MRCB (BUY ↑; EPS ↑)

INDUSTRY: OVERWEIGHT
EARNINGS EVALUATION / BRIEFING

1 March 2018
Price Target: RM1.31 (↑)
Share price: RM1.08

Strong finish for the year

Results

- MRCB reported 4QFY17 results with revenue coming in at RM408m (-64% QoQ, -60% YoY) and core earnings of RM45m (+60% QoQ, +9% YoY).
- Full year FY17 core earnings amounted to RM101m, increasing 33% YoY. In deriving core earnings, we have removed disposal gains on (i) Dekad Kaliber and Semasa Kaliber of RM5.5m and (ii) 59INC of RM60.8m.

Deviation

- FY17 core earnings were above our expectations and consensus at 143% and 114% of full year forecast respectively. The stronger than expected results was due to lower finance cost and higher construction margin.

Dividends

- Final dividend of 1.75 sen (FY16: 1.4 sen).

Highlights

- **Property lower but…** FY17 property revenue and EBIT (adjusted for EIs) declined 35% and 60% YoY. This was due to the completion of Sentral Residences, Easton Burwood in the early part of FY17 while newer developments were still at the initial stage of construction.
- **…new sales were strong.** MRCB recorded property sales of RM1.4bn in FY17, beating its own target of RM1.2bn and a stark YoY improvement from RM192m in FY16. Unbilled sales of RM1.7bn imply over 2x cover on FY17 property revenue. For FY18, management is aiming for RM1bn in sales (vs our assumption of RM800m).
- **Construction margin expansion.** Construction EBIT grew 7-folds in FY17 thanks to margin expansion which was most significantly witnessed in 4Q. Margin was thin in the past due to the National Sports Complex job (via land payment) which booked 0% margin.
- **EDL resolution underway.** Tolling along EDL has ceased effective this year and the highway has been gazetted as a federal road. MRCB will no longer have to borne any maintenance cost on the highway but will continue to incur finance charges until the Sukuk is settled. Management is hopeful for a resolution by 1H18. Removal of the EDL Sukuk would cut MRCB's net gearing from 54% currently to 32%.

Risks

- Volatile core earnings delivery from quarter to quarter.

Forecasts

- We raise FY18-19 earnings by 25% and 19% after imputing higher construction margin.

Rating

Upgrade to BUY, TP: RM1.31

- Given its healthier balance sheet post rights issue, we reckon that MRCB is now in a much better position to execute its various catalytic projects. The disposal of EDL should serve as a near term catalyst. With share price down 16% since its year high in Jan, we feel there is sufficient buffer to warrant an upgrade to BUY (from Hold).

Valuation

- Following the increase in our earnings forecast, we upgrade our SOP based TP from RM1.26 to RM1.31.

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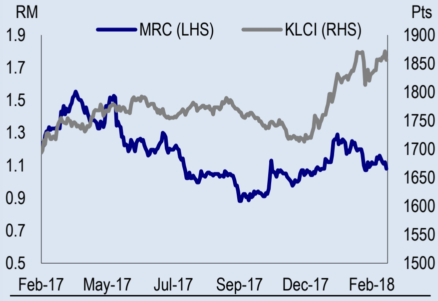
KLCI	1,856.2
Expected share price return	21.3%
Expected dividend return	0.7%
Expected total return	22.0%

Share Price



Information	
Bloomberg Ticker	MRC MK
Bursa Code	1651
Issued Shares (m)	4,391
Market cap (RM m)	4,742
3-mth avg. volume ('000)	12,423
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	-10.0	0.9	-12.8
Relative	-9.4	-6.6	-20.5

Major Shareholders	
Employees Provident Fund	34.9%
Gapurna Sdn Bhd	16.6%
Lembaga Tabung Haji	7.2%

Summary Earnings Table

FYE Dec (RM m)	FY16	FY17	FY18F	FY19F
Revenue	2,408	2,824	2,257	2,290
EBITDA	348	304	269	278
EBIT	323	272	232	238
Profit Before Tax	203	181	198	218
Core PATAMI	78	101	115	130
vs Consensus (%)			(25)	(35)
Core EPS (sen)	1.8	2.3	2.6	3.0
P/E (x)	60.7	46.8	41.2	36.4
Net DPS (sen)	1.4	1.8	0.8	0.9
Net DY (%)	1.3	1.6	0.7	0.8
BV per share	0.67	1.10	1.20	1.22
P/B (x)	1.6	1.0	0.9	0.9
ROE (%)	3.0	2.6	2.3	2.5
Net Gearing (%)	75.7	54.0	16.0	20.1

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Figure #1 Quarterly results comparison

FYE Dec (RM m)	4QFY16	3QFY17	4QFY17	QoQ (%)	YoY (%)	Comments
Revenue	1,031.7	1,134.1	408.2	*(64.0)*	*(60.4)*	Lower due to completion of NSC in 3Q17.
EBIT	125.4	85.2	62.1	*(27.1)*	*(50.5)*	
Net finance income / (cost)	(42.8)	(41.4)	(2.1)	*(94.9)*	*(95.1)*	
Associates & JVs	8.5	8.6	10.8	*26.0*	*27.7*	
PBT	91.0	52.3	70.8	*35.3*	*(22.2)*	
PAT	61.4	30.5	44.0	*44.4*	*(28.2)*	
PATMI - core	41.2	28.1	44.9	*59.7*	*8.9*	Strong construction recovery drives earnings.
PATMI - reported	188.8	28.1	105.7	*276.1*	*(44.0)*	Includes disposal gain of 59INC of RM61m.
EPS - core	0.9	0.6	1.0			
EBIT margin	12.2	7.5	15.2			Margin expansion post completion of NSC which recorded 0% margin.
PBT margin	8.8	4.6	17.3			

Company

Figure #2 Cumulative results comparison

FYE Dec (RM m)	12MFY16	12MFY17	YoY (%)	Comments
Revenue	2,408.1	2,823.7	*17.3*	Growth mainly from construction.
EBIT	343.8	272.1	*(20.9)*	
Finance cost	(175.9)	(116.1)	*(34.0)*	
Associates & JVs	32.7	25.0	*(23.4)*	
PBT	200.5	181.0	*(9.7)*	
PAT	127.0	115.5	*(9.1)*	
PATMI - core	76.0	101.3	*33.3*	Above expectations.
PATMI - reported	268.0	167.6	*(37.5)*	Includes disposal gain on 59INC, Dekad and Semasa Parking.
EPS - core	1.7	2.3		
EBIT margin	14.3	9.6		
PBT margin	8.3	6.4		

Company

Figure #3 SOP valuation for MRCB

Sum of Parts (ex rights)	RM m	PE (x) / WACC	Value to MRCB	FD Per Share
Construction - FY18 earnings	72	16	1,150	0.21
LRT3 PDP fees - annual average	34	16	547	0.10
Property development - NPV of profits		10%	2,391	0.45
Property investment - cap rate		5%	1,008	0.19
Eastern Dispersal Link - DCF		10%	581	0.11
Stake in MRCB-Quill REIT at RM1.48 TP	1,581	28%	441	0.08
Firm value			**6,117**	**1.14**
Sale of Bkt Jalil development to EPF			960	0.18
Cash proceeds from Warrants A			951	0.18
Cash proceeds from Warrants B			543	0.10
Less: Net debt (ex Sukuk)			(1,545)	(0.29)
Equity value			**7,027**	**1.31**

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Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
NOT RATED	No research coverage and report is intended purely for informational purposes.

Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between –5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than –5% over 12-months.