

27 August 2019

Construction & Engineering | Construction

**MRCB (MRC MK)**

**Buy (Maintained)**

**On Track For a Better 2H; Reiterate BUY**

Target Price (Return) MYR0.97 (+31%)  
 Price: MYR0.74  
 Market Cap: USD777m  
 Avg Daily Turnover (MYR/USD) 7.7m/1.8m

- **Reiterate BUY with new SOP-based MYR0.97 TP from MYR1.10, 31% upside with 2.4% yield.** 1H19 results missed: 12.7% and 16.3% of our and Street's estimates. We believe 2H19 could see a stronger flow of property sales billings and resumption of the Light Rail Transit Line 3 (LRT3) project. Our TP implies 34x FY20F P/E (close to 1SD above its 5-year average mean), which we deem fair, given MRCB's sizable outstanding orderbook of >MYR21bn and significant long-term potential of its transit oriented developments.

- **Aided by St Regis stake sale.** MRCB posted a 2Q19 net profit of MYR11.1m (+156% QoQ, -66.9% YoY), bringing 1H19 earnings to MYR15.4m (-72% YoY): 12.7% and 16.3% of our and Street's estimates. Earnings were dragged by a loss before tax of MYR15.2m from the construction wing (-191% QoQ, -161% YoY), mainly due to minimal billings on the LRT3, recognition of higher expenses due to cost escalations, and provisions for legal proceedings of <MYR10m. The property division recorded a PBT of MYR44m, supported by a gain of MYR55m for the sale of its remaining 30% stake in St Regis Hotel & Residences.

- **2H19 could see stronger contributions from the property arm,** as unbilled sales currently stand at MYR1.76bn, comprising mainly residential projects. In particular, MRCB anticipates more meaningful contributions from Sentral Suites (GDV: MYR1.5bn, 85% take-up rate), which has chalked up unbilled sales totalling MYR1.1bn (57% of total unbilled sales). Additionally, higher property revenue is expected from Tria Residences @ 9 Seputeh (Kuala Lumpur) and 1060 Carnegie (Melbourne) as well. YTD, MRCB has secured new property sales of MYR244m. It is planning to launch three new projects: Alstonia (GDV: MYR250m), Kwasa Central Block D1 (still planning), and a commercial project at PJ Sentral (GDV: MYR500m).

- **Earnings revised downwards.** Despite expectations of a better 2H, we trim our FY19-20 estimates further by 1-13%. We also roll forward our base year to FY20F from FY19F while maintaining an unchanged 12x FY20 construction earnings estimate. We do increase the discount on RNAV to 35% from 25% to account for higher dropout rates on newer property launches. With that, our SOP-derived TP is lowered to MYR0.97. We expect 2H19 to be better, anchored on higher recognition of unbilled property sales to account for timing differences, which should continue through FY20 – hence our current call.

- **Key downside risks** include a prolonged slowdown in the property market, longer-than-expected delays in the commencement of public sector infrastructure projects, and the inability to secure new orders.

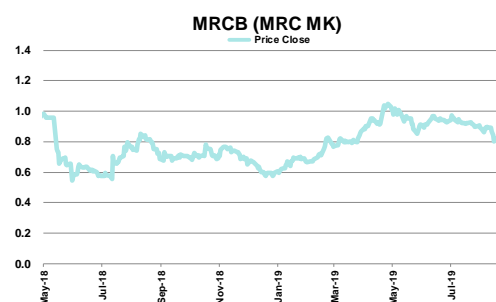
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**Share Performance (%)**

	YTD	1m	3m	6m	12m
Absolute	20.3	(19.1)	(16.9)	(7.5)	(3.3)
Relative	25.5	(15.9)	(16.8)	(0.6)	7.6
52-wk Price low/high (MYR)	0.57-1.15				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (MYRm)	2,641	1,871	1,699	2,072	2,209
Net profit (MYRm)	186	75	105	126	124
Net profit growth (%)	(39.4)	(37.5)	4.2	19.1	(0.9)
Recurring EPS (MYR)	0.06	0.02	0.02	0.03	0.03
Recurring P/E (x)	11.7	32.3	31.0	26.0	26.2
P/B (x)	0.4	0.7	0.7	0.7	0.7
P/CF (x)	(2.9)	3.3	4.9	90.9	26.4
Dividend Yield (%)	2.4	2.4	2.4	3.0	3.4
EV/EBITDA (x)	20.8	25.4	23.1	20.8	21.5
ROAE (%)	4.2	2.1	2.2	2.6	2.5
Interest cover (x)	8.8	2.9	4.6	5.3	5.0

Source: Company data, RHB

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## Financial Exhibits

Asia	Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Malaysia	Recurring EPS (MYR)	0.06	0.02	0.02	0.03	0.03
Construction	DPS (MYR)	0.02	0.02	0.02	0.02	0.03
<b>MRCB</b>	BVPS (MYR)	1.88	1.10	1.10	1.11	1.11
MRC MK	ROE (%)	4.18	2.10	2.18	2.58	2.54

Valuation basis	Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
We use SOP:	Recurring P/E (x)	11.7	32.3	31.0	26.0	26.2
i. 12x FY20F construction earnings;	P/B (x)	0.39	0.68	0.67	0.67	0.67
ii. 35% discount to RNAV.	FCF Yield (%)	(66.25)	18.25	12.18	(4.82)	(1.39)
	Dividend yield (%)	2.4	2.4	2.4	3.0	3.4
	EV/EBITDA (x)	20.8	25.4	23.1	20.8	21.5
	EV/EBIT (x)	23.7	32.9	30.6	27.0	28.5

Key drivers	Income statement (MYRm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Our FY19 forecasts are most sensitive to changes in:	Total turnover	2641	1871	1699	2072	2209
i. Recovery in the property market;	Gross profit	444	373	306	352	375
ii. Better-than-expected construction margins.	EBITDA (adj.)	285	165	170	203	206
	Depreciation & amortisation	(35)	(37)	(42)	(46)	(50)
	Operating profit	250	128	128	157	156
	Net interest	(6)	(23)	(5)	(7)	(8)
	Pre-tax profit	269	123	143	170	169
	Taxation	(69)	(46)	(36)	(43)	(42)
	Net profit	162	101	105	126	124
	Recurring net profit	186	75	105	126	124

Key risks	Cash flow (MYRm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
i. A prolonged slowdown in the property market;	Change in working capital	(1,138)	1,143	508	(145)	(62)
ii. Longer delays in the commencement of public sector infrastructure projects;	Cash flow from operations	(1,123)	988	662	36	124
iii. Inability to secure new orders.	Capex	(199)	(438)	(300)	(236)	(211)
	Cash flow from investing activities	(1,042)	1,012	(300)	(236)	(211)
	Dividends paid	(60)	(77)	(77)	(97)	(110)
	Cash flow from financing activities	2,036	(1,994)	18	(4)	(19)
	Cash at beginning of period	593	464	470	850	646
	Net change in cash	(129)	6	380	(204)	(106)
	Ending balance cash	464	470	850	646	540

Company Profile	Balance sheet (MYRm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
MRCB mainly operates in the property and infrastructure development industries in Malaysia.	Total cash and equivalents	724	552	932	728	622
	Tangible fixed assets	1,826	1,979	2,238	2,427	2,588
	Total investments	34	34	34	34	34
	Total assets	10,325	8,342	8,360	8,734	8,940
	Short-term debt	2,491	726	726	726	726
	Total long-term debt	891	766	866	966	1,066
	Total liabilities	5,403	3,442	3,430	3,773	3,963
	Total equity	4,817	4,832	4,861	4,889	4,903
	Total liabilities & equity	10,325	8,342	8,360	8,734	8,940

Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Revenue growth (%)	9.7	(29.2)	(9.2)	21.9	6.6
Recurrent EPS growth (%)	(40.4)	(63.8)	4.2	19.1	(0.9)
Gross margin (%)	16.8	19.9	18.0	17.0	17.0
Operating EBITDA margin (%)	9.5	6.8	7.6	7.6	7.1
Net profit margin (%)	6.1	5.4	6.2	6.1	5.6
Capex/sales (%)	7.5	23.4	17.7	11.4	9.6
Interest cover (x)	8.8	2.9	4.6	5.3	5.0

Source: Company data, RHB

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## Results At A Glance

Figure 1: MRCB's results review

FYE Dec (MYRm)	2Q18	1Q19	2Q19	QoQ (%)	YoY (%)	1H18	1H19	YoY (%)	Comments
<b>Revenue</b>	<b>405.2</b>	<b>234.1</b>	<b>241.0</b>	<b>3.0</b>	<b>(40.5)</b>	<b>832.8</b>	<b>475.0</b>	<b>(43.0)</b>	No revenue and profit recognised from several construction projects.
<b>EBIT</b>	<b>54.0</b>	<b>18.9</b>	<b>21.1</b>	<b>11.8</b>	<b>(60.9)</b>	<b>78.2</b>	<b>40.0</b>	<b>(48.8)</b>	
<i>EBIT margin (%)</i>	13.3	8.1	8.8			9.4	8.4		
Interest expense	(16.8)	(12.4)	<b>(12.6)</b>	1.2	(25.1)	(21.0)	<b>(25.0)</b>	18.7	
Associates	(0.2)	1.9	<b>0.0</b>	nm	nm	16.5	<b>0.0</b>	n.m.	
<b>Pre-tax profit</b>	<b>43.0</b>	<b>8.4</b>	<b>9.8</b>	<b>16.8</b>	nm	<b>73.6</b>	<b>18.2</b>	<b>(75.2)</b>	
<i>Pre-tax margin (%)</i>	10.6	3.6	4.1			8.8	3.8		
Tax	(10.8)	(6.7)	<b>(2.2)</b>	(67.5)	(79.8)	(15.7)	<b>(8.9)</b>	(43.6)	
<i>Effective tax rate (%)</i>	25.0	79.4	22.1			21.3	48.5		
<b>Net profit</b>	<b>33.4</b>	<b>4.3</b>	<b>11.1</b>	<b>156.2</b>	<b>(66.9)</b>	<b>55.0</b>	<b>15.4</b>	<b>(72.0)</b>	
<b>Core profit</b>	<b>33.4</b>	<b>4.3</b>	<b>11.1</b>	<b>156.2</b>	<b>(66.9)</b>	<b>55.0</b>	<b>15.4</b>	<b>(72.0)</b>	
<i>Net margin (%)</i>	8.3	1.8	4.6			6.6	3.2		

Source: RHB

Figure 2: MRCB's segmental breakdown

FYE Dec (MYRm)	2Q18	1Q19	2Q19	QoQ (%)	YoY (%)	1H18	1H19	YoY (%)	Comments
<b>Revenue</b>	<b>405.2</b>	<b>234.1</b>	<b>241.0</b>	<b>3.0</b>	<b>(40.5)</b>	<b>832.8</b>	<b>475.0</b>	<b>(43.0)</b>	No revenue and profit recognised from several construction projects.
Construction	192.8	132.7	150.8	13.6	(21.8)	383.9	283.5	(26.1)	
Property	193.4	85.1	71.2	(16.3)	(63.2)	413.9	156.4	(62.2)	
Others	19.0	16.2	19.0	16.9	(0.4)	35.1	35.2	0.2	
<b>PBT</b>	<b>57.7</b>	<b>20.7</b>	<b>26.9</b>	<b>29.9</b>	<b>(53.4)</b>	<b>85.1</b>	<b>47.6</b>	<b>(44.1)</b>	Helped by disposal of 30% equity interest in One IFC.
Construction	25.0	16.7	(15.2)	(190.9)	(160.9)	49.1	1.5	(96.9)	
Property	30.9	3.0	44.0	1,365.0	42.3	46.9	47.0	0.1	
Others	1.8	1.0	(1.9)	(291.1)	(203.7)	(10.9)	(0.9)	(91.7)	

Source: RHB

Figure 3: MRCB's SOP valuation

Items	FV based on RHB's TP (MYRm)	BV (MYRm)	Equity value/surplus (MYRm)
Construction (12x 1-year forward earnings)			369.5
Surplus RNAV for property and investments			1,109.2
31% MQ REIT	289.0	264.0	25.0
LRT 3 PDP (DCF)			222.9
Kwasa Damansara PDP for infra works (DCF)			77.4
Shareholders' funds (ex-construction)			4,762.09
Proceeds from Warrants B @ MYR1.25			548.15
Total RNAV			7,114.20
Share base			4,803.97
<b>RNAV per share</b>			<b>1.48</b>
Discount			35%
<b>TP (MYR)</b>			<b>0.97</b>

Source: RHB

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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