.0
Minority interests	104.5	68.0	67.0	72.7	78.1
BV/share (RM)	1.10	1.10	1.11	1.12	1.14
Cash Flow (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Pretax profit	243.9	148.7	133.4	145.8	173.0
Depreciation/Amortisation	25.4	25.5	25.2	27.3	29.3
Net change in working capital	(2,806.3)	2,182.4	643.7	(254.6)	(80.5)
Others	1,653.8	(1,196.2)	(169.6)	(42.9)	(28.7)
Cash flow from operations	(883.2)	1,160.5	632.7	(124.4)	93.2
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)	(227.7)	284.3	82.2
Equity raised/(repaid)	1,789.8	0.0	0.0	0.0	0.0
Dividends paid	(70.1)	(106.2)	(43.9)	(48.3)	(57.1)
Others	(354.7)	(1,253.5)	0.0	0.0	0.0
Cash flow from financing	1,816.9	(2,195.5)	(271.6)	236.0	25.1
Net cash flow	(123.2)	5.8	262.3	7.8	9.4
Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	592.8	464.0	469.8	732.1	739.9
Net cash/(debt) c/f	469.5	469.8	732.1	739.9	749.3
Key Ratios (YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue growth (%)	9.7	(29.2)	(1.4)	8.4	7.5
EBITDA growth (%)	(53.9)	(27.8)	(13.2)	10.1	17.1
Pretax margin (%)	9.2	8.0	7.2	7.3	8.1
Net profit margin (%)	6.1	5.4	5.0	5.0	5.6
Interest cover (x)	8.5	3.8	4.1	4.2	4.6
Effective tax rate (%)	27.8	31.0	30.0	30.0	30.0
Dividend payout (%)	47.5	75.9	47.7	48.1	47.8
Receivable turnover (days)	417.5	338.3	270.0	304.1	304.1
Inventory turnover (days)	117.6	188.2	153.7	96.7	96.4
Payable turnover (days)	180.4	259.5	244.3	209.5	208.9

Source: AmlInvestment Bank Bhd estimates

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