

29 Jan 2019

Buy

Price
RM0.71

Target Price
RM0.92

Bloomberg code
MRC MK

Equity | Malaysia | Property
Flashnote

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MRCB

Wins SUKE job; finalizes LRT 3 deal

Financial Highlights

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue (RMm)	2,408.1	2,823.7	1,779.5	2,145.9	2,403.5
Core net profit (RMm)	75.0	101.3	54.9	100.1	159.3
Core EPS (Sen)	4.2	2.9	2.1	2.5	3.7
EPS growth (%)	>100	(30.4)	(28.7)	17.0	49.2
DPS (Sen)	2.8	1.8	1.5	1.8	2.5
Core PE (x)	24.2	38.7	25.4	28.0	21.7
Div yield (%)	2.7	1.5	2.1	2.5	3.5
ROE (%)	10.3	4.3	1.8	2.1	3.2
Net Gearing (%)	75.7	55.1	41.2	24.9	24.8
PBV(x)	0.8	1.0	0.6	0.6	0.6

Source: Company, KAF

- We maintain our Buy rating on MRCB with an unchanged TP of RM0.92 (20% discount to NAV).
- In a filing with Bursa Malaysia, MRCB disclosed that it has received a letter of acceptance (LoA) from Turnpike Synergy.
- Turnpike Synergy is a unit of Prolintas, which is the concession holder for SUKE.
- The LoA is in relation to Package CA2 of the Sg. Besi-Ulu Kelang (SUKE) elevated highway.
- Package CA2 involves the construction and completion of mainline and other associated works from CH.2400 to CH.4200 of SUKE.
- The contract price is worth RM323m. As stipulated in the contract, the construction work is to be completed within 14 months from the date of site possession, i.e. by 3 April 2020.
- This represents MRCB's first contract win for FY19F, and is expected to add to its burgeoning construction orderbook of ~RM23b as of end-November 2018 (inclusive of the RM11b management contract from KL Sports City).
- It comes on the heels of the execution of a fixed-price contract between the MRCB-George Kent Holdings [GK] (GKENT MK, RM1.13, NC) JV for the LRT 3, which will revert from the project delivery partner (PDP) model to a turnkey contract.
- The revised LRT 3 construction contract value for MRCB-GK JV had earlier been fixed at RM11.9b (inclusive of a RM400m contingency/provisional sum).
- Following this, The Star had also reported yesterday that MRCB-GK and unpaid contractors are also slated to receive their outstanding payments by month end.
- The Star report added that Prasarana has not paid its contractors for work done on LRT 3 since last February.
- If claims up to December last year are taken into account, the cumulated amount that is owed is over RM1b. From our own channel checks, the amount of completed works has been certified up to September last year.
- We maintain our earnings forecast as the: SUKE contract forms part of our new job assumptions for FY19F. Likewise, the revised LRT 3 contract is already embedded in our orderbook model.
- More importantly, both contracts will solidify MRCB's construction earnings from FY19F onwards.

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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