

**MRCB (BUY ↑; EPS ↑)**

INDUSTRY: OVERWEIGHT

EARNINGS EVALUATION / BRIEFING

22 November 2017

Price Target: RM1.18 (↑)

Share price: RM0.97

**Looking ahead to a healthier balance sheet**
**Results**

- MRCB reported 3QFY17 results with revenue of RM1.13bn (+50% QoQ, +106% YoY) and core earnings of RM28.1m (+57% QoQ, -4% YoY).
- Cumulative 9M core earnings amounted to RM56.4m, increasing 62% YoY given the low base effect. Our derivation of core earnings removes RM5.5m in disposal gains on Dekad Kaliber (engineering) and Semasa Services (parking) which was booked in 2Q.

**Deviation**

- 9M core earnings were above expectations at 96% of our full year forecast but below consensus at 52%. The stronger than expected results came from higher than expected property revenue and construction margin.

**Dividends**

- None declared.

**Highlights**

- **Strong property sales.** 9M property revenue and EBIT fell YoY by 10% and 40% respectively. This was due to the higher base in FY16 from (i) agency fee earned for the sale of Nu Tower 2 and (ii) contribution from Menara Shell pre-disposal. MRCB achieved strong property sales of RM1.2bn for the 9M period (70% from Sentral Suites), a significant improvement from the RM192m achieved for the entire FY16. Unbilled sales stands at RM1.6bn, implying 1.4x cover on FY16 property revenue.
- **Construction improves.** Construction revenue increased 237% YoY for the 9M period due to lumpy recognition for the National Sports Complex (NSC). EBIT margin improved YoY from 2.1% to 2.9% but this was “artificially” suppressed as MRCB does not earn a profit from the NSC job (paid via land). YTD job wins now stands at RM468m, bringing its orderbook to RM5.3bn.
- **Healthier balance sheet ahead.** MRCB’s net gearing stood at 114% as of 3Q. However, with the rights issue (1 for 1) completed earlier this month, we estimate its profoma net gearing to have reduced to 36%. Management estimates that the disposal of EDL, Menara Celcom and Ascott could potentially transform its balance sheet into a net cash position.

**Risks**

- Volatile core earnings delivery from quarter to quarter.

**Forecasts**

- We raise FY17-19 earnings by 21%, 13% and 11% after imputing higher construction margins and property sales.

**Rating**
**Upgrade to BUY, TP: RM1.18**

- Given its healthier balance sheet post rights issue, coupled with the potential to turn net cash, we reckon that MRCB is now in a much better position to execute its various catalytic projects that it has on its plate. The impending disposal of EDL should serve as a near term catalytic.

**Valuation**

- Following the increase in our earnings forecast, we upgrade our SOP based TP from RM1.00 to RM1.18.

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KLCI	1720.7
Expected share price return	21.0%
Expected dividend return	0.0%
Expected total return	21.0%

**Share price**

**Information**

Bloomberg Ticker	MRC MK
Bursa Code	1651
Issued Shares (m)	4,387
Market cap (RM m)	4,277
3-mth avg. volume ('000)	10,778
SC Shariah-compliant	Yes

**Price Performance**

	1M	3M	12M
Absolute	7.1	-6.9	-14.7
Relative	8.4	-4.0	-19.2

**Major shareholders**

EPF	34.9%
Gapurna	16.6%
Lembaga Tabung Haji	7.4%

**Summary Earnings Table**

FYE Dec (RM m)	FY16	FY17E	FY18F	FY19F
Revenue	2,408	1,996	2,257	2,290
EBITDA	348	221	222	236
EBIT	323	189	186	197
Profit Before Tax	203	121	152	177
Core PATAMI	78	71	92	109
vs Consensus (%)		(35)	(39)	(46)
Core EPS (sen)	1.8	1.6	2.1	2.5
P/E (x)	54.7	60.5	46.6	39.1
Net DPS (sen)	1.3	-	0.6	0.7
Net DY (%)	1.4	-	0.6	0.8
BV per share	0.67	1.18	1.19	1.21
P/B (x)	1.5	0.8	0.8	0.8
ROE (%)	3.0	1.7	1.8	2.1
Net Gearing (%)	75.7	10.8	16.0	20.6

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**Figure #1 Quarterly results comparison**

FYE Dec (RM m)	3QFY16	2QFY17	3QFY17	QoQ (%)	YoY (%)	Comments
Revenue	551.2	756.5	1,134.1	49.9	105.7	Mainly due to lumpy bookings for the NSC.
EBIT	88.8	59.3	85.2	43.8	(4.1)	
Net finance income / (cost)	(42.0)	(37.4)	(41.4)	10.9	(1.2)	
Associates & JVs	14.8	6.8	8.6	26.1	(41.9)	
PBT	61.6	28.7	52.3	82.4	(15.1)	
PAT	39.6	20.6	30.5	48.4	(22.9)	
PATMI - core	29.4	17.9	28.1	57.2	(4.4)	
PATMI - reported	29.4	23.4	28.1	20.2	(4.4)	2Q includes disposal gains of RM5.5m.
EPS - core	0.7	0.4	0.6			
EBIT margin	16.1	7.8	7.5			Margin for FY17 artificially suppressed by NSC job which earns 0% margin.
PBT margin	11.2	3.8	4.6			
Company						

**Figure #2 Cumulative results comparison**

FYE Dec (RM m)	9MFY16	9MFY17	YoY (%)	Comments
Revenue	1,376.4	2,415.5	75.5	Mainly due to lumpy bookings for the NSC (RM1.1bn recorded for 9M period).
EBIT	218.4	210.0	(3.8)	
Finance cost	(133.1)	(114.0)	(14.3)	
Associates & JVs	24.2	14.2	(41.2)	
PBT	109.5	110.3	0.7	
PAT	65.6	71.5	8.9	
PATMI - core	34.8	56.4	62.1	Above expectations.
PATMI - reported	79.2	61.9	(21.8)	Includes disposal gains.
EPS - core	0.8	1.3		
EBIT margin	15.9	8.7		Margin for FY17 artificially suppressed by NSC job which earns 0% margin.
PBT margin	8.0	4.6		
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	57	12	690	0.13
LRT3 PDP fees - annual average	34	12	410	0.08
Property development - NPV of profits		10%	2,391	0.45
Property investment - cap rate		5%	1,008	0.19
Eastern Dispersal Link - DCF		10%	523	0.10
Stake in MRCB-Quill REIT at RM1.48 TP	1,581	28%	441	0.08
<b>Firm value</b>			<b>5,463</b>	<b>1.02</b>
Cash proceeds from 1-for-1 rights issue			1,717	0.32
Cash proceeds from Warrants A			951	0.18
Cash proceeds from Warrants B			543	0.10
Less: Net debt (ex Sukuk)			(2,375)	(0.44)
<b>Equity value</b>			<b>6,299</b>	<b>1.18</b>

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## Financial Projections for MRCB

### Balance Sheet

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Cash	522	722	1,553	1,222	917
Receivables	1,119	1,389	1,257	1,415	1,435
Inventories	63	58	51	57	58
PPE	337	438	512	563	581
Investment properties	414	520	544	567	597
Others	4,635	4,380	4,771	5,023	5,298
<b>Assets</b>	<b>7,090</b>	<b>7,507</b>	<b>8,688</b>	<b>8,847</b>	<b>8,885</b>
Debits	3,387	2,937	2,111	2,061	2,011
Payables	1,178	1,315	1,097	1,240	1,251
Others	212	230	230	230	230
<b>Liabilities</b>	<b>4,777</b>	<b>4,482</b>	<b>3,438</b>	<b>3,531</b>	<b>3,492</b>
Shareholder's equity	2,260	2,926	5,171	5,236	5,312
Minority interest	53	99	79	80	81
<b>Equity</b>	<b>2,313</b>	<b>3,025</b>	<b>5,250</b>	<b>5,315</b>	<b>5,393</b>

### Cash Flow Statement

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Profit before taxation	41	203	121	152	177
Depreciation & amortisation	30	25	32	36	39
Changes in working capital	261	(98)	(79)	(21)	(10)
Taxation	(6)	(74)	(24)	(30)	(34)
Others	(186)	100	-	-	-
<b>CFO</b>	<b>140</b>	<b>157</b>	<b>50</b>	<b>138</b>	<b>172</b>
Net capex	(71)	(128)	(100)	(80)	(50)
Others	(338)	(213)	(409)	(339)	(350)
<b>CFI</b>	<b>(409)</b>	<b>(341)</b>	<b>(509)</b>	<b>(419)</b>	<b>(400)</b>
Changes in borrowings	(303)	(450)	(826)	(50)	(50)
Issuance of shares	30	402	2,175	-	-
Dividends paid	(45)	(45)	(59)	-	(28)
Others	617	531	-	-	-
<b>CFF</b>	<b>300</b>	<b>438</b>	<b>1,290</b>	<b>(50)</b>	<b>(78)</b>
<b>Net cash flow</b>	<b>31</b>	<b>254</b>	<b>831</b>	<b>(331)</b>	<b>(305)</b>
Forex	-	-	-	-	-
Others	(170)	(53)	-	-	-
Beginning cash	661	522	722	1,553	1,222
Ending cash	522	722	1,553	1,222	917

### Income Statement

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
<b>Revenue</b>	<b>1,697</b>	<b>2,408</b>	<b>1,996</b>	<b>2,257</b>	<b>2,290</b>
EBITDA	209	348	221	222	236
EBIT	178	323	189	186	197
Net finance cost	(146)	(152)	(102)	(79)	(76)
Associates & JV	8	33	34	45	56
<b>Profit before tax</b>	<b>41</b>	<b>203</b>	<b>121</b>	<b>152</b>	<b>177</b>
Tax	(6)	(74)	(24)	(30)	(34)
<b>Net profit</b>	<b>34</b>	<b>130</b>	<b>97</b>	<b>122</b>	<b>143</b>
Minority interest	(34)	(52)	(26)	(31)	(34)
<b>PATMI (core)</b>	<b>1</b>	<b>78</b>	<b>71</b>	<b>92</b>	<b>109</b>
Exceptionals	330	189	-	-	-
<b>PATMI (reported)</b>	<b>330</b>	<b>267</b>	<b>71</b>	<b>92</b>	<b>109</b>

### Valuation & Ratios

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Core EPS (sen)	0.0	1.8	1.6	2.1	2.5
P/E (x)	5,116.1	54.7	60.5	46.6	39.1
EV/EBITDA (x)	37.4	22.4	35.3	35.0	33.0
DPS (sen)	1.0	1.3	-	0.6	0.7
Dividend yield	1.0%	1.4%	0.0%	0.6%	0.8%
BVPS (RM)	0.52	0.67	1.18	1.19	1.21
P/B (x)	1.9	1.5	0.8	0.8	0.8
EBITDA margin	12.3%	14.5%	11.1%	9.9%	10.3%
EBIT margin	10.5%	13.4%	9.5%	8.2%	8.6%
PBT margin	2.4%	8.4%	6.1%	6.7%	7.7%
Net margin	0.0%	3.2%	3.5%	4.1%	4.8%
ROE	0.0%	3.0%	1.7%	1.8%	2.1%
ROA	0.0%	1.1%	0.9%	1.0%	1.2%
Net gearing	126.8%	75.7%	10.8%	16.0%	20.6%

### Assumptions

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Contracts secured	2,243	893	800	800	800
Property sales	597	192	1,300	800	800

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<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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