

21 Nov 2019

Buy

Price
RM0.76

Target Price
RM0.96

Bloomberg code
MRC MK

Equity | Malaysia | Property
Flashnote

Analyst

Mak Hoy Ken
(603) 2171 0508
mak.hoyken@kaf.com.my

MRCB

Earnings yet to pick up

Financial Highlights

FYE Dec	2017	2018	2019F	2020F	2021F
Revenue (RMm)	2,640.6	1,870.7	2,110.1	3,083.0	3,645.1
Core net profit (RMm)	95.6	38.7	39.0	88.7	157.8
Core EPS (Sen)	2.7	2.0	1.2	2.2	3.6
EPS growth (%)	(35.4)	(28.2)	(40.9)	88.6	65.4
DPS (Sen)	1.8	1.5	1.0	1.5	2.0
Core PE (x)	41.7	42.3	65.2	34.5	20.9
Div yield (%)	1.5	1.8	1.3	2.0	2.6
ROE (%)	4.2	2.1	0.6	1.8	3.2
Net Gearing (%)	55.2	19.6	24.5	30.4	30.6
PBV(x)	1.0	0.8	0.7	0.7	0.7

Source: Company, KAF

- We reiterate our Buy recommendation on MRCB with an unchanged TP of RM0.96, implying 20% discount to NAV. MRCB reported 3QF19 core profits of only RM3m (-87% YoY), bringing 9M core earnings to RM26m (-66% YoY).
- The steep drop in sequential earnings were largely due to little progress made for the LRT 3 project and slower/little recognition from Sentral Suites, Tria @ 9 Seputeh and 1060 Carnegie in Melbourne, Australia.
- Current completion rate for Sentral Suites and Tria @ 9 Seputeh is only 25% and 17% respectively, while the settlement and handover process of 1060 Carnegie (82% take up rate) will only be concluded in 1Q20.
- The decline in 9M19 core earnings followed a similar trend, which was exacerbated by:
 - (1) Prudent expensing of certain construction projects (mainly the Desaru jobs in Johor) pending financial close/legal proceedings;
 - (2) Re-timing of income recognition from LRT 3, which contributed profits of only RM1m vs RM21m a year earlier. Current work progress on LRT 3 is about 23%;
 - (3) Recognition of land sales totaling RM387m (profits: RM67m); this is made up of Batu Feringghi, Penang (revenue – RM64m; profits: RM31m) and the former German Embassy Land at Jln. Kia Peng (revenue – RM323m; profits – RM38m); and
 - (4) Delays for certain construction projects due to changes in design, etc (e.g. SUKE).
- On the whole, its results came in at 43% and 66% of consensus and our full year forecast, respectively. We are however maintaining our FY19F core net profit forecast of RM39m on expectations that there will likely be no more expenses being charged out for the Desaru jobs.
- At the same time, management updated that the group has been progressively receiving payments for receivables outstanding under the LRT Extension project.
- MRCB's properly presales pipeline remains largely muted for next year, with only the launch of Phase1 of its Kwasa Sentral development (mid-2020) going ahead for now. It will comprise of residential condominiums with an indicative GDV is ~RM400m (400 units). MRCB will also employ its proprietary MRCB IBS System (MBS) to construct the units.
- Rather, MRCB will continue to focus on liquidating its completed inventories totaling RM450m, out of which RM150m comes from the commercial units at Vivo @ 9 Seputeh. The balance is St. Regis (RM100m), Vivo @ 9 Seputeh residential units (RM140m), Sentral Residences (RM40m) and Kalista (RM20m).

- In particular, management noted that the group has had to find new buyers for about RM100m worth of property sales, which had dropped out over the last two years. It has also managed to liquidate about 10% out of the 33 units at St. Regis that are under its books.
- 9M19 new property sales was RM398m (inclusive of those that are pending SPA: ~RM600m).
- On the other hand, any decision to inject Menara Celcom into MRCB Quill REIT (MQ REIT, RM1.04, Hold) will not likely take shape at least until FY21F.
- On the back of an outstanding orderbook of RM22b, the current tenderbook is about RM1.2b.
- In terms of upcoming opportunities, MRCB has been prequalified to bid for the local civil works portion of the East Coast Rail Line (ECRL).
- Management had also previously indicated that they may look at the revived Port Klang to Serendah freight bypass, once the tenders are out. Other potential job flows could come from MRCB's core expertise of environmental and engineering transmission works.
- MRCB's balance sheet remains comfortable, with a net gearing at 27% as of 30 June.
- We also project MRCB's FY20F core earnings to recover on the back of stronger recognition from key property projects (i.e. Sentral Suites, Tria @ 9 Seputeh and 1060 Carnegie) and a gradual pick-up in the pace of LRT 3 works, which we expect to happen by 2H20.
- At current levels, MRCB is trading at a steep 37% discount to NAV.

Exhibit 1: Financial results

YE 31 Dec (RM m)	9M18	9M19	% YoY	2Q19	3Q19	% QoQ
Turnover	1,496.6	847.8	(43.4)	241.0	372.7	54.7
EBIT	102.6	59.4	(42.1)	25.0	20.6	(17.5)
Interest Expense	(36.1)	(38.6)		(12.6)	(13.7)	
Interest Income	17.9	13.8		4.1	4.6	
Pre-Exceptionals Profit	84.4	34.6		16.6	11.6	
Exceptionals	0.0	(8.0)		(8.0)	0.0	
Pre-Associates/JV Profit	84.4	26.6		8.6	11.6	
Associates/JVs	29.7	5.9		1.3	2.7	
Pretax Profit	114.1	32.5	(71.5)	9.8	14.3	45.4
Taxation	(37.7)	(21.1)		(2.2)	(12.1)	
Minority Interest/disc. ops	(1.6)	6.3		3.4	0.3	
Net Profit	74.8	17.7	(76.3)	11.1	2.5	(77.2)
Core Net Profit	74.8	25.7	(65.6)	19.1	2.5	(86.8)
Core EPS (sen)	1.7	0.6		0.4	0.1	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	1.09	1.08		1.11	1.08	
EBIT Margin (%)	6.9	7.0		10.4	5.5	
Pretax Margin (%)	7.6	3.8		4.1	3.8	
Effective Tax (%)	33.1	65.0		22.1	84.8	
Segmental Breakdown (RM m)						
Turnover						
Construction	561.2	420.9	(25.0)	150.8	137.4	(8.9)
Property development & investment	882.9	371.4	(57.9)	71.2	215.0	201.8
Infrastructure & concession	2.2	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	39.7	39.4	(0.9)	12.8	13.5	5.3
Investment holding & Others	10.5	16.1	53.4	6.2	6.9	11.6
Total	1,496.6	847.8	(43.4)	241.0	372.7	54.7
EBIT						
Construction	44.8	3.3	(92.7)	(15.2)	1.8	(111.6)
Property development & investment	88.9	69.8	(21.4)	44.0	22.8	(48.1)
Infrastructure & concession	(7.8)	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	5.6	3.6	(35.1)	0.5	3.6	n/m
Investment holding & Others	16.0	(14.1)	n/m	(19.4)	(5.8)	n/m
Total	102.6	59.4	(42.1)	25.0	20.6	(17.5)
EBIT margin (%)						
Construction	8.0	0.8		(10.1)	1.3	
Property development & investment	10.1	18.8		61.7	10.6	
Infrastructure & concession	n/m	n/m		n/m	n/m	
Facilities management & parking	14.1	9.3		3.5	26.5	
Investment holding & Others	n/m	n/m		n/m	n/m	
Total	6.9	7.0		10.4	5.5	

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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Dato' Ahmad Bin Kadis
Managing Director
KAF-Seagroatt & Campbell Securities Sdn Bhd (134631-U)