31 May 2022

Hold

Price
RM0.36

Target Price
RM0.40

Bloomberg code
MRC MK

Equity | Malaysia | Property

Flashnote

MRCB

1Q22 is an improvement

Financial Highlights

FYE Dec	2020	2021	2022F	2023F	2024F
Revenue (RMm)	1,199.5	1,448.5	1,443.2	1,689.3	1,897.8
Core net profit (RMm)	(0.8)	(26.0)	21.1	39.0	93.1
Core EPS (Sen)	0.3	(0.2)	0.8	1.1	2.3
EPS growth (%)	(67.4)	nm	nm	47.3	97.0
DPS (Sen)	1.0	0.5	0.5	1.0	1.0
Core PE (x)	166.0	n/m	44.8	28.1	16.8
Div yield (%)	2.0	2.5	2.8	2.8	2.8
ROE (%)	(3.8)	(0.6)	0.5	0.9	2.1
Net Gearing (%)	30.7	29.0	25.7	27.5	0.0
PBV(x)	0.5	0.4	0.4	0.4	0.3

Source: Company, KAF

- We maintain our Hold rating on MRCB with an unchanged TP of RM0.40 (45% discount to NAV).
- MRCB reported 1QFY22 results that were ahead of expectations, returning to profitability with core profits of RM14m against a loss of RM49m in 4Q21. Earlier, management had anticipated a soft quarter due to uncertainties in transitioning from the Covid-19 lockdowns.
- Nevertheless, we maintain our estimates on the back of rising materials costs, which are likely to persists in 2H22.
- Upon reviewing its quarterly results, we note that LRT 3 contributed a big part of the earnings turnaround, having achieved financial progress of 63% as of 31 March. Accordingly, construction margins improved to 4% vs -2% in 1Q21.
- Coupled with improved billings for its key development projects – e.g. Sentral Suites, we believe the group's profitability could continue to trend upwards in the quarters ahead. It will also focus on delivering its existing development projects and pare down its property inventories.
- While cognizant of input cost increases, management also stressed that most of its major ongoing construction projects (e.g. SUKE and DASH) are relatively shielded as they are approaching the tail-end of their respective implementation.
- To our knowledge, its LRT 3 subcontractors could potentially bear a higher proportion of any additional risk to margins – as the renegotiated contracts may already have been firmed up.
- Moreover, the railway project has already reached 71% of physical completion (financially: 63%) – with most, if not all, of its civil works having already been carried out.
- By the same token, management guided that the 1Q22 new property sales of RM23m actually belie a stronger uptick in sales activities at the group – which has been improving month-on-month since January.
- The group has set a stronger FY22F pre-sales guidance of RM1.7b, although it has not launched any new projects ytd.
- Three new projects were mentioned last quarter - Bandar Seri Iskandar (GDV - RM29m; 90 units of landed homes); Kwasa Sentral Plot F (GDV: RM328m; 4Q22) and PJ Sentral Tower 5 (GDV: RM486m).
- We understand from the company that plans are also in the pipeline to launch the Ipoh Raya Integrated Park soon, followed by Vista Street at Surfers Paradise, Gold Coast (GDV: A$297m or ~RM900m) towards the back-end of 2022/1Q23.

Analyst

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Important disclosures can be found in the Disclosure Appendix

- Above all, MRCB is banking on three new developments that would anchor its stronger pre-sales target for this year; namely Ipoh Raya, Vista Street and the Aotea Central Over Station development in Auckland city centre.
- Ipoh Raya is being proposed as a sustainable, integrated logistics park that could generate a GDV in excess of RM1b – starting with the logistics hub.
- More importantly, Ipoh Raya marks a significant milestone in MRCB's property diversification strategy. It paves the way for the group's entry into the technology and industrial/logistics space.
- In this regard, the group is also working with its partners to develop value-added solutions such as block chains, which are a crucial element in the verification process for supply chains.
- As such, management envisages bright prospects for Ipoh Raya amid a breakdown in global supply chains, which translates into increasing demand for bespoke facilities with customized offerings.
- So far, the company says a large MNC has indicated its interest to relocate to Ipoh Raya - with the potential to sign long-term leases.
- Compared to the preceding quarter, we were left with the impression that management has also turned more upbeat on its orderbook prospects.
- MRCB's active tenderbook has declined to less than RM100m with the award of the Sg. Pahang River Rehabilitation Phase 3 worth RM380m, which could potentially yield double digit margins.
- However, management shared that it is expecting some positive developments to emerge over the next few weeks and which are not reflected in its tenderbook at the moment.
- The group is working hard to secure contracts under the MRT 3, flood mitigation as well as renewable energy space.
- Leveraging on its expertise in power-related projects, the group says it may be closing in on a waste-to-energy initiative, which we estimate could cost over RM1b and deliver long-term revenue streams.
- As for MRT 3, the tender submission dateline for its first three civil works packages (announced on 27 May) has been fixed for end-August.
- Apart from its status as a leading, listed Bumiputra contractor, we believe that MRCB has a strong position by virtue of having a large balance sheet that supports its bidding prospects.
- With some of the bids involving contractor financing for two years, MRCB already has in place a RM5b Sukuk program. Having used RM1.4b, it can draw down another RM300m to help keep the Islamic paper's credit rating intact.
- In any case, management clarified that it still has other avenues to raise project financing for MRT 3.
- It says this could come from further sales of its unsold property stock and the monetization of property investments valued at RM500m-RM600m (Ascott Sentral KL and Menara Celcom, PJ Sentral), if need be.

Exhibit 1: Financial results

YE 31 Dec (RM m)	1Q21	1Q22	% YoY	4Q21	1Q22	% QoQ
Turnover	**226.7**	**810.7**	***257.6***	**858.1**	**810.7**	***(5.5)***
EBIT	**11.0**	**49.3**	***n/m***	**25.4**	**49.3**	***94.1***
Interest Expense	(18.2)	(23.2)		(27.5)	(23.2)	
Interest Income	3.8	3.0		(0.1)	3.0	
Pre-Exceptionals Profit	(3.4)	29.1		(2.2)	29.1	
Exceptionals	0.0	0.0		123.7	0.0	
Pre-Associates/JV Profit	(3.4)	29.1		121.5	29.1	
Associates/JVs	9.1	2.6		2.4	2.6	
Pretax Profit	**5.7**	**31.8**	***n/m***	**123.9**	**31.8**	***(74.4)***
Taxation	(1.8)	(17.8)		(49.5)	(17.8)	
Minority Interest/disct.ops	1.3	0.1		0.8	0.1	
Net Profit	**5.2**	**14.0**	***n/m***	**75.2**	**14.0**	***(81.3)***
Core Net Profit	**5.2**	**14.0**	***n/m***	**(48.5)**	**14.0**	***n/m***
Core EPS (sen)	0.1	0.3		(1.1)	0.3	
Gross DPS (sen)	0.0	0.0		1.0	0.0	
BV/share (RM)	1.03	1.01		1.01	1.01	
EBIT Margin (%)	4.9	6.1		3.0	6.1	
Pretax Margin (%)	2.5	3.9		14.4	3.9	
Effective Tax (%)	31.3	n/m		n/m	n/m	
Segmental Breakdown (RM m)						
Turnover						
Construction	84.4	612.5	*n/m*	696.5	612.5	*(12.1)*
Property development & investment	132.2	186.6	*41.2*	152.7	186.6	*22.2*
Infrastructure & concession	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Facilities management & parking	8.9	9.5	*6.3*	8.5	9.5	*11.0*
Investment holding & Others	1.2	2.1	*n/m*	0.3	2.1	*n/m*
Total	**226.7**	**810.7**	***257.6***	**858.1**	**810.7**	***(5.5)***
EBIT						
Construction	(1.6)	25.7	*n/m*	10.9	25.7	*135.2*
Property development & investment	13.1	21.1	*60.6*	135.8	21.1	*(84.5)*
Infrastructure & concession	0.0	0.0	*n/m*	0.0	0.0	*n/m*
Facilities management & parking	0.4	2.2	*n/m*	(2.9)	2.2	*n/m*
Investment holding & Others	(2.5)	26.1	*n/m*	(107.5)	26.1	*n/m*
Total	**11.0**	**49.3**	***n/m***	**25.4**	**49.3**	***94.1***
EBIT margin (%)						
Construction	(1.9)	4.2		1.6	4.2	
Property development & investment	9.9	11.3		88.9	11.3	
Infrastructure & concession	n/m	n/m		n/m	n/m	
Facilities management & parking	4.9	23.1		(33.7)	23.1	
Investment holding & Others	n/m	n/m		n/m	n/m	
Total	**4.9**	**6.1**		**3.0**	**6.1**	

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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