

28 Feb 2018

Buy

Price
 RM1.08

Target Price
 RM1.26

Market Data

Bloomberg Code	MRC MK
No. of shares (m)	4,386.8
Market cap (RMm)	4,737.7
52-week high/low (RM)	1.57 / 0.87
Avg daily turnover (RMm)	14.4
KLCI (pts)	1,856.2

Source: Bloomberg, KAF

Major Shareholder (%)

EPF	(34.7%)
Gapurna	(16.8%)
Lembaga Tabung Haji	(8.1%)
Free Float	40.3

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	0.9	3.1	(12.8)
Rel Market (%)	(6.6)	(1.5)	(20.5)



Source: Bloomberg, KAF

Analyst

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MRCB

Ahead of the pack

We maintain our BUY rating on MRCB with an unchanged TP of RM1.26. Its FY17 results were above expectations; core net profit surged 35% YoY on higher construction earnings. Net gearing should improve further to 31% in FY18F (FY17: 55%) once it completes the disposal of an 80% stake in the KL Sports City land to EPF. The next event catalysts to watch out for are the: (i) potential divestment of EDL; and (ii) KL-Singapore HSR PDP bid.

Financial Highlights

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue (RMm)	2,408.1	2,823.7	2,566.4	2,692.4	2,756.9
Core net profit (RMm)	75.0	101.3	150.3	181.8	232.3
Core EPS (Sen)	4.2	2.9	3.8	4.1	5.1
EPS growth (%)	>100	(30.4)	30.4	7.3	25.0
DPS (Sen)	2.8	1.8	1.5	1.8	2.5
Core PE (x)	24.9	39.7	28.2	26.3	21.0
Div yield (%)	2.6	1.5	1.4	1.6	2.3
ROE (%)	10.3	4.3	3.1	3.7	4.6
Net Gearing (%)	75.7	55.1	30.6	30.6	28.9
PBV(x)	0.8	1.1	1.0	0.9	0.9

Source: Company, KAF

FY17 results ahead of expectations

MRCB reported a strong 4QFY17 core net profit of RM45m (+60% QoQ), bringing FY17 core earnings to RM101m, representing a growth of 35% YoY. This was largely due to: (i) a turnaround in its construction division; and (ii) a one-third decline in interest expenses (RM116m), which was partly due to the capitalizing of certain interest items during the quarter. The group declared a first and final DPS of 1.75sen on a payout ratio of 46%.

Construction earnings improved significantly, registering an operating profit of RM93m against RM12m in FY17. Out of this total, ~RM15m was derived from the LRT 3 PDP JV with George Kent (GKENT MK, RM4.33, NC). Construction billings made up c.63% of group revenue, with infrastructure projects making up a bulk of these. As a result, construction EBIT margins improved to 5.2% (FY16: 1.4%).

New property sales for the FY was RM1.4b, beating management's target of RM1.2b. Nevertheless, property revenue dropped 35% YoY to RM859m following the completion of Sentral Residences and Easton Burwood in 1H17. MRCB launched the third and final tower of its Sentral Suites project in 4Q17, having achieved positive responses from the first two towers. With a total GDV of RM1.5b, Sentral Suites recorded an impressive take-up rate of 58% as at end-2017. Response to Carnegie (GDV: RM305m), MRCB's second project in Australia has been similarly encouraging, for which 72% of the units on offer have been sold.

For the upcoming FY, we project MRCB to record a core net profit of RM150m (+48% YoY). This is underpinned by (i) the increasing weight of its fee-based income (e.g. LRT 3); (ii) progress billings from its locked-in property sales of RM1.7b; and (iii) lower earnings drag from EDL (pending negotiations on the termination of its concession agreement).

A busy year ahead

MRCB secured close to RM500m worth of construction jobs in FY17, bringing its external orderbook to RM5.2b or c.2.9x its construction revenue. The group's ongoing tenderbook is close to RM3b. It recently put in a joint bid for the KL-Singapore High Speed Rail PDP mandate, where the results could be known by early May.

Much like the KL Sports City and Kwasa Land/Kwasa Utama projects, MRCB is also targeting multiple earnings streams – with an eye on expanding its fee-based portfolio. While it may have disposed a 70% stake in 59 Inc (the developer for Semarak City) late last year, we understand that MRCB could potentially receive a 6% as management contractor for the RM3.2b-GDV development near KL city centre, besides being its sales and marketing agent.

On the property front, management has toned down on its sales target to RM1b, as it remains guarded with current property sentiments. Furthermore, its healthy locked-in property sales of RM1.7b provides added comfort, in our view.

Balance sheet strength to improve further with EDL disposal

Following the completion of its rights issue in 4Q17, MRCB's net gearing dipped to ~55% as at 31 December 2017 vs 76% a year ago. Moving into FY18F, we expect its net gearing position to improve further to 31% once MRCB receives proceeds from the divestment of an 80% stake in the KL Sports City project to EPF. Part of the proceeds will also be used to repay a RM738m loan that MRCB took up to pay for the Kwasa Sentral land.

With toll collection may having ceased on 1 January 2018, we expect MRCB to drawdown on its finance service reserve account (FRSA) bank-guarantee facility to alleviate any associated cash flow shortfalls. We understand that EDL has a coupon of RM40m that is due in June.

Due to ongoing negotiations with the government on a mutual termination of its toll concession, the Sukuk bonds for EDL (RM1.1b) has been reclassified under the current liabilities section of MRCB's books. The EDL debt accounts for c.31% of the group's total debts of RM3.4b as at FY17.

Based on management's pro-forma estimates, any successful divestment of EDL could bring down MRCB's net gearing to ~30%.

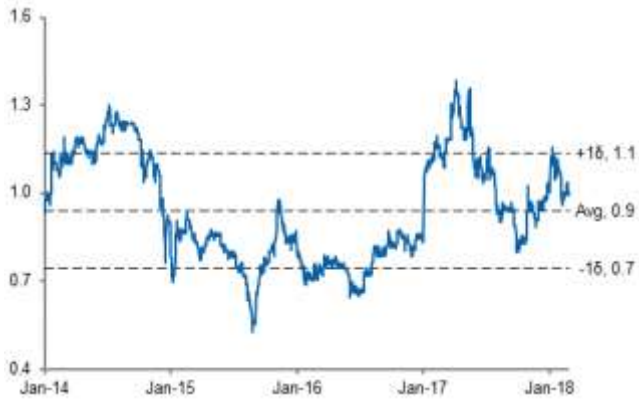
We nevertheless believe that further asset monetization moves involving Ascott KL Sentral and Menara Celcom are unlikely to happen by the end of this year.

Exhibit 1: Financial results

YE 31 Dec (RM m)	FY16	FY17	% YoY	3Q17	4Q17	% QoQ
Turnover	2,408.1	2,823.7	17.3	1,134.1	408.2	(64.0)
EBIT	320.0	246.6	(23.0)	81.5	52.3	(35.9)
Interest Expense	(175.9)	(116.1)		(41.4)	(2.1)	
Interest Income	23.5	25.5		3.6	9.8	
Pre-Exceptionals Profit	167.6	156.0		43.7	60.0	
Exceptionals	192.4	66.3		0.0	60.8	
Pre-Associates/JV Profit	360.0	222.3		43.7	120.8	
Associates/JVs	32.7	25.0		8.6	10.8	
Pretax Profit	392.6	247.3	(37.0)	52.3	131.6	151.5
Taxation	(73.5)	(65.5)		(21.8)	(26.7)	
Minority Interest/disc. ops	(51.7)	(14.2)		(2.4)	0.8	
Net Profit	267.4	167.6	(37.3)	28.1	105.7	276.1
Core Net Profit	75.0	101.3	35.1	28.1	44.9	59.7
Core EPS (sen)	3.9	4.0		1.3	2.0	
Gross DPS (sen)	2.8	1.8		0.0	1.8	
BV/share (RM)	1.37	1.10		1.37	1.10	
EBIT Margin (%)	13.3	8.7		7.19	12.8	
Pretax Margin (%)	16.3	8.8		4.61	32.2	
Effective Tax (%)	18.7	26.5		41.7	20.3	
Segmental Breakdown (RM m)						
Turnover						
Construction	857.9	1,773.9	106.8	915.5	159.5	(82.6)
Property development & investment	1,330.4	858.7	(35.5)	174.3	198.0	13.6
Infrastructure & environmental	112.4	114.9	2.3	29.0	28.9	(0.5)
Facilities management & parking	71.3	55.8	(21.8)	12.4	13.7	10.3
Investment holding & Others	36.1	20.4	(43.5)	2.9	8.1	180.0
Total	2,408.1	2,823.7	17.3	1,134.1	408.2	(64.0)
EBIT						
Construction	11.6	92.7	n/m	31.3	46.1	47.6
Property development & investment	464.6	176.0	(62.1)	32.7	63.5	94.1
Infrastructure & environmental	58.5	55.2	(5.7)	12.7	13.5	6.0
Facilities management & parking	15.8	11.4	(27.8)	0.3	0.3	(19.6)
Investment holding & Others	(219.0)	4.0	n/m	35.8	(24.9)	n/m
Total	320.0	246.6	(23.0)	81.5	52.3	(35.9)
EBIT margin (%)						
Construction	1.4	5.2		3.4	28.9	
Property development & investment	34.9	20.5		18.8	32.1	
Infrastructure & environmental	52.1	48.0		43.9	46.7	
Facilities management & parking	22.2	20.5		2.7	1.9	
Investment holding & Others	n/m	n/m		n/m	n/m	
Total	13.3	8.7		7.2	12.8	

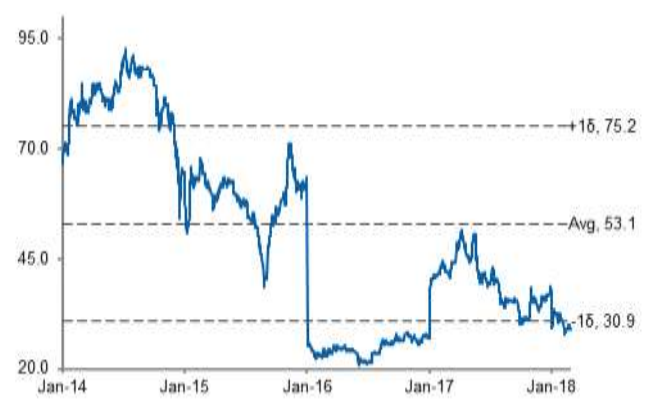
Source: Company, KAF

Exhibit 2: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 3: PE Band chart



Source: Company, KAF, Bloomberg

Income Statement

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Revenue	2,408.1	2,823.7	2,566.4	2,692.4	2,756.9
EBITDA	411.1	367.1	408.5	460.6	513.6
Depreciation/Amortisation	(94.2)	(120.5)	(67.1)	(72.2)	(77.2)
Operating income (EBIT)	316.9	246.6	341.4	388.4	436.4
Other income & associates	32.7	25.0	62.2	62.3	99.4
Net interest	(149.3)	(90.6)	(123.6)	(122.7)	(118.1)
Exceptional items	192.4	66.3	0.0	0.0	0.0
Pretax profit	392.6	247.3	280.0	328.0	417.7
Taxation	(73.5)	(65.5)	(94.3)	(106.6)	(135.1)
Minorities/pref dividends	(51.7)	(14.2)	(35.4)	(39.6)	(50.3)
Net profit	267.4	167.6	150.3	181.8	232.3
Core net profit	75.0	101.3	150.3	181.8	232.3

Balance Sheet

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Fixed assets	437.8	614.2	660.2	702.6	741.4
Intangible assets	252.9	225.6	220.5	215.4	210.2
Other long-term assets	3,895.9	4,688.2	5,152.5	5,465.3	5,793.8
Total non-current assets	4,586.6	5,528.0	6,033.2	6,383.3	6,745.4
Cash & equivalent	592.8	464.0	1,702.5	1,606.1	1,445.2
Stock	57.5	154.5	71.8	74.3	74.7
Trade debtors	1,600.5	3,179.7	1,652.3	1,807.3	1,586.2
Other current assets	914.8	974.8	1,187.7	921.7	949.9
Total current assets	3,165.6	4,772.9	4,614.4	4,409.3	4,055.9
Trade creditors	1,586.4	1,279.2	1,436.6	1,485.8	1,493.5
Short-term borrowings	806.3	2,490.6	1,527.2	1,509.7	1,484.8
Other current liabilities	42.6	217.9	217.9	217.9	217.9
Total current liabilities	2,435.2	3,987.8	3,181.7	3,213.5	3,196.2
Long-term borrowings	2,130.8	891.2	1,934.9	1,892.6	1,712.8
Other long-term liabilities	161.2	493.3	493.3	493.3	493.3
Total long-term liabilities	2,292.0	1,384.6	2,428.3	2,386.0	2,206.2
Shareholders' funds	2,925.8	4,824.1	4,897.6	5,013.7	5,169.2
Minority interests	99.2	104.5	139.9	179.4	229.7

Cash flow Statement

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Pretax profit	392.6	247.3	280.0	328.0	417.7
Depreciation/Amortisation	94.2	120.5	67.1	72.2	77.2
Net change in working capital	(366.5)	(1,919.2)	1,554.5	157.8	200.2
Others	(261.6)	662.6	(156.5)	(169.0)	(234.5)
Cash flow from operations	(141.3)	(888.7)	1,745.0	389.1	460.6
Capital expenditure	(540.4)	(672.7)	(510.0)	(360.0)	(340.0)
Net investments & sale of fixed assets	300.0	0.0	0.0	0.0	0.0
Others	883.3	(384.3)	0.0	0.0	0.0
Cash flow from investing	642.9	(1,057.0)	(510.0)	(360.0)	(340.0)
Debt raised/(repaid)	(458.2)	444.7	80.3	(59.8)	(204.8)
Equity raised/(repaid)	401.9	1,798.1	0.0	0.0	0.0
Dividends paid	(76.6)	(70.1)	(76.8)	(65.8)	(76.7)
Others	(115.2)	(355.7)	0.0	0.0	0.0
Cash flow from financing	(248.1)	1,816.9	3.5	(125.5)	(281.5)
Net cash flow	253.5	(128.7)	1,238.5	(96.5)	(160.9)
Cash b/f	339.2	592.8	464.0	1,702.5	1,606.1
Cash c/f	592.8	464.0	1,702.5	1,606.1	1,445.2

Key Ratios

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue growth (%)	41.9	17.3	(9.1)	4.9	2.4
EBITDA growth (%)	69.5	(10.7)	11.3	12.8	11.5
Pretax margins (%)	16.3	8.8	10.9	12.2	15.1
Net profit margins (%)	11.1	5.9	5.9	6.8	8.4
Interest cover (x)	2.1	2.7	2.8	3.2	3.7
Effective tax rate (%)	18.7	26.5	33.7	32.5	32.3
Net dividend payout (%)	22.6	45.8	43.7	42.2	47.2
Debtors turnover (days)	243	411	235	245	210
Stock turnover (days)	13	28	15	15	15
Creditors turnover (days)	358	235	300	300	300

Source: Bloomberg, 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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