

Equities | Malaysia

MRCB (MRC MK) - 1Q18 results miss, led by property division's underperformance

31 May 2018

Flashnote

Recommendation: **Outperform**

Price target	RM1.25	12-month TSR	+121.5%
---------------------	--------	---------------------	---------

Event

- MRCB reported its 1Q18 results with adj. PAT of RM21.5mn (+106% YoY, -53% QoQ) tracking at 9% and 13% of MQ and consensus full-year estimates, respectively.
- 1Q18 earnings were driven by a revenue of RM427.6mn (-19% YoY, +5% QoQ) tracking at 16% of MQ and consensus full-year estimates.

Impact

- **Property division:** This division recorded EBIT of RM24.1mn (-52% YoY, -62% QoQ), with EBIT margin shrinking from 21% (1Q17) to 11% (1Q18). Weaker performance in 1Q18 is mainly due to the delivery of The Easton, Burwood in 1Q17. Property sales were hampered by negative sentiment as well as wait-and-see moves, as buyers held off big-ticket purchases until the GE14 was over, as such MRCB's 1Q18 sales was only RM101mn, tracking only 10% of its FY18E sales target of RM1bn. Management is confident sales will pick up in the coming quarters, especially coming from the 9 Seputeh project, of which the latest launch only managed to secure a take-up rate of 23%. The current unbilled sales for the division is at RM1.6bn. MRCB has also drawn up new debt to finance the land purchase for this division, which saw its net gearing inch higher to 60% (1Q18) from 55% (4Q18). We expect the gearing to be reduced once MRCB receives the full payment of the land sale from EPF in the Bukit Jalil Sentral project.

- **Construction division** : The division posted a strong quarterly profit with tangible margin expansion. The division recorded EBIT of RM16mn (+1176% YoY, -65% QoQ), with EBIT margin expanding to 8.4% (1Q18) from 0.5% (1Q17). Excluding KL-Singapore HSR project, the division's outstanding orderbook stood at RM6.2bn as at end of 1Q18. According to management, aside from HSR, other projects, namely LRT3, are not at risk of being cancelled, given that the project has already registered 10% progress. Management also mentioned that government will not remove the project delivery partner (PDP) role in the LRT3 project and MRCB will assume its duty as a PDP per contract agreement. Management also highlighted that the initial cost that it has forked out for the HSR project is negligible, given that it was awarded less than a month prior to the GE14, where the change in government happened.
- **Orderbook outlook** : Post the change in government, we believe MRCB will focus on winning orders from its related-party projects – once the land sale in Bukit Jalil Sentral to EPF is completed, the works from the project will be recognised as external orderbook. MRCB will also be likely builder for the new SOCSO headquarters after it sold the land parcel to SOCSO back in December 2017. With such a business model, MRCB has ensured continuous orderbook support going ahead, reducing reliance on the government's future infrastructure projects. We assume a cumulative orderbook replenishment target of RM5bn across FY18-20E, mainly backed by real estate jobs from MRCB's related-party projects.

Action and recommendation

- Given the significant results miss, we are putting our estimates under review.

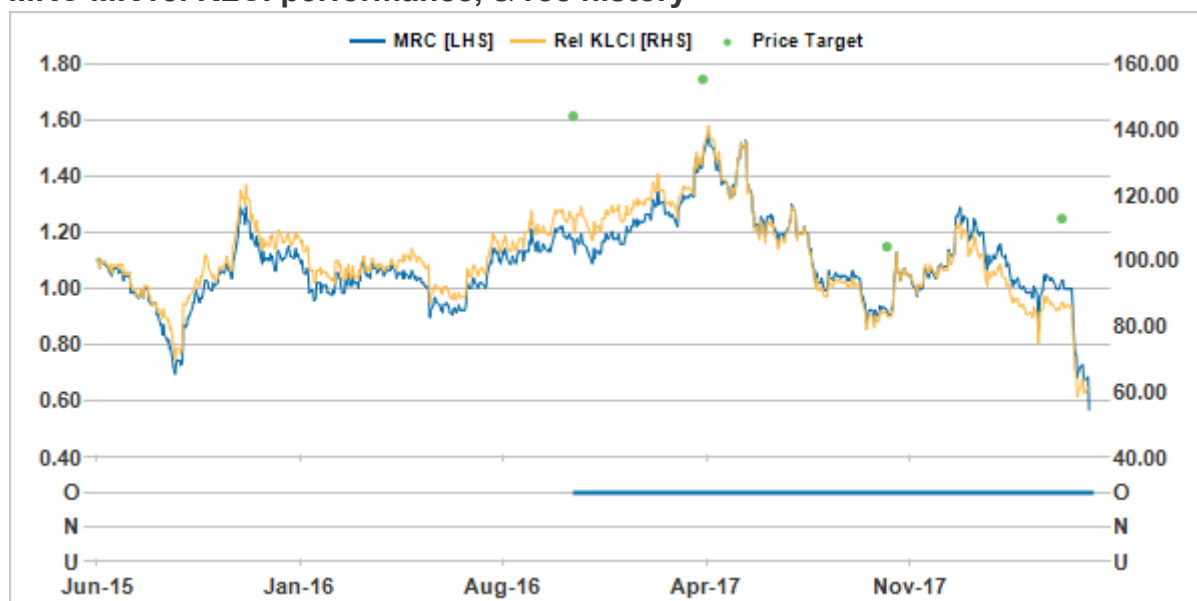
 [Download full report](#)
Including important disclosures

MRC MK	Outperform	
Price (at 13:00, 30 May 2018 GMT)	RM0.57	
Valuation	RM	0.97-1.31
- Sum of Parts		
12-month target	RM	1.25
Upside/Downside	%	+119.3
12-month TSR	%	+121.5
Volatility Index	Medium	
GICS sector	Capital Goods	
Market cap	RMm	2,503
Market cap	US\$m	628
Free float	%	43
30-day avg turnover	US\$m	5.5
Number shares on issue	m	4,391

Investment fundamentals

Year end 31 Dec		2017A	2018E	2019E	2020E
Revenue	m	2,823.7	2,420.9	2,811.2	3,012.9
EBITDA	m	319.6	287.7	363.9	437.9
EBITDA growth	%	-17.1	-10.0	26.5	20.3
EBIT	m	246.5	229.9	300.8	355.9
EBIT growth	%	-23.7	-6.7	30.8	18.3
Reported profit	m	167.6	186.2	289.4	303.4
Adjusted profit	m	101.2	130.2	289.4	303.4
EPS rep	sen	5.9	4.2	6.6	6.9
EPS rep growth	%	-50.7	-27.5	55.4	4.8
EPS adj	sen	3.6	3.0	6.6	6.9
EPS adj growth	%	4.5	-18.0	122.2	4.8
PER rep	x	9.7	13.4	8.6	8.2
PER adj	x	15.7	19.2	8.6	8.2
Total DPS	sen	1.8	1.3	1.5	1.8
Total DPS growth	%	-27.1	-28.6	20.0	16.7
Total div yield	%	3.1	2.2	2.6	3.1
ROA	%	2.8	2.3	3.0	3.4
ROE	%	2.6	2.7	5.7	5.7
EV/EBITDA	x	14.7	14.4	9.5	8.2
Net debt/equity	%	52.8	26.0	37.7	44.0
P/BV	x	0.5	0.5	0.5	0.5

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, May 2018(all figures in MYR unless noted)

Speak to our analysts



Aiman Mohamad

Macquarie Capital Securities (Malaysia) Sdn. Bhd.

+60 3 2059 8986

aiman.mohamad@macquarie.com

[Important information](#) | [Privacy policy](#) | [Unsubscribe](#)

Disclaimer: The information contained in this e-mail is confidential and has been furnished to you solely for your use. You may not disclose, reproduce or distribute the information in any way. Macquarie does not guarantee the integrity of this e-mail or attached files.

Macquarie Capital (USA) Inc. affiliate research reports and affiliate employees are not subject to the disclosure requirements of FINRA rules. Any persons receiving this report directly from Macquarie Capital (USA) Inc. and wishing to effect a transaction in any security described herein should do so with Macquarie Capital (USA) Inc. In Germany, this research is issued and/or distributed by Macquarie Capital (Europe) Limited, Niederlassung Deutschland, which is authorised and regulated by the UK Financial Conduct Authority (No. 193905). and in Germany by BaFin.

Important disclaimers regarding Macquarie research, including relevant disclosures can be viewed at www.macquarie.com.au/research/disclosures.

To unsubscribe: Please advise by return email if you no longer wish to receive this or other emails from Macquarie Research. Once advised you will be removed from our recipient list. **Macquarie Research** eqgmagres@macquarie.com

© Macquarie Group