

30 May 2023

Hold

Price
RM0.31

Target Price
RM0.36

Bloomberg code
MRC MK

Equity | Malaysia | Property
Flashnote

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MRCB

1Q lower as key projects are completed

Financial Highlights

FYE Dec	2021	2022	2023F	2024F	2025F
Revenue (RMm)	1,448.5	3,205.1	2,347.7	1,922.9	1,728.1
Core net profit (RMm)	(107.9)	64.8	65.2	72.9	83.6
Core EPS (Sen)	(1.9)	1.7	1.7	1.8	2.0
EPS growth (%)	n/m	n/m	0.5	9.3	12.0
DPS (Sen)	1.0	1.0	1.0	1.0	1.0
Core PE (x)	n/m	19.6	18.3	16.8	15.0
Div yield (%)	2.5	3.1	3.3	3.3	3.3
ROE (%)	0.3	1.4	1.4	1.6	1.8
Net Gearing (%)	30.0	33.6	36.0	30.8	29.1
PBV(x)	0.4	0.3	0.3	0.3	0.3

Source: Company, KAF

- We maintain our Hold recommendation on MRCB at unchanged TP of RM0.36 (50% discount to NAV).
- This follows the release of its results for the quarter ending 31 March 2023.
- For the quarter under review, MRCB reported lower core earnings of RM8m (-33% QoQ; -40% YoY).
- While this represented only 13%-14% of both consensus and our estimates, we keep our full-year forecast pending an uptick in project contributions in the subsequent quarters.
- The softer 1Q earnings were reflective of lower contributions from its construction division, as several key infrastructure projects were completed late last year.
- Meanwhile, the LRT 3 project has reached physical progress of 84% (financial: 78%).
- The property division accounted for 36% of group revenue. Sentral Suites is fully constructed, and its units are now being progressively handed over to purchasers.
- Progress on two other key ongoing projects – TRIA @ 9 Seputeh and Alstonia have each reached 96% and 91%, respectively.
- New property sales improved to RM85 against RM23m a year earlier. Its unbilled sales was RM220m against property stock of RM667m.
- As for its launches for the year, MRCB unveiled VISTA in Surfers Paradise, Gold Coast last month. The project has a GDV of A\$391m (~RM1.2b). The purchase price of each unit is ~A\$17m (RM50m).
- For the construction section, MRCB's active tenderbook stood at RM30b against job backlogs worth RM17b.
- Apart from ongoing MRT 3 bids, we believe that MRCB could be a step closer towards crystallizing the LoI it received last July from the Selangor government for the Shah Alam Sports Complex (KSSA), which could be worth over RM1b.
- While there are expectations for the project to kick off before the state polls, we are more cautious and only tip it to commence towards the later part of this year (completion: four years).
- Should it be successful in its bid for KSSA, the group should not face any major difficulties in raising the required funding to implement the PPP project.
- After all, its net gearing position remained relatively comfortable at 37% as of 31 March 2023 (FY22: 34%).

Exhibit 1: Financial results

YE 31 Dec (RM m)	1Q22	1Q23	% YoY	4Q22	1Q23	% QoQ
Turnover	810.7	742.2	(8.4)	833.9	742.2	(11.0)
EBIT	49.3	42.5	(13.9)	55.6	42.5	(23.6)
Interest Expense	(23.2)	(27.9)		(27.1)	(27.9)	
Interest Income	3.0	5.5		7.1	5.5	
Pre-Exceptionals Profit	29.1	20.1		35.6	20.1	
Exceptionals	0.0	0.0		0.0	0.0	
Pre-Associates/JV Profit	29.1	20.1		35.6	20.1	
Associates/JVs	2.6	0.5		1.8	0.5	
Pretax Profit	31.8	20.6	(35.3)	37.5	20.6	(45.1)
Taxation	(17.8)	(12.0)		(24.6)	(12.0)	
Minority Interest/disct.ops	0.1	(0.1)		(0.1)	(0.1)	
Net Profit	14.0	8.5	(39.6)	12.7	8.5	(33.4)
Core Net Profit	14.0	8.5	(39.6)	12.7	8.5	(33.4)
Core EPS (sen)	0.3	0.2		0.3	0.2	
Gross DPS (sen)	0.0	0.0		1.0	0.0	
BV/share (RM)	1.01	1.02		1.01	1.02	
EBIT Margin (%)	6.1	5.7		6.7	5.7	
Pretax Margin (%)	3.9	2.8		4.5	2.8	
Effective Tax (%)	56.0	58.2		65.8	58.2	
Segmental Breakdown (RM m)						
Turnover						
Construction	612.5	458.5	(25.1)	558.7	458.5	(17.9)
Property development & investment	186.6	268.0	43.6	261.1	268.0	2.6
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	9.5	12.3	29.9	13.0	12.3	(5.8)
Investment holding & Others	2.1	3.5	64.1	1.1	3.5	221.1
Total	810.7	742.2	(8.4)	833.9	742.2	(11.0)
EBIT						
Construction	25.7	7.2	(71.9)	8.7	7.2	(16.6)
Property development & investment	21.1	33.3	58.2	52.0	33.3	(36.0)
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	2.2	(0.1)	n/m	(0.5)	(0.1)	n/m
Investment holding & Others	26.1	9.3	(64.5)	4.1	9.3	127.5
Total	49.3	42.5	(13.9)	55.6	42.5	(23.6)
EBIT margin (%)						
Construction	4.2	1.6		1.5	1.6	
Property development & investment	11.3	12.4		19.9	12.4	
Infrastructure & concession	n/m	n/m		n/m	n/m	
Facilities management & parking	23.1	(0.9)		(3.6)	(0.9)	
Investment holding & Others	n/m	n/m		n/m	n/m	
Total	6.1	5.7		6.7	5.7	

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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