



Stock:	MRC MK
Name:	MRCB
Price:	RM1.08 (At 14:01, 28 February 2018 GMT)
Recommendation:	Outperform
12mth price target:	RM1.15
12-month TSR:	8.1%
Volatility index:	Medium
Market Cap (m):	RM4,742
Market Cap (m):	US\$1,213
Free float:	43%
Current valuation (DCF):	RM1.16

Event

- MRCB reported 4Q17 results after market hours on 28 February 2018.
- FY17 adj. PAT registered at RM101.3mn (-45.2% YoY), tracking 17% behind MQ's estimates of RM122.5mn. However, MRCB's FY17 adj. PAT tracked 14% ahead of consensus estimates.
- MRCB recorded a revenue of RM2.8bn (+17.3% YoY), tracking above MQ and consensus FY17 estimates at 27% and 15%, respectively.
- MRCB declared a DPS of 1.75sen, 0.25sen above MQ's estimate of 1.5sen in FY17.
- The earnings were below MQ's estimates mainly due to the lower-than-expected earnings contribution from MRCB's associate companies - MRCB Quill REIT and MRCB Quill REIT manager. We also estimated higher margins for MRCB's property development projects, which had also contributed to the earnings miss.

Impact

- **Property division:** The division recorded an EBIT of RM176mn (-62.1% YoY), which was supported by the one-off 70% stake sale of the Setapak development project to Tabung Haji in 4Q18, which had contributed RM60.8mn to the Group's PAT. MRCB managed to surpass its RM1.2bn sales target by delivering a total property sales of RM1.42bn, in line with MQ's estimates of RM1.39bn. Management, however, did not indicate its sales target for FY18E.
- **Construction division:** The Construction division saw its revenue jump by 106.8% YoY to RM1.77bn. As a result, the division's EBIT jumped +700% YoY to RM93mn from RM12mn in FY17. Projects have begun to contribute substantial margins to the division, whereby FY17 EBIT margin rose to 5.2% from 1.4% in FY16. Improved margins from the division are mainly driven by higher margins from maturing project cost-saving initiatives and efficient utilization of resources. MRCB also has recognised a total of RM15.2mn in PDP fees from the LRT3 project. MRCB currently has an outstanding orderbook of RM5.15bn after having secured a total order win of RM468mn in FY17. Management also did not guide on the internal orderbook replenishment target in FY18E.
- **Concession:** MRCB is still in talks with the government to conclude the sale of its sole concession asset - Eastern Dispersal Link (EDL). MRCB believes the sale of EDL can be concluded in 2H18. MRCB has set aside cash for coupon payments from EDL's junior and senior sukus in June 2018 amounting to over RM40mn. According to MRCB, the asset is currently under the purview of the Malaysia Public Works Department (JKR), and maintenance works of EDL are no longer MRCB's responsibilities.
- After utilising the rights issue proceeds, MRCB ended FY17 with a net gearing position of 55.1%. According to management, once cash from the stake sale of Bukit Jalil project is received, MRCB's net gearing should settle at around 30%.

Action and recommendation

- Maintain Outperform.

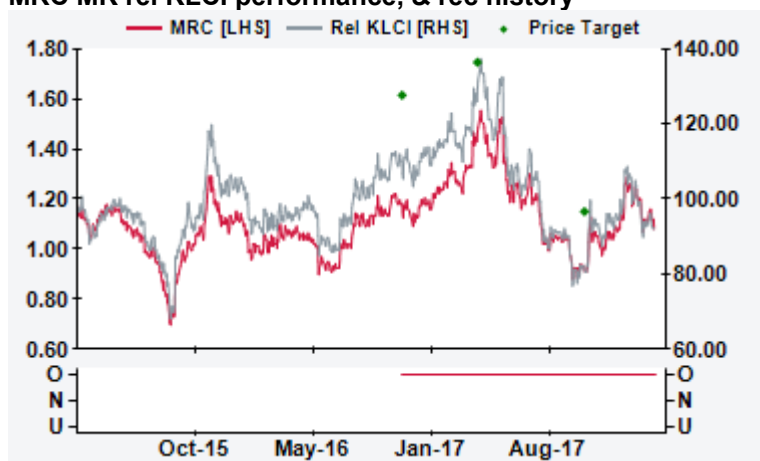
		2016A	2017E	2018E	2019E
December					
Revenue	m	2,408.1	2,222.2	2,378.5	2,296.2
EBIT	m	512.4	307.6	307.2	318.4
EBIT growth	%	187.6	-40.0	-0.1	3.7
Adjusted profit	m	267.4	119.5	167.8	214.9
Capex	m	87.0	145.4	189.1	245.8
EPS rep	sen	15.5	4.2	3.8	4.9
EPS rep growth	%	2.8	-73.3	-7.8	28.0
EPS adj	sen	11.9	4.0	3.8	4.9

EPS adj growth	%	30,998.4	-66.2	-4.5	28.0
PER rep	x	7.0	26.0	28.2	22.0
PER adj	x	9.1	26.9	28.2	22.0
Total DPS	sen	2.4	1.5	1.8	2.0
Total DPS growth	%	10.0	-37.5	16.7	14.3
Total div yield	%	2.2	1.4	1.6	1.9
ROA	%	7.0	3.7	3.3	3.2
ROE	%	10.3	2.9	3.2	4.0
Net debt/equity	%	73.2	2.6	26.7	37.2
P/BV	x	0.9	0.9	0.9	0.9
EBITDA	m	571.3	384.6	395.6	421.0
Net Debt/EBITDA	x	3.9	0.4	3.7	5.0
Payout ratio	%	20.2	37.4	45.7	40.8
FCF Yield	%	-8.9	-4.0	-23.8	-10.4

*All values are in MYR unless otherwise stated.

Source: Company data, Macquarie Research, Mar 2018.

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, March 2018

(all figures in MYR unless noted)

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