24 February 2010

AFFIN INVESTMENT BANK

Results Note

MRCB

MRC MK
RM1.37

BUY (maintain)

Price Target: RM1.77 (↔)

Price Performance

	1M	3M	12M
Absolute	-7.5%	+10.4%	+67.2%
Rel to KLCI	-5.2%	+9.9%	+19.8%

Stock Data

Issued shares (m)	1,361.3
Mkt cap (RMm)	1,865.0
Avg daily vol - 6mth (m)	7.12
52-wk range (RM)	1.61 – 0.73
Est free float	67.0%
NTA per share (RM)	0.74
P/NTA (x)	1.9
Net cash/(debt) (RMm)	(834.5)
ROE (FY10E)	5.9%
Derivatives	Nil

Key Shareholders

EPF	30.6%

Earnings & Valuation Revisions

	10E	11E	12E
Prev EPS (sen)	4.0	4.5	-
Curr EPS (sen)	4.0	4.5	4.6
Chg (%)	-	-	-
Prev target price (RM)			1.77
Curr target price (RM)			1.77

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In line, substantial land acquisition in FY10

4QFY09 net profit up 131.6% yoy and 23.9% qoq

4QFY09 revenue increased by 38,4% yoy mainly due to higher revenues from Engineering & Construction, Property Development and Building Services and by a more moderate 9.6% qoq mainly due to higher revenues from E&C and Property Development. As a result of the better operational performance and losses in 4QFY08 due to provisions for remedial works and writedowns, 4QFY09 net profit jumped by 131.6% yoy. Qoq, despite a significantly higher tax rate, 4QFY09 net profit increased by a respectable 23.9%.

12MFY09 net profit of RM34.6m, up 161.1% yoy, in line with our expectation

The better operational performance by the key E&C and Property Development divisions as well as losses in 12MFY08 due to higher finance cost (attributable to amortisation of premium on early redemption of KL Sentral Sukuk amounting to RM33.1m) and provisions contributed to the 161.1% surge in 12MFY09 net profit. 12MFY09 revenue increased by 16.9% as higher revenue from E&C (increased billings from on-going works) was partly offset by lower revenue from Property Development after one-off land sale in KL Sentral development in FY08. Effective tax rate was lower than the statutory rate due to availability of unutilised tax losses and recognition of deferred tax. 12MFY09 net profit of RM34.6m is almost spot on with our forecast of RM34.7m but is 11% above consensus estimate of RM31.3m. Following the better overall performance, the Board recommends a first and final DPS of 1.0 sen less 25% tax.

Maintaining FY10-11 forecasts, introducing FY12 forecasts, BUY

We believe better times are ahead. The group has four on-going property projects with a GDV of approximately RM3.9bn and another three with an estimated GDV of RM3.7bn to be launched this year. It is hence well positioned to ride the recovery in property demand in the country and regionally. Outstanding order book of RM2.7bn (including RM1.2bn from KL Sentral property construction) should also see steady contributions from the E&C division. We maintain our FY10-11 forecasts and introduce our FY12 forecasts. DPS forecasts are also maintained at 1.5 sen. We continue to expect improving operational performance and positive news flow on a significant land acquisition by the group to drive the share price closer to our RNAV-based target price of RM1.77. BUY.

Earnings and Valuation Summary

FYE 31 Dec	2008	2009	2010E	2011E	2012E
Revenue (RMm)	788.6	921.6	1,049.6	1,112.6	1,115.7
EBITDA (RMm)	38.0	83.1	124.6	137.9	139.0
Pretax profit (RMm)	(42.2)	46.5	79.1	87.4	88.5
Net profit (RMm)	(56.6)	34.6	54.1	61.4	63.2
EPS (sen)	(4.2)	2.5	4.0	4.5	4.6
EPS growth (%)	(239.0)	>100	56.2	13.5	3.0
PER (x)	n.m	53.9	34.5	30.4	29.5
Core net profit (RMm)	(56.6)	34.6	54.1	61.4	64.2
Core EPS (sen)	(4.2)	2.5	4.0	4.5	4.7
Core PER (x)	n.m	53.9	34.5	30.4	29.0
DPS (sen)	0.0	1.0	1.5	1.5	1.5
Dividend Yield (%)	0.0	0.7	1.1	1.1	1.1
EV/EBITDA (x)	63.1	32.5	16.5	15.0	13.4
Consensus profit (RMm)			55.1	73.3	73.9
Affin/Consensus (x)			1.0	0.8	0.9

Figure 1: Quarterly Results Comparison

FYE 31 Dec (RMm)	4QFY08	3QFY09	4QFY09	QoQ % chg	YoY % chg	Comment
Revenue	203.6	257.1	281.7	*9.6*	*38.4*	Higher yoy due to higher revenues from E&C, Property Development and Building Services; higher qoq mainly due to higher E&C and Property Development revenues
Op costs	(223.1)	(250.2)	(254.9)	*1.9*	*14.3*	
EBITDA	(19.6)	6.9	26.8	*286.8*	*236.8*	
EBITDA margin (%)	*(9.6)*	*2.7*	*9.5*	*n.m*	*n.m*	
Depn and amort	(3.0)	(3.1)	0.0	*(100.0)*	*(100.0)*	
Forex gain (losses)	0.0	0.0	0.0	*0.0*	*0.0*	
EBIT	(22.6)	3.8	26.8	*(606.4)*	*218.4*	
Int expense	(5.9)	(8.3)	(11.1)	*34.2*	*87.0*	
Int and other inc	12.2	16.4	18.8	*14.3*	*53.6*	
Associates	(9.2)	0.0	(11.1)	*(52,876.2)*	*20.6*	
Pretax profit	**(25.5)**	**12.0**	**23.4**	***95.0***	***191.6***	Higher yoy mainly due to higher profits from E&C and Property Development as well as losses in 4QFY08 mainly due to provisions for remedial works and writedowns of property development land and slow moving property inventories; higher qoq due mainly to sharp increase in Property Development profit
Tax	(14.5)	(0.5)	(9.9)	*2,004.9*	*(31.8)*	
Tax rate (%)	*(57.0)*	*3.9*	*42.4*	*n.m*	*n.m*	
MI	0.7	(1.5)	(1.0)	*(30.5)*	*(239.3)*	
Net profit	**(39.3)**	**10.0**	**12.4**	***23.9***	***131.6***	Significantly lower qoq increase due to higher effective tax rate in 4QFY09
EPS (sen)	(4.3)	1.1	1.4	***23.6***	*131.4*	
Core net profit	**(39.3)**	**10.0**	**12.4**	***23.9***	***131.6***	

Figure 2: Cumulative Results Comparison

FYE 31 Dec (RMm)	12MFY08	12MFY09	YTD % chg	Comment
Revenue	788.6	921.6	*16.9*	Higher yoy mainly due to higher revenues from E&C (increased billings from on-going works), partly offset by lower revenue from Property Development after one-off land sale in KL Sentral development in FY08
Op costs	(806.7)	(875.8)	*8.6*	
EBITDA	(18.1)	45.8	*(352.9)*	
EBITDA margin (%)	*(2.3)*	*5.0*	*n.m*	Higher mainly due to improved margin from E&C (lower material prices and completion of existing projects) and Property Development
Depn and amort	(12.2)	(9.4)	*(22.9)*	
Forex gain (losses)	0.0	0.0	*0.0*	
EBIT	(30.3)	36.4	*(220.3)*	
Int expense	(72.1)	(38.6)	*(46.5)*	Higher in FY08 ainly due to amortisation of premium on early redemption of KL Sentral Sukuk amounting to RM33.1m
Int and other inc	75.4	65.1	*(13.6)*	
Associates	(15.1)	(16.5)	*9.2*	
Pretax profit	**(42.2)**	**46.5**	***210.3***	Significantly higher mainly due to improved operational results from E&C arising from better cost control and margins, higher billings as well as provisions from remedial works and writedowns and higher finance cost in FY08
Tax	(19.6)	(9.0)	*(53.9)*	
Tax rate (%)	*(72.3)*	*14.3*	*n.m*	Effective tax rate lower than statutory rate due to availability of unutilised tax losses and recognition of deferred tax
MI	5.1	(2.9)	*(156.3)*	
Net profit	**(56.6)**	**34.6**	***161.1***	
EPS (sen)	(6.2)	3.8	*160.9*	
Core net profit	**(56.6)**	**34.6**	***161.1***	

Figure 3: Segmental Operating Profit Breakdown

FYE 31 Dec (RMm)	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	12MFY08	12MFY09
Engineering & construction	(14.2)	7.9	16.2	12.6	14.0	(31.0)	50.7
Property development	(25.4)	1.3	3.3	1.0	21.7	34.1	27.3
Infrastructure	5.1	3.8	2.5	4.8	0.1	11.6	11.1
Building services	2.7	1.7	(0.6)	2.1	0.8	4.2	4.0
Investment holding & others	32.2	2.7	(0.0)	2.1	43.0	44.9	47.7
Elimination	(10.8)	(3.1)	(2.0)	(2.3)	(31.8)	(18.6)	(39.2)
Total	**(10.4)**	**14.2**	**19.3**	**20.2**	**47.8**	**45.1**	**101.6**

Figure 4: Segmental Operating Profit Margin Breakdown

FYE 31 Dec (%)	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	12MFY08	12MFY09
Engineering & construction	(10.9)	6.6	8.1	5.5	5.5	(6.2)	6.3
Property development	(78.9)	8.8	13.8	6.4	35.4	17.0	23.7
Infrastructure	10.8	16.1	8.9	13.0	0.2	12.0	9.5
Building services	28.9	13.3	(3.9)	16.5	5.0	11.6	6.9
Total	**(5.1)**	**9.3**	**8.4**	**7.9**	**17.0**	**5.7**	**11.0**

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
SELL	Total return is expected to be below -15% over a 12-month period
NOT RATED	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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