

27 February 2020

Construction & Engineering | Construction

MRCB (MRC MK)

Buy (Maintained)

Chunky 2H20 Earnings Likely; Reiterate BUY

Target Price (Return)	MYR0.85 (+29%)
Price:	MYR0.66
Market Cap:	USD777m
Avg Daily Turnover (MYR/USD)	5.6m/1.3m

- **Reiterate BUY with a new SOP-based MYR0.85 TP from MYR0.87, 29% upside and 3% yield.** FY19 results missed and a 1 sen/share dividend was declared. Looking ahead, a stronger flow of property sales billings is expected, while contributions from the Light Rail Transit Line 3 (LRT3) project is likely to turn better. Our call is strengthened by MRCB's sizable outstanding orderbook of >MYR20bn, and significant value accretion from the monetisation or development of its transit-oriented developments in Petaling Jaya, Penang, Cyberjaya, and Kwasa Damansara. Catalysts look strong in supporting our earnings growth assumptions, hence we reiterate our recommendation.

- **Earnings missed.** MRCB posted a 4Q19 core net profit of MYR6m (>100% QoQ, >100% YoY), bringing FY19 earnings to MYR23.7m (-69% YoY). The latter represents 116% and 87% of our and Street's estimates. FY19 construction EBIT continues to be weak at MYR23.1m (-59% YoY). This was due to minimal billings for several property projects – which are still in their early stages – and prudent expensing related to certain projects. The property unit booked an EBIT of MYR76.8m – this includes the remaining 30% stake in St Regis sold in 2Q19 – which was down 21.5% YoY. The latter was primarily due to the absence of one-off land sales (PBT gain of MYR66.8m) in FY18.

- **There should be meaningful contributions from the property segment in FY20,** anchored by higher recognition of unbilled property sales of MYR1.6bn, with YTD new property sales of MYR537m. MRCB still anticipates meaningful contributions from its property development projects, particularly Sentral Suites and Tria@9 Seputeh in Kuala Lumpur, as further progress is achieved. Recognition from 1060 Carnegie is expected to be lumpy from 2Q20, following the handover of purchased units, hence, expanding its revenue.

- **Earnings revised downwards.** LRT3 project talks are still ongoing, and could possibly lead to work delays in 1H20. That said, we adjust our FY20F-21F earnings to reflect this risk, by cutting them 6% and 5%. We keep our 12x P/E unchanged – pegged to FY20F construction earnings and a 35% discount on RNAV. With that, our SOP-derived TP is trimmed. In our view, we expect FY20 to be a better year, anchored on higher recognition of unbilled property sales, as well as the resumption of billings for the LRT 3 project from 3Q20 onwards.

- **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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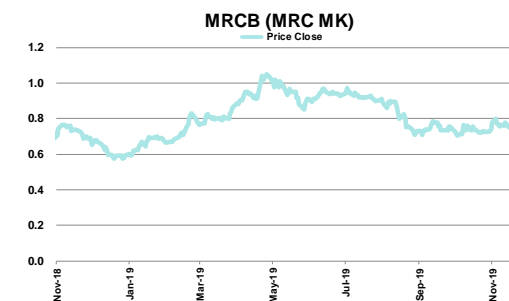
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	22.8	4.9	0.7	(19.3)	2.7
Relative	28.6	3.5	0.8	(18.5)	8.8
52-wk Price low/high (MYR)	0.57-1.15				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	1,871	1,319	1,657	1,767	1,855
Net profit (MYRm)	75	24	87	98	102
Net profit growth (%)	(37.5)	(79.8)	>100	12.9	3.3
Recurring EPS (MYR)	0.02	0.01	0.02	0.02	0.02
Recurring P/E (x)	32.9	75.5	38.2	33.9	32.8
P/B (x)	0.7	0.7	0.7	0.7	0.7
P/CF (x)	3.4	11.2	11.2	12.3	25.4
Dividend Yield (%)	2.3	1.3	2.9	3.3	3.3
EV/EBITDA (x)	25.8	32.4	25.0	22.9	22.7
ROAE (%)	2.1	0.4	1.8	2.1	2.1
Interest cover (x)	2.9	1.8	4.4	4.7	4.6

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Malaysia	Recurring EPS (MYR)	0.02	0.01	0.02	0.02	0.02
Construction	DPS (MYR)	0.02	0.01	0.02	0.03	0.03
MRCB	BVPS (MYR)	1.10	1.08	1.08	1.08	1.08
MRC MK	ROE (%)	2.10	0.43	1.83	2.07	2.14
Buy						
Valuation basis	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
We use SOP:	Recurring P/E (x)	32.9	75.5	38.2	33.9	32.8
i. 12x FY20F construction earnings;	P/B (x)	0.69	0.70	0.70	0.70	0.70
ii. 35% discount to RNAV.	FCF Yield (%)	17.89	0.90	2.75	2.77	(1.36)
	Dividend yield (%)	2.3	1.3	2.9	3.3	3.3
	EV/EBITDA (x)	25.8	32.4	25.0	22.9	22.7
	EV/EBIT (x)	33.4	46.7	33.9	30.7	30.6
Key drivers	Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Our FY20 forecasts are most sensitive to the following changes:	Total turnover	1871	1319	1657	1767	1855
i. A recovery in the property market;	Gross profit	373	263	288	314	329
ii. Better-than-expected construction margins.	EBITDA (adj.)	165	128	177	197	208
	Depreciation & amortisation	(37)	(36)	(46)	(50)	(54)
	Operating profit	128	92	131	147	154
	Net interest	(23)	(40)	(13)	(13)	(16)
	Pre-tax profit	123	54	118	133	138
	Taxation	(46)	(34)	(30)	(33)	(34)
	Net profit	101	24	87	98	102
	Recurring net profit	75	24	87	98	102
Key risks	Cash flow (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. A prolonged slowdown in the property market;	Change in working capital	1,143	194	150	106	(42)
ii. Longer delays in the commencement of public sector infrastructure projects;	Cash flow from operations	988	297	298	270	131
iii. Inability to secure new orders.	Capex	(438)	(300)	(236)	(211)	(211)
	Cash flow from investing activities	1,012	(300)	(236)	(211)	(211)
	Dividends paid	(77)	(77)	(97)	(110)	(110)
	Cash flow from financing activities	(1,994)	(17)	(10)	(24)	(27)
	Cash at beginning of period	464	470	449	502	537
	Net change in cash	6	(20)	52	35	(106)
	Ending balance cash	470	449	502	537	431
Company Profile	Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
MRCB mainly operates in the property and infrastructure development industries in Malaysia.	Total cash and equivalents	552	531	584	619	512
	Tangible fixed assets	1,979	2,238	2,427	2,588	2,745
	Total investments	34	34	34	34	34
	Total assets	8,342	8,066	8,026	8,166	8,300
	Short-term debt	726	726	726	726	726
	Total long-term debt	766	866	966	1,066	1,166
	Total liabilities	3,442	3,221	3,190	3,341	3,482
	Total equity	4,832	4,776	4,766	4,754	4,745
	Total liabilities & equity	8,342	8,066	8,026	8,166	8,300
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	(29.2)	(34.7)	35.7	6.6	5.0
	Recurrent EPS growth (%)	(63.8)	(79.8)	326.5	12.9	3.3
	Gross margin (%)	19.9	18.0	17.0	17.0	17.0
	Operating EBITDA margin (%)	6.8	7.7	7.9	8.3	8.3
	Net profit margin (%)	5.4	1.7	5.3	5.6	5.5
	Capex/sales (%)	23.4	22.7	14.2	11.9	11.4
	Interest cover (x)	2.9	1.8	4.4	4.7	4.6

Source: Company data, RHB

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Results At A Glance

Figure 1: MRCB's results review

FYE Dec (MYRm)	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)	Comments
Revenue	374.1	372.7	471.6	26.5	26.1	1,870.7	1,319.4	(29.5)	Due to one-off land sales.
EBIT	19.1	25.2	26.8	6.0	39.7	141.5	92.0	(35.0)	
<i>EBIT Margin (%)</i>	5.1	6.8	5.7			7.6	7.0		
Interest expense	(7.2)	(13.7)	(7.0)	(48.8)	(3.5)	(44.0)	(45.6)	3.7	
Associates/JV	(0.2)	2.7	0.7	(74.0)	nm	25.5	6.6	(73.6)	Lower contributions from LRT3.
Pretax profit	7.7	14.3	20.4	43.1	>100	123.0	53.0	(56.9)	
<i>Pretax Margin (%)</i>	2.1	3.8	4.3			6.6	4.0		
Tax	(7.4)	(12.1)	(13.1)	8.3	77.6	(46.1)	(34.3)	(25.7)	
<i>Effective tax rate (%)</i>	95.9	84.8	64.2			37.5	64.7		
Net Profit	26.1	2.5	7.3	190.5	(71.9)	76.9	18.7	(75.7)	
Core Profit	0.3	2.5	6.0	139.4	1,801.9	75.4	23.7	(68.5)	
<i>Net Margin (%)</i>	0.1	0.7	1.3			4.0	1.8		

Source: Company data, RHB

Figure 2: MRCB's segmental results

FYE Dec (MYRm)	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)	Comments
Revenue	374.1	372.6	471.6	26.6	26.1	1,870.7	1,319.4	(29.5)	
Construction	197.4	137.4	258.7	88.3	31.1	758.6	679.5	(10.4)	
Property	159.7	215.0	195.3	(9.2)	22.3	1,042.7	566.7	(45.6)	
Others	17.0	20.3	17.6	(12.9)	3.7	69.5	73.2	5.3	
Segmental EBIT	26.0	28.0	26.5	(5.7)	1.7	155.2	102.1	(34.2)	
Construction	11.4	1.8	19.8	1,017.2	73.2	56.2	23.1	(59.0)	Some projects are still in their early stages.
Property	9.0	22.8	7.0	(69.5)	(22.5)	97.8	76.8	(21.5)	Pending SPA on sold units.
Others	5.6	3.4	(0.3)	(108.6)	(105.3)	1.1	2.2	101.8	

Source: Company data, RHB

Figure 3: MRCB's SOP valuation

Items	FV based on RHB's TP (MYRm)	BV (MYR m)	Equity value/surplus (MYRm)
Construction (12x 1-year forward earnings)	-		246.3
Surplus RNAV for property and investments			636.9
31% MQ REIT	289.0	264.0	25.0
Kwasa Damansara PDP for infra works (DCF)			77.4
Shareholders' funds (excl. construction)			4,762.09
Proceeds from Warrants B @ MYR1.25			548.15
Total RNAV			6,295.8
Share base			4,803.97
RNAV per share			1.31
Discount			35%
Target Price (MYR)			0.85

Source: Company data, RHB

Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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