MRCB

FY15 Below Expectations

MARKET PERFORM ↔

Price: RM1.21

Target Price: RM1.39 ↔

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Period
- 4Q15/FY15

Actual vs. Expectations
- FY15 core net loss of RM74.7m was below market and our core net profit expectations of RM60.1m and RM19.2m, respectively. This is after stripping out gains on disposal of RM70m for Nu Sentral and accounting for deferred taxes of RM43m in 4Q15.
- The reason for the results missing our expectation was due to higher-than-expected expenses incurred by management in 4Q15.
- Year-to-date sales of RM597m made up 119% of our FY15E sales target of RM500m.

Dividends
- None, as expected.

Key Results Highlights
- **QoQ**, revenue was up slightly by 4% mainly due to the property segment from multiple projects (i.e. Sentral Residences, 9 Seputeh, Q Sentral and Lot G). However, EBIT was in the red (-130%) due to additional cost incurred on various projects (i.e. Sg. Pahang project). That coupled with higher interest expense (+14%), dragged pre-tax profit down to RM0.4m (-99%). There was also a deferred tax contribution of RM43.1m from the re-assessment of the Government interim payment received in respect of Eastern Dispersal Link Expressway (EDL) in previous financial years, as well as gains on disposal from Nu Sentral (RM70m). Stripping that out, bottomline was in the red at RM81.7m.
- **YoY-Ytd**, topline was up by 12% to RM1,696.7m on contributions from construction and infrastructure segments. However, higher interest expense (+8%) due to full-year impact of the EDL, coupled with: (i) one-off disposal gains on Platinum Sentral (RM220m) in 1Q15, (ii) one-off gains on Salak South land (RM38m) and write-backs on land provision for Nu Sentral Mall (RM34m) in 2Q15, and (iii) disposal from Nu Sentral (RM70m) and deferred tax (RM43.1m) in 4Q15 dragged down bottomline by 280% to a core net loss of RM74.7m.

Outlook
- No changes to MRCB's plan to launch at least c.RM1.0b worth of development projects in FY16 consisting of "affordable" residentials at 3 Residences, Kajang (GDV: RM195m), high-end residences near KLCC namely The Grid (GDV: RM415m), Semarak City (GDV: RM3,162m), and office buildings in Putrajaya (GDV: RM336m). However, given the weak property market, we would not be surprised if the group scales back launches.
- It has a remaining external construction orderbook of c.RM2.5b which coupled with c.RM1.6b unbilled property sales provide the group with at least two years of earnings visibility.

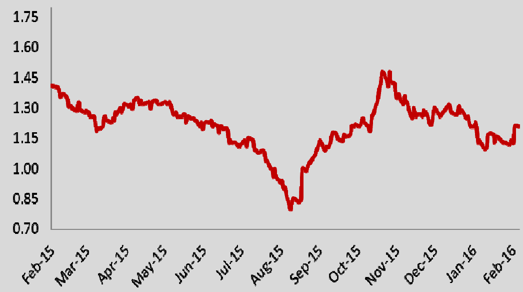
Change to Forecasts
- We lower FY16E by 13.5% to account for higher cost and thus lowering net margins to 1.9% from 2.2% in FY16, while we introduce our FY17E numbers.

Rating
Maintain MARKET PERFORM

Valuation
- Maintain MP and TP of RM1.39 based on FY16E NTA/share of RM1.11 (from RM0.94) post-housekeeping, and a lower Fwd. P/NTA of 1.26x which is -1SD to the average 6-year historical mean, (from 1.48x) which was previously at between -0.5SD to -1.0SD.
- We apply a below average Fwd. P/NTA due to weakening sentiment on the stock arising from: (i) dilution of existing shareholdings from the new placement, and (ii) RAM's downgrade of the Southern Link's junior sukuk. We maintain our valuations although earnings may be weak in the near-term due to its compelling turnaround plans.

Risks
- (i) weaker-than-expected property sales, (ii) lower-than-expected sales and administrative cost, (iii) negative real estate policies, and (iv) tighter lending environment.

Share Price Performance



KLCI	1,674.59
YTD KLCI chg	-1.1%
YTD stock price chg	-5.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK Equity
Market Cap (RM m)	2,161.8
Issued shares	1,786.6
52-week range (H)	1.52
52-week range (L)	0.80
3-mth avg daily vol:	2,416,537
Free Float	35%
Beta	1.0

Major Shareholders

EMPLOYEES PROVIDENT	38.4%
GAPURNA SDN BHD	16.7%
LEMBAGA TABUNG HAJI	10.1%

Summary Earnings Table

FYE Dec (RM m)	2015A	2016E	2017E
Turnover	1,696.7	2,004.5	2,390.5
EBIT	547.1	226.2	294.1
PBT	370.1	96.9	164.8
Net Profit (NP)	330.4	38.4	65.3
Core Net Profit	-74.6	38.4	65.3
Consensus (NP)	n.a.	101.6	127.2
Earnings Revision	n.a.	-13.5%	n.a.
Core EPS (sen)	-4.2	2.1	3.7
EPS growth (%)	-279.5	-151.4	70.1
NDPS (sen)	0.0	0.3	0.6
NTA/Share (RM)	1.09	1.11	1.14
PER (x)	6.5	56.3	33.1
Core PER (x)	-29.0	56.3	33.1
Price/NTA (x)	1.11	1.09	1.06
Gearing (x)	1.3	1.4	1.3
Dividend Yield (%)	0.0	0.3	0.5

Result Highlight

Y/E : Dec (RM'm)	4Q15	3Q15	QoQ chg	4Q14	YoY chg	FY14	FY15	YoY chg
Turnover	**388.2**	**374.1**	**4%**	**487.2**	**-20%**	**1,514.8**	**1,696.7**	**12%**
EBIT	**-18.7**	**62.0**	**-130%**	**71.7**	**-126%**	**321.2**	**185.1**	**-42%**
Interest expense	-50.7	-44.5	14%	-45.5	12%	-171.2	-184.8	8%
Associates	-0.8	7.8	-111%	4.3	-120%	12.3	16.0	31%
Joint-ventures	0.7	0.0	-3935%	-14.0	-105%	-36.6	-8.1	-78%
Pretax profit	**0.4**	**25.3**	**-99%**	**16.6**	**-98%**	**220.6**	**370.1**	**68%**
Taxation	38.3	-18.7	-304%	-18.0	-313%	-53.3	-6.1	-89%
Minority Interest	7.2	2.2	236%	12.2	-40%	30.9	33.6	9%
Net Profit	**31.4**	**4.4**	**610%**	**-13.5**	**-332%**	**136.5**	**330.4**	**142%**
Core net profit	**-81.7**	**4.4**	**n.a.**	**-13.5**	**505%**	**41.6**	**-74.7**	**-280%**
EPS (sen)	-4.6	0.2	-1946%	-0.8	496%	**2.6**	**-4.2**	-259%
DPS (sen)	0.0	0.0	n.a.	1.0	-100%	0.0	0.0	n.a.
EBIT margin	-5%	17%		15%		21%	11%	
Pretax margin	0%	7%		3%		15%	22%	
Effective tax rate	-10148%	74%		108%		24%	2%	

Source: Company, Kenanga Research

Segmental Breakdown

Y/E : Dec (RM'm)	4Q15	3Q15	QoQ chg	4Q14	YoY chg	FY14	FY15	YoY chg
Revenue								
-Engineering and Construction	341.0	330.2	3%	269.8	26%	790.0	1,141.2	44%
-Property development	210.2	91.5	130%	250.0	-16%	887.0	784.5	-12%
-Infrastructure / environmental	28.6	28.8	-1%	29.6	-3%	51.7	115.7	124%
-Building services	27.7	22.4	23%	24.2	14%	95.1	92.4	-3%
-Investment holding and Others	-181.3	110.0	-265%	28.8	-729%	171.5	92.8	-46%
-Elimination	-38.1	-209.8	-82%	-105.4	-64%	-480.6	-529.8	10%
Group Revenue	**388.2**	**374.1**	**4%**	**487.1**	-22%	**1,514.8**	**1,696.7**	**12%**
Segment Profit								
-Engineering and Construction	-44.0	49.7	-188%	-1.0	4159%	43.6	35.4	-19%
-Property development	-57.2	7.5	-863%	45.8	-225%	114.4	373.0	226%
-Infrastructure / environmental	14.4	12.3	17%	19.5	-26%	0.8	58.6	7505%
-Building services	7.1	0.2	3489%	2.9	144%	6.8	9.9	46%
-Investment holding and Others	26.9	-14.8	-282%	-4.9	-652%	86.9	6.7	-92%
Elimination	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Group EBIT	**17.2**	**127.0**	**-86%**	**62.4**	-72%	**252.5**	**483.6**	**92%**
Segment Margin								
-Engineering and Construction	-13%	15%		0%		6%	3%	
-Property development	-27%	8%		18%		13%	48%	
-Infrastructure / environmental	50%	43%		66%		1%	51%	
-Building services	26%	1%		12%		7%	11%	
-Investment holding and Others	-15%	-13%		-17%		51%	7%	

Source: Company, Kenanga Research

Income Statement

FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue	941	1,514	1,697	2,004	2,391
EBITDA	31	354	547	243	311
Depreciation	-21	-39	0	-17	-17
Operating Profit	10	316	547	226	294
Int Income	23	38	0	38	38
Interest Exp	-148	-171	-185	-169	-169
Associate	6	12	16	3	3
Jointly Controlled Entity	-1	-37	-8	-1	-1
PBT	-110	221	370	97	165
Taxation	-12	-53	-6	-24	-41
Minority Interest	9	-31	-34	-34	-58
Net Profit	-114	136	330	38	65
Core Net Profit	-55	42	-75	38	65

Balance Sheet

FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Fixed Assets	1,714	2,084	2,538	1,828	1,670
Intangible Assets	291	272	317	317	317
Other FA	1,043	1,694	2,337	2,371	2,413
Inventories	725	874	552	730	953
Receivables	208	748	1,095	1,082	1,241
Other CA	2,305	978	45	978	978
Cash	603	661	521	287	301
Total Assets	6,603	7,042	7,090	7,278	7,558
Payables	607	653	1,188	1,321	1,487
ST Borrowings	2,594	1,391	1,042	1,042	1,042
Other ST Liability	626	527	55	55	55
LT Borrowings	916	2,300	2,345	2,345	2,345
Other LT Liability	122	107	135	135	135
Minorities Int.	61	79	53	87	145
Net Assets	**1,675**	**1,985**	**2,260**	**2,293**	**2,348**
Share Capital	1,899	2,111	2,115	2,115	2,115
Reserves	51	29	62	62	62
Equity	**1,675**	**1,985**	**2,260**	**2,293**	**2,348**

Cashflow Statement

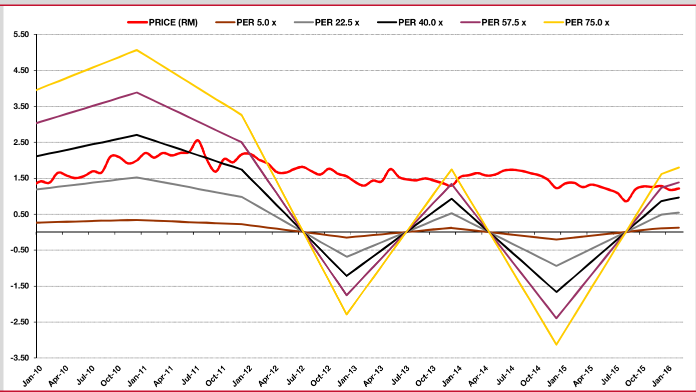
FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Operating CF	315	361	1,055	-745	56
Investing CF	-345	-42	-825	659	99
Financing CF	165	162	-473	-137	-141
Change In Cash	135	481	-243	-223	14
Free CF	174	245	607	-27	238

Financial Data & Ratios

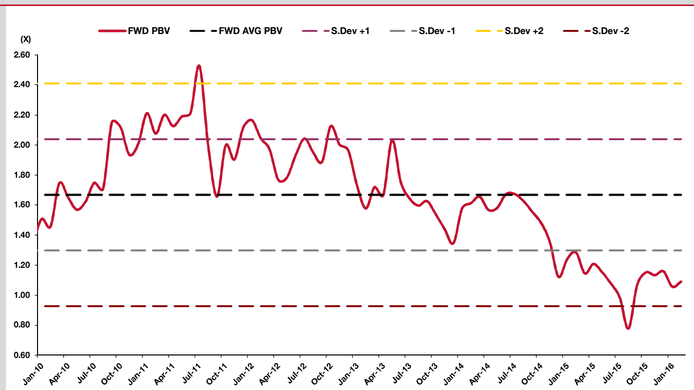
FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Growth					
Turnover (%)	-27	61	12	18	19
EBITDA (%)	-87	1035	54	-56	28
Op Profit (%)	-95	3033	73	-59	30
PBT (%)	-182	-300	68	-74	70
CNP (%)	-191	-176	-280	-151	70
Profitability (%)					
EBITDA Margin	3.3	23.4	32.2	12.1	13.0
Operating Marg.	1.1	20.8	32.2	11.3	12.3
PBT Margin	-11.7	14.6	21.8	4.8	6.9
Core Net Margin	-5.8	2.7	-4.4	1.9	2.7
Effective Tax	-11.3	24.1	1.6	25.0	25.0
ROE	-3.26	2.09	-3.30	1.67	2.78
ROA	-0.83	0.59	0.27	0.60	0.88
DuPont Analysis					
Net Margin (%)	-5.8	2.7	-4.4	1.9	2.7
Assets Turn (x)	0.1	0.2	0.2	0.3	0.3
Leverage (x)	3.9	3.5	3.1	3.2	3.2
ROE (%)	-3.26	2.09	-3.30	1.67	2.78
Leverage					
Debt/Asset (x)	0.5	0.5	0.5	0.5	0.4
Debt/Equity (x)	2.1	1.9	1.5	1.5	1.4
Net Debt/Eq(x)	1.7	1.5	1.3	1.4	1.3
Valuations					
EPS (sen)	-6.1	8.5	18.5	2.1	3.7
Core EPS (sen)	-3.1	2.3	-4.2	2.1	3.7
NDPS (sen)	0.9	2.5	0.0	0.3	0.6
NTA/share (RM)	0.8	1.0	1.1	1.1	1.1
PER (x)	-18.3	13.1	6.5	56.3	33.1
Core PER (x)	-36.6	48.2	-29.0	56.3	33.1
Net Div.Yld (%)	0.8	2.2	0.0	0.3	0.5
P/NTA (x)	1.56	1.26	1.11	1.09	1.06

Source: Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

Peer Comparison

NAME	Price (22/2/16)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Historical ROE	P/BV	Net Profit (RMm)			FY15/16 NP Growth	FY16/17 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY14/15	FY15/16	FY16/17	(%)	(%)	(x)	FY14/15	FY15/16	FY16/17	(%)	(%)	(RM)	
DEVELOPERS UNDER COVERAGE															
S P SETIA BHD*	2.90	7,622	20.4	9.6	11.7	5.2%	7.1%	1.2	361.0	763.9	631.8	111.6%	-17.3%	3.50	MARKET PERFORM
IOI PROPERTIES GROUP BHD*	2.11	9,308	10.5	16.9	16.6	2.8%	3.9%	0.6	528.6	552.4	562.8	4.5%	1.9%	2.09	UNDERPERFORM
UEM SUNRISE BHD*	1.08	4,900	10.2	19.5	16.1	2.3%	7.8%	0.7	479.9	251.7	304.1	-47.6%	20.8%	1.07	MARKET PERFORM
SUNWAY BHD	2.97	5,286	8.6	9.1	10.6	3.3%	13.2%	0.8	592.2	566.0	485.0	-4.4%	-14.3%	3.20	MARKET PERFORM
MAH SING GROUP BHD^	1.30	3,132	9.2	8.4	8.0	5.0%	16.1%	0.9	339.2	372.4	389.8	9.8%	4.7%	1.35	MARKET PERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.30	3,074	69.9	24.3	11.9	0.0%	2.5%	0.9	44.0	126.6	257.8	188.0%	103.7%	1.90	OUTPERFORM
UOA DEVELOPMENT BHD*	2.09	3,176	11.4	9.4	8.7	6.7%	12.2%	1.0	279.1	338.1	363.1	21.2%	7.4%	2.22	OUTPERFORM
MALAYSIAN RESOURCES CORP BHD	1.21	2,162	-29.0	56.3	33.1	26.9%	-3.3%	1.1	-74.6	38.4	65.3	-151.4%	70.1%	1.39	MARKET PERFORM
KSL HOLDINGS BHD	1.35	1,350	4.2	4.7	4.7	8.4%	15.3%	0.7	252.0	271.7	276.5	7.8%	1.8%	1.72	OUTPERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.39	1,317	8.0	6.0	7.3	7.5%	29.5%	1.8	182.6	243.1	198.9	33.1%	-18.2%	2.46	MARKET PERFORM
CRESCENDO CORPORATION BHD*	1.75	398	9.2	20.8	19.7	1.9%	15.3%	0.5	43.3	19.1	20.3	-55.9%	6.3%	1.74	UNDERPERFORM
HUA YANG BHD	1.81	478	4.3	4.3	4.5	7.2%	25.9%	0.9	110.6	111.6	106.1	0.9%	-4.9%	2.20	OUTPERFORM
CONSENSUS NUMBERS															
IGB CORPORATION BHD	2.32	3,097	14.0	12.7	11.4	3.2%	5.1%	0.7	221.1	244.3	271.0	10.5%	10.9%	4.10	NEUTRAL
YNH PROPERTY BHD	1.89	767	59.8	14.0	10.9	1.6%	1.5%	0.9	12.8	54.8	70.2	327.2%	28.1%	1.83	NEUTRAL
GLOMAC BHD	0.85	616	6.7	7.2	6.5	5.2%	9.8%	0.6	91.9	85.5	94.2	-6.9%	10.2%	1.03	BUY
PARAMOUNT CORP BHD	1.54	650	10.3	8.6	8.1	5.2%	7.3%	0.7	62.9	76.0	80.2	20.9%	5.6%	2.40	BUY
TAMBUN INDAH LAND BHD	1.35	573	5.9	5.7	5.8	6.0%	24.0%	1.3	97.6	99.7	98.9	2.2%	-0.9%	1.60	BUY

** Core NP and Core PER*
*** Crescendo per share data is based on non-Fully Diluted*
^ Last price and TP is Ex-rights and Ex-Bonus.

Source: Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.****

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