



<b>Stock:</b>	MRC MK
<b>Name:</b>	MRCB
<b>Price:</b>	RM1.19 (At 13:00, 29 August 2017 GMT)
<b>Recommendation:</b>	Outperform
<b>12mth price target:</b>	RM2.00
<b>12-month TSR:</b>	70.4%
<b>Volatility index:</b>	Medium
<b>Market Cap (m):</b>	RM2,609
<b>Market Cap (m):</b>	US\$611
<b>Free float:</b>	40%
<b>Current valuation (DCF):</b>	RM2.00

#### Event

- MRCB reported its 2Q17 results on 29 August 2017. Results missed MQ and consensus estimates with PAT of RM33.8mn (-32.2% YoY), tracking behind MQ and consensus estimates at 22.3% and 26.7%, respectively.
- The weak results are mainly due to MQ/consensus expectations that construction margin expansion to happen in FY17 as well as the potential sale of Menara Celcom in Petaling Jaya. Infrastructure division also brought a negative surprise with the weak traffic number at EDL (-8% YoY), causing the division's revenue to drop by 20.4% YoY.

#### Impact

- Property:** The property division's margins have returned to normal, with EBIT margin at 16.4% in 1H17 (vs. 41.9% in 1H16). This year there were no asset sales, and the margins are purely from property development. In 1H17 MRCB recorded property sales of RM942mn (+705% YoY), tracking at 79% of its full-year sales target. The unbilled sales for the division stood at RM1.6bn. According to management, the sale of Menara Celcom in Petaling Jaya will be concluded in FY18 instead of 4Q17.
- Construction:** This division has finally posted margin expansion as expected, albeit not up to the degree that was expected by the market. Construction EBIT margin was at 2.2% in 1H17 (vs. 0.9% in 1H16). The division's margins in FY17 were still hampered by the Bukit Jalil Sports Complex refurbishment project as this project was paid to MRCB via land swap. Since the land swap value is tantamount to the construction value, there is no margin recorded for this project. Outstanding orderbook for the division is at RM5.5bn with a tender book of RM2.9bn, backed by highway projects and the station works for MRT2. Going forward, management expects MRCB construction division's margins to return to normalcy (PBT of 7-9%), especially after the delivery of the Bukit Jalil project and it expects the full impact of recovery to be more visible in FY18E.
- Infrastructure:** Eastern Dispersal Link (EDL) is the only subsidiary under this division. Daily traffic YTD dropped to an average of 39k vehicles per day from c.42k in the same period last year. The increased fees by the Singapore government at the border have impacted the traffic for this highway, significantly. MRCB is still looking to dispose of this asset, as most of its interest costs come from this division.
- Balance sheet:** Net gearing inched up to 99% in 2Q17 from 94% in 1Q17, resulting from the drawdown of loans for the Bukit Jalil project.
- Rights issue:** According to the management the proposed rights issue is currently one month behind schedule. They have submitted the request to the authorities and it is now pending approval by the Securities Commission Malaysia.
- Our view:** We believe MRCB will begin to post stronger results next year with asset investments and construction division's margins expansion are expected to drive profits higher. We will monitor closely MRCB's utilisation of funds from the proposed rights issue, as the exercise is expected to reduce MRCB's interest costs and net gearing.

#### Action and recommendation

- Under review.

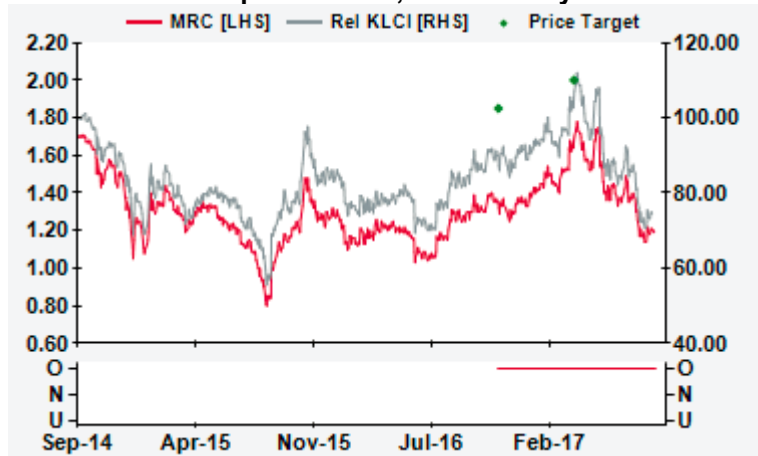
		2016A	2017E	2018E	2019E
December					
Revenue	m	2,408.1	2,281.8	2,025.1	2,263.0
EBIT	m	512.4	310.4	331.4	353.2
EBIT growth	%	187.6	-39.4	6.7	6.6
Adjusted profit	m	267.4	151.5	186.0	200.1
Capex	m	87.0	145.4	189.1	245.8
EPS rep	sen	17.9	6.5	8.1	9.3
EPS rep growth	%	3.3	-63.6	24.8	14.8
EPS adj	sen	13.7	6.5	8.1	9.3
EPS adj growth	%	31,107.2	-52.1	24.1	15.1
PER rep	x	6.7	18.3	14.6	12.8
PER adj	x	8.7	18.2	14.7	12.8

Total DPS	sen	2.8	2.8	2.8	2.8
Total DPS growth	%	10.0	0.0	0.0	0.0
Total div yield	%	2.3	2.3	2.3	2.3
ROA	%	6.9	3.9	4.2	4.4
ROE	%	10.3	5.1	6.0	6.2
EV/EBITDA	x	8.3	12.7	10.8	8.6
Net debt/equity	%	73.2	75.4	81.7	74.9
P/BV	x	1.0	1.1	1.0	0.8
EBITDA	m	571.3	386.2	419.4	455.3
Net Debt/EBITDA	x	3.9	6.1	6.4	5.7
Payout ratio	%	20.1	42.1	33.9	29.5
FCF Yield	%	-16.2	-8.3	-6.4	6.7

\*All values are in MYR unless otherwise stated.

Source: Company data, Macquarie Research, Aug 2017.

### MRC MK rel KLCI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, August 2017

(all figures in MYR unless noted)

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