

30 May 2019

Buy

Price
RM0.93

Target Price
RM1.08

Bloomberg code
MRC MK

Equity | Malaysia | Property
Flashnote

MRCB

2H earnings pick-up from locked-in property sales, LRT 3

Financial Highlights

FYE Dec	2017	2018	2019F	2020F	2021F
Revenue (RMm)	2,640.6	1,870.7	2,336.0	3,223.8	3,708.3
Core net profit (RMm)	95.6	38.7	68.8	106.7	165.0
Core EPS (Sen)	2.7	2.0	1.8	2.6	3.8
EPS growth (%)	(35.4)	(28.2)	(9.4)	44.1	47.1
DPS (Sen)	1.8	1.5	1.0	1.5	2.0
Core PE (x)	41.7	42.3	52.4	36.4	24.7
Div yield (%)	1.5	1.8	1.1	1.6	2.2
ROE (%)	4.2	2.1	1.4	2.2	3.3
Net Gearing (%)	55.2	19.6	27.4	31.1	30.0
PBV(x)	1.0	0.8	0.8	0.8	0.8

Source: Company, KAF

- We maintain our Buy rating on MRCB with an unchanged TP of RM1.08. Our TP is derived after ascribing a 10% discount to its NAV.
- For the 1Q reporting period, MRCB reported profits of only RM4m vs RM22m a year earlier, representing a decline of 81% YoY and 84% QoQ. The weaker performance was largely attributable to:
 - (i) Minimal progress for the LRT 3 project (~10% completion rate);
 - (ii) Shift in the recognition of some large property projects that were completed last year (e.g. Viva 9 Seputeh and Kalista Homes @ Bukit Rahman Putra); i.e. contributions from the sales of completed units will now be deferred until the signing of SPA's; and
 - (iii) Near three-fold YoY increase in finance expenses at RM12m. This was largely due to the charging out of interest cost on new loans taken up to help fund the acquisition of the Metro Spectacular land (pending receipt of the Development Order), and for the ongoing construction of Penang Sentral.
- While its results only accounted for 6% of our forecast (consensus: 4%), we are keeping our core FY19F earnings estimates at RM69m on expectations of a better second half. This key supporting factors are:
 - (i) Full recognition of locked-in sales for Viva 9 Seputeh and Kalista Homes, which have inventory values worth RM250m and RM20m, respectively;
 - (ii) New property launches, including a strata office block at PJ Sentral Garden City; and
 - (iii) Gradual ramp up in contributions from LRT 3.
- In 1Q19, MRCB's 50% share of the LRT 3 profits was only ~RM1m (1Q18 – RM9m). Management shared that LRT 3 works have recommenced, although progress has been somewhat slow. Nevertheless, management expects work momentum to gather pace either by 3Q19 or 4Q19, once it finalizes the redesign work and contract rates/scope with its Works Package Contractors (WPC's) following the signing of a novation agreement back in February.
- Meanwhile, SUKE Package CA 2 should start contributing by 3Q19. At the moment, MRCB is preparing for the pre casting of beams, which is done offsite. It is also resolving some issues related to the project's design. As for the three building contracts in Desaru projects, MRCB has completed a bulk of the works (92%-97% completion rate), and is currently in negotiations with its client on outstanding payments and other unresolved matters.

- Backed by a sizeable orderbook backlog of RM21b, we anticipate MRCB to be at the forefront of several rail-related projects that have been recently revived (e.g. East Coast Rail Line). Notably, the group has earned the distinction as the largest bumiputera construction company in Malaysia.
- Moving onto its properties division, MRCB has a launch pipeline of RM850m for this year. Out of this, the maiden residential launch of Kwasa Sentral (MRCB-EPF 70:30 JV), which will adopt its patented MRCB Industrialized Building System (MBS), will account for RM350m-RM400m. The balance will comprise of the Docklands project in Australia, Alstonia @ Bukit Rahman and the new office block at PJ Sentral Garden City.
- MRCB is also targeting to achieve RM800m worth of new property sales against the RM470m achieved last year (1Q19: RM75m). This will be derived from the new launches highlighted above and ongoing inventory liquidation moves.
- We also expect its property revenue to accelerate in the coming months, if MRCB successfully converts some of its completed inventories at Vivo 9 Seputeh and Kalista Homes into SPA's. For the former, we understand that MRCB is confident of clearing over RM100m worth of residential units for Vivo 9 Seputeh. This is supported by healthy unbilled sales of RM1.6b.
- Looking ahead into FY20F, management anticipates its property billings to gain further traction; this will come from the completion of 1060 Carnegie in Melbourne (81% sold), higher recognition from Sentral Suites (work schedule has surpassed the podium level) and the aforementioned liquidation of existing property stock.
- MRCB's balance sheet strength has greatly improved following the receipt of RM1.3b in proceeds from the disposal of the Eastern Disposal Link (EDL) concession in November. As of 31 March, its net gearing position stood at 23%.

Exhibit 1: Financial results

YE 31 Dec (RM m)	1Q18	1Q19	% YoY	4Q18	1Q19	% QoQ
Turnover	427.6	234.1	(45.3)	374.1	234.1	(37.4)
EBIT	16.0	13.8	(13.9)	13.1	13.8	4.8
Interest Expense	(4.3)	(12.4)		(7.2)	(12.4)	
Interest Income	8.3	5.1		3.2	5.1	
Pre-Exceptionals Profit	20.0	6.5		9.1	6.5	
Exceptionals	0.0	0.0		0.0	0.0	
Pre-Associates/JV Profit	20.0	6.5		9.1	6.5	
Associates/JVs	10.7	1.9		(0.2)	1.9	
Pretax Profit	30.7	8.4	(72.6)	8.9	8.4	(5.6)
Taxation	(4.9)	(6.9)		(8.4)	(6.9)	
Minority Interest/disct. ops	(4.1)	2.6		25.8	2.6	
Net Profit	21.6	4.1	(80.9)	26.4	4.1	(84.3)
Core Net Profit	21.6	4.1	(80.9)	26.4	4.1	(84.3)
Core EPS (sen)	0.5	0.1		0.6	0.1	
Gross DPS (sen)	0.0	0.0		1.8	0.0	
BV/share (RM)	1.10	1.10		1.10	1.10	
EBIT Margin (%)	3.7	5.9		3.5	5.9	
Pretax Margin (%)	7.2	3.6		2.4	3.6	
Effective Tax (%)	16.1	81.5		93.7	81.5	
Segmental Breakdown (RM m)						
Turnover						
Construction	191.1	132.7	(30.5)	481.4	132.7	(72.4)
Property development & investment	220.4	85.1	(61.4)	(124.4)	85.1	(168.4)
Infrastructure & concession	0.7	0.0	n/m	(2.2)	0.0	n/m
Facilities management & parking	13.0	13.1	1.0	13.6	13.1	(3.3)
Investment holding & Others	2.3	3.1	31.1	5.6	3.1	(45.2)
Total	427.6	234.1	(45.3)	374.1	234.1	(37.4)
EBIT						
Construction	16.0	16.7	4.4	53.0	16.7	(68.5)
Property development & investment	24.1	3.0	(87.6)	(32.6)	3.0	n/m
Infrastructure & concession	(1.3)	0.0	n/m	82.3	0.0	n/m
Facilities management & parking	0.2	(0.4)	n/m	0.8	(0.4)	n/m
Investment holding & Others	(7.0)	11.1	n/m	(37.3)	11.1	n/m
Total	16.0	13.8	(13.9)	13.1	13.8	4.8
EBIT margin (%)						
Construction	8.4	12.6		11.0	12.6	
Property development & investment	11.0	3.5		26.2	3.5	
Infrastructure & concession	n/m	n/m		n/m	n/m	
Facilities management & parking	1.3	(2.8)		5.7	(2.8)	
Investment holding & Others	n/m	n/m		n/m	n/m	
Total	3.7	5.9		3.5	5.9	

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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