Lands the big one

Prasarana has appointed the joint venture between MRCB and George Kent (JV) as the project delivery partner (PDP) for the RM9bn Light Rail Transit Line 3 (LRT3). The terms of the project are subject to the signing of a PDP agreement between the JV and Prasarana. We estimate that the project will contribute net profit of RM203m in 2016-2020 based on MRCB's 50% share of works and PDP fee of 6% of project cost. The LRT3 project will improve the earnings visibility for MRCB's construction division. Maintain BUY with RM1.44 target price.

LRT3 project secured

MRCB-George Kent JV was appointed the PDP for the LRT3, beating six other bidders for the project. A PDP agreement specifying the scope of works, terms and conditions is expected to be signed by end-2015. Local newspapers reported that the pre-qualification for contractors to undertake the project is expected to be completed by end-2015 and tenders to be called by early-2016. The project is expected to be completed by 31 August 2020.

Attractive fee income

The JV will earn a PDP fee of 6% of project cost. Prasarana estimates that the construction cost of the project is RM9bn, excluding land acquisition cost of about RM1bn. Prasarana is optimistic there will not be any cost overruns. We estimate the project will lift MRCB's core EPS by 20% to 6.8 sen in FY16E and 33% to 9.2 sen in FY17E (PER of 14.7x and 8.7x respectively) assuming progress billings of 10% and 20% of project cost respectively. We maintain our earnings forecasts for now pending the firming up of details for the project.

Maintain BUY

The LRT3 will be the largest project secured by MRCB to date and will improve earnings visibility for its construction division over the next five years. MRCB has the experience in LRT projects as it is undertaking construction works for the LRT Ampang Line extension worth RM994m currently. We reiterate our BUY call on MRCB with a target price of RM1.44, based on 40% discount to RNAV.

Earnings & Valuation Summary

FYE 31 Dec	2013	2014	2015E	2016E	2017E
Revenue (RMm)	940.9	1,514.8	1,424.5	1,428.4	1,632.7
EBITDA (RMm)	212.2	314.2	389.0	180.4	208.5
Pretax profit (RMm)	(110.4)	220.6	362.9	154.2	183.4
Net profit (RMm)	(109.1)	136.5	311.6	100.7	122.5
EPS (sen)	(6.6)	7.6	17.4	5.6	6.9
PER (x)	n.m	13.1	5.7	17.7	14.6
Core net profit (RMm)	(19.5)	13.3	52.3	100.7	123.5
Core EPS (sen)	(1.2)	0.7	2.9	5.6	6.9
Core EPS growth (%)	(117.9)	162.7	294.6	92.5	22.6
Core PER (x)	n.m	134.8	34.2	17.7	14.5
Net DPS (sen)	1.0	2.5	2.5	2.5	2.5
Dividend Yield (%)	1.0	2.5	2.5	2.5	2.5
EV/EBITDA (x)	21.5	15.2	12.0	26.5	23.0
Chg in EPS (%)			0.0	0.0	0.0
Affin/Consensus (x)			0.6	0.9	0.9

Source: Company, Affin Hwang estimates, Bloomberg

Flash Note

MRCB

MRC MK
Sector: Property

RM1.00 @ 4 September 2015

BUY (maintain)

Upside: 44%

Price Target: RM1.44

Previous Target: RM1.44

Price Performance

	1M	3M	12M
Absolute	-3.8%	-20.6%	-41.2%
Rel to KLCI	1.8%	-12.8%	-30.8%

Stock Data

Issued shares (m)	1,786.6
Mkt cap (RMm)/(US$m)	1,787/416
Avg daily vol - 6mth (m)	1.7
52-wk range (RM)	0.80-1.73
Est free float	35%
BV per share (RM)	1.26
P/BV (x)	0.79
Net cash/ (debt) (RMm) (2Q15)	(2,602)
ROE (2015E)	16.4%
Derivatives	Yes
(Warr 13/18, WP RM0.105, EP RM2.30)	
Shariah Compliant	Yes

Top 3 Key Shareholders

EPF	38.4%
Gapurna Sdn Bhd	16.7%
Lembaga Tabung Haji	10.1%

Source: Affin Hwang, Bloomberg

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Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

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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