

30 August 2017

MRCB

Buy

Price
RM1.19

Target price
RM1.40 (from RM1.48)

Market data

Bloomberg code	MRC MK
No. of shares (m)	2,192.6
Market cap (RMm)	2,609.2
52-week high/low (RM)	1.74 / 1.14
Avg daily turnover (RMm)	8.4
KLCI (pts)	1,761.14

Source: Bloomberg

Dilutive concerns priced-in

We upgrade our call on MRCB from a HOLD to a BUY with a revised TP of RM1.40 (from RM1.48). The negative impact from its proposed rights issue appears to be priced-in at current levels, as its share price has shed 31% since it was first announced on 17 May. MRCB's balance sheet should also improve substantially with a projected net gearing of <1% for FY17F vs 75% in FY16.

Financial Highlights

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	1,696.7	2,408.1	2,481.8	2,373.8	2,602.3
Core net profit	1.0	75.0	65.2	138.5	195.2
Core EPS (sen)	1.7	4.2	2.0	3.3	3.6
EPS growth (%)	9.8	143.1	(53.1)	67.4	9.3
DPS (sen)	2.5	2.8	2.0	3.0	3.0
Net gearing (%)	127.2	75.7	0.0	10.5	18.2
Core PE (x)	68.2	29.1	60.0	35.9	32.8
ROE (%)	15.6	10.3	1.8	2.9	4.0
Yield (%)	2.1	2.2	1.7	2.5	2.5
PBV (x)	0.9	0.9	1.1	1.1	1.1

Source: Company, KAF

Upgrading call to a BUY

We upgrade our call on MRCB to a BUY from a HOLD with a revised TP of RM1.40 (unchanged 10% discount to NAV) from RM1.48 previously. Our TP is tweaked downwards to largely account for a lower indicative rights issue price of RM0.85 (previously: RM 1.00). MRCB's share price has retraced by a hefty 31% ever since it announced the proposed rights issue on 17 May. The current share price level appears to have priced-in the market's concern on potential dilution, in our view.

Recapitalised, and ready for more

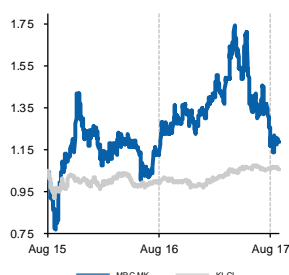
MRCB's balance sheet is set to strengthen significantly, with projected net gearing improving from 75% in FY16 to <1% in FY17F. While the group's net gearing rose to 96% as of 30 June from 90% a quarter ago, the de-leveraging efforts should filter through again in 4Q17, once it receives the proceeds from the rights issues (~RM1.8b under the minimum scenario). The irrevocable undertakings provided by MRCB's top two shareholders, i.e. EPF and the Gapurna Group, toward their respective rights entitlements (~ half of the total) reflects the duo's renewed commitment to MRCB's forward prospects, we believe.

Core earnings improving, albeit from low base

Stripping off exceptional gains totalling RM5.5m (via the disposal of Dekad Kaliber and Semasa Services), MRCB's 1H17 core profits surged 5.2x YoY to RM28m. The big jump came from (i) a step-up in property progress billings from key ongoing projects (38% of group revenue); and (ii) better construction margins (2.2% vs 0.9% a year ago). Furthermore, Construction margins would have been higher if billings from the KL Sports City Phase 1 project (~RM370m) were excluded.

Performance

	1M	3M	12M
Absolute (%)	(6)	(13)	(3)
Rel market (%)	(5)	(13)	(7)



Source: Bloomberg

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While we expect a better 2H (mainly on a pick-up in project billings for (9 Seputeh Parcel C, Sentral Suites and Carnegie), we, nevertheless, revise downwards our core FY17F earnings by ~20% to account for delays in the recognition of proceeds from the rights issue (~ one month) and LRT 3 (~ one quarter). Positively, the maiden viaduct contract for LRT 3, for which MRCB is part of the Project Delivery Partner (PDP), has just been awarded to WCT Holdings yesterday (WCTHG MK, RM1.80, Hold), and could trigger the roll-out of other major civil awards by October.

Gearing up for more jobs

MRCB recently replenished its orderbook by bagging two jobs in a row in the middle of this month, i.e., a package of the DASH expressway and the TNB HQ building job. The two projects, worth a combined RM409m, adds to its outstanding orderbook of RM5.5b. Beyond this, MRCB's tenderbook of RM2.9b includes upcoming packages of the MRT Line 2. It is also eyeing opportunities for water treatment, particularly for water-deficient states such as Kedah.

On the property front, MRCB sold RM863m worth of new properties in 1H17, putting the group on track to meet its full-year target of RM1.2b. During this period, the group launched three new projects, i.e. Carnegie (Melbourne), Kalista @ Bukit Rahman Putra and Sentral Suites, with average take-up rates of 32%-60%.

Other updates

Management is still locked in discussions concerning the potential divestment of iyts EDL concession in Johor. We understand that the average daily traffic for EDL has dropped to ~39k vs 33-34k prior to the Singapore government's reciprocal road charge for motorist entering into the island republic from Johor. The group is keeping abreast with developments surrounding Bandar Malaysia, although its core focus remains with the main transport terminal surrounding this re-development project.

As for the disposal of Menara Celcom, the deal will only be concluded at the earliest, in 2018. Nevertheless, management guided that MRCB will not be imposed with late penalties, as the deferred timeline for the building's completion is due to changes in design as required by its client.

Exhibit 1 : Quarterly results

YE 31 Dec (RM m)	1H16	1H17	% YoY	1Q17	2Q17	% QoQ
Turnover	825.2	1,281.4	55.3	524.9	756.5	44.1
EBIT	125.1	112.8	(9.8)	57.3	55.5	(3.3)
Interest Expense	(91.1)	(72.6)		(35.2)	(37.4)	
Interest Income	4.6	12.1		6.9	5.1	
Pre-Exceptionals Profit	38.6	52.3		29.1	23.2	
Exceptionals	44.4	5.5		1.7	3.8	
Pre-Associates/JV Profit	83.0	57.8		30.8	27.0	
Associates/JVs	9.4	5.7		(1.1)	6.8	
Pretax Profit	92.4	63.4	(31.3)	29.6	33.8	14.0
Taxation	(21.9)	(17.0)		(8.9)	(8.1)	
Minority Interest/disct. ops	(20.6)	(12.6)		(9.9)	(2.7)	
Net Profit	49.9	33.8	(32.2)	10.8	23.0	112.2
Core Net Profit	5.5	28.3	n/m	9.1	19.2	110.1
Core EPS (sen)	0.3	1.3		0.4	0.9	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	1.28	1.38		1.37	1.38	
EBIT Margin (%)	15.2	8.8		10.9	7.3	
Pretax Margin (%)	11.2	5.0		5.6	4.5	
Effective Tax (%)	23.7	26.8		29.9	24.0	
Segmental Breakdown (RM m)						
Turnover						
Construction	332.6	698.9	110.2	231.2	467.6	102.2
Property development & investment	376.8	486.5	29.1	242.5	243.9	0.6
Infrastructure & environmental	57.2	57.1	(0.2)	28.5	28.6	0.2
Facilities management & parking	37.2	29.6	(20.4)	16.9	12.7	(24.6)
Investment holding & Others	21.5	9.4	(56.5)	5.7	3.7	(35.2)
Total	825.2	1,281.4	55.3	524.9	756.5	44.1
EBIT						
Construction	3.0	15.3	n/m	1.3	14.0	n/m
Property development & investment	157.8	79.8	(49.4)	50.1	29.7	(40.8)
Infrastructure & environmental	32.7	29.0	(11.2)	17.5	11.5	(34.0)
Facilities management & parking	12.0	10.8	(9.9)	3.7	7.1	89.0
Investment holding & Others	(77.4)	(6.9)	n/m	(14.0)	7.2	n/m
Total	125.1	112.8	(9.8)	57.3	55.5	(3.3)
EBIT margin (%)						
Construction	0.9	2.2		0.5	3.0	
Property development & investment	41.9	16.4		20.7	12.2	
Infrastructure & environmental	57.1	50.8		61.3	40.4	
Facilities management & parking	32.3	36.6		22.2	55.7	
Investment holding & Others	n/m	n/m		n/m	n/m	
Total	15.2	8.8		10.9	7.3	

Source: Bursa Malaysia, KAF

Income Statement

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	1,696.7	2,408.1	2,527.4	2,410.8	2,632.4
EBITDA	242.5	414.2	378.0	425.8	520.6
Depreciation/Amortisation	(64.2)	(94.2)	(130.6)	(138.1)	(147.4)
Operating income (EBIT)	178.3	320.0	247.4	287.7	373.2
Other income & associates	7.9	32.7	38.0	71.9	76.2
Net interest expense	(145.5)	(152.5)	(148.1)	(99.6)	(99.9)
Exceptional items	329.4	192.4	5.5	0.0	0.0
Pretax profit	370.1	392.6	142.7	260.0	349.5
Taxation	(6.1)	(73.5)	(51.1)	(90.8)	(113.5)
Minorities/pref dividends	(33.6)	(51.7)	(21.0)	(30.7)	(40.8)
Net profit	330.4	267.4	70.7	138.5	195.2
Core net profit	1.0	75.0	65.2	138.5	195.2

Source: Company, KAF

Cash flow Statement

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Pre-tax profit	370.1	392.6	142.7	260.0	349.5
Depreciation/amortization	64.2	94.2	130.6	138.1	147.4
Net change in working capital	606.2	(366.5)	(334.4)	(91.0)	(173.9)
Others	(853.7)	(261.6)	(89.0)	(162.7)	(189.8)
Cash flow from operations	186.8	(141.3)	(150.1)	144.4	133.3
Capital expenditure	(943.6)	(540.4)	142.9	(470.0)	(390.0)
Net investments & sale of fixed assets	4.2	300.0	0.0	0.0	0.0
Others	1,154.3	883.3	285.2	0.0	0.0
Cash flow from investing	214.9	642.9	428.2	(470.0)	(390.0)
Debt raised/(repaid)	0.9	(458.2)	(1,541.1)	0.3	5.3
Equity raised/(repaid)	0.8	401.9	1,896.8	0.0	0.0
Dividends paid	(82.4)	(76.6)	(59.1)	(88.3)	(132.4)
Others	(289.9)	(115.2)	0.0	0.0	0.0
Cash flow from financing	(370.7)	(248.1)	296.6	(88.0)	(127.1)
Net cash flow	31.0	253.5	574.7	(413.6)	(383.8)
Net cash/(debt) b/f	308.2	339.2	592.8	1,167.5	753.8
Exchange rate effects	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) c/f	339.2	592.8	1,167.5	753.8	370.0

Source: Company, KAF

Balance Sheet

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F	FY19F
Fixed assets	1,547.5	1,614.2	1,563.0	1,536.1	1,521.6
Intangible assets	317.1	252.9	247.3	241.7	236.2
Other long-term assets	2,531.0	2,719.6	2,826.0	3,262.2	3,601.1
Total non-current assets	4,395.5	4,586.6	4,636.3	5,040.0	5,358.9
Cash & equivalent	521.5	722.2	1,296.9	883.2	499.4
Stock	63.1	57.5	70.0	64.8	69.3
Trade debtors	1,113.8	1,600.5	1,563.9	1,495.8	1,639.8
Other current assets	995.8	785.4	538.0	543.2	578.8
Total current assets	2,694.3	3,165.6	3,468.8	2,987.1	2,787.4
Trade creditors	1,199.3	1,586.4	980.4	821.3	831.6
Short-term borrowings	1,049.5	806.3	729.8	724.8	729.9
Other current liabilities	47.7	42.6	42.6	42.6	42.6
Total current liabilities	2,296.5	2,435.2	1,752.7	1,588.7	1,604.0
Long-term borrowings	2,345.9	2,130.8	666.3	671.5	671.7
Other long-term liabilities	134.6	161.2	161.2	161.2	161.2
Total long-term liabilities	2,480.5	2,292.0	827.5	832.7	832.9
Shareholders' funds	2,260.1	2,925.8	4,834.2	4,884.5	4,947.3
Minority interest	52.6	99.2	120.2	150.8	191.6

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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