

MRCB (HOLD ↓; EPS ↓)
INDUSTRY: OVERWEIGHT
EARNINGS EVALUATION / BRIEFING
23 February 2016
Price Target: RM1.32 (↓)
Share price: RM1.21
Wiping out all prior profits
Results

- Despite having a positive tax of RM38m due to the recognition of deferred tax assets, MRCB posted a core loss of RM43m in 4QFY15. Our core loss computation removes RM70m in disposal gains from the Nu Sentral Mall.
- The core loss virtually wiped out all the gains in the first 3 quarters bringing full year FY15 results to an almost breakeven level of only RM1m (FY14: RM50m profit).

Deviation

- Needless to say, the meagre core profit of RM1m was way below our forecast of RM59m (consensus: RM60m). The weak 4Q numbers was due to a 17% decline in property revenue resulting from (i) delays in Sentral Residences, PJ Sentral and 9 Seputeh, (ii) lower rent for 1Sentral and Sooka and (iii) rental loss from Nu Tower 1 following its disposal.
- The construction division was in the red for 4Q which stemmed from higher preliminary costs to secure the subsequent phase of the Kuala Sg Pahang breakwater job.

Dividends

- Dividend of 2.5 sen was declared in Dec (ex in Jan).

Highlights

- Launch delays.** Property sales amounted to RM597m in FY15, down 45% YoY. Management is targeting property sales of RM1bn in FY16, a tall order in our view. Weak property sentiment aside, sales recognition for The Grid (GDV: RM415m with 80% bookings) will be delayed until the MRT2 alignment, which passes through the development, is finalised.
- LRT3 to start by mid-year.** MRCB's orderbook currently stands at RM1.6bn (excluding Kwasa Land C8 works), implying a decent cover ratio of 2.1x on FY15 construction revenue. Management expects the initial PDP fees for the LRT3 (RM9bn) to be booked in June. This is a delay from the previous guidance of 1Q16.

Risks

- Slowdown in the property market may derail MRCB's turnaround plans as set forth by its new management.

Forecasts

- We cut FY16-17 earnings by 22-24% as we impute weaker property sales and lower construction margins.

Rating
Downgrade to HOLD, TP: RM1.32

- Whilst MRCB is backed by catalytic projects such as the LRT3, Cyberjaya City Centre, National Sports Complex and Kwasa D'sara, the lack of earnings consistency would eventually thin investor's patience towards its turnaround plans.

Valuation

- Apart from the earnings cut, we also tag a 10% discount to our SOP based valuation for MRCB, cutting our TP from RM1.63 to RM1.32. This implies a rather pricey FY16-17 P/E of 27x and 21.1x respectively.

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KLCI	1674.6
Expected share price return	9.1%
Expected dividend return	1.0%
Expected total return	10.1%

Share price

Information

Bloomberg Ticker	MRC MK
Bursa Code	1651
Issued Shares (m)	1,787
Market cap (RM m)	2,162
3-mth avg. volume ('000)	2,417
SC Shariah-compliant	Yes

Price Performance

	1M	3M	12M
Absolute	6.1	-8.3	-13.6
Relative	3.0	-8.5	-6.6

Major shareholders

EPF	38.7
Gapuma	16.7
Lembaga Tabung Haji	10.0

Summary Earnings Table

FYE Dec (RM m)	FY14	FY15F	FY16F	FY17F
Revenue	1,515	1,697	1,686	1,873
EBITDA	305	267	262	304
EBIT	279	218	230	271
Profit Before Tax	122	41	146	191
Core PATAMI	54	1	87	111
vs Consensus (%)			(14)	(12)
Core EPS (sen)	3.0	0.1	4.9	6.2
P/E (x)	40.1	n.m.	24.8	19.4
Net DPS (sen)	2.5	2.5	1.2	1.6
Net DY (%)	2.1	2.1	1.0	1.3
BV per share	1.11	1.27	1.17	1.22
P/B (x)	1.1	1.0	1.0	1.0
ROE (%)	2.9	0.1	4.0	5.2
Net Gearing (%)	153	127	149	153

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Figure #1 Quarterly results comparison

FYE Dec (RM m)	4QFY15	4QFY14	3QFY15	YoY (%)	QoQ (%)	Comments
Revenue	388	487	374	(20)	4	Lower YoY due to delays in developments and lower rental income.
EBIT	(19)	72	62	(126)	(130)	Apart from revenue decline, cost (for construction division) increased due to preliminary works for an unawarded job.
Finance cost	(51)	(45)	(44)	12	14	
Associates	(0)	(10)	8	(98)	(103)	
PBT	(70)	17	25	(519)	(375)	
PAT	(36)	7	8	(623)	(562)	
PATMI - core	(43)	(5)	6	n.m.	n.m.	Recognition of deferred tax assets failed to save MRCB from falling into the red.
PATMI - reported	27	(5)	6	n.m.	n.m.	Includes RM70m in disposal gains of Nu Sentral Mall.
EPS - core	(2.4)	(0.3)	0.3			
EBIT margin	(4.8)	14.7	16.6			As explained above.
PBT margin	(17.9)	3.4	6.8			

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Figure #2 Cumulative results comparison

FYE Dec (RM m)	12MFY15	12MFY14	YoY (%)	Comments
Revenue	1,697	1,515	12	Lower property contribution more than offset by construction.
EBIT	218	314	(31)	Lower as construction was in the red for 4Q.
Finance cost	(185)	(171)	8	
Associates & JVs	8	(24)	(132)	
PBT	41	118	(66)	
PAT	35	81	(57)	
PATMI - core	1	50	(98)	Loss in 4Q wiped out entire gains for the first 3 quarters.
PATMI - reported	331	153	117	Includes disposal gains of Plaza Sentral, Salak South land and Nu Sentral Mall.
EPS - core	0.1	2.8		
EBIT margin	12.8	20.7		
PBT margin	2.4	7.8		

MRCB, HLIB

Figure #3 SOP valuation for MRCB

Sum of Parts	RM m	PE (x) / WACC	Value to MRCB	FD Per Share
Construction - FY16 earnings	51	15	769	0.28
Property development - NPV of profits		10%	1,708	0.63
Property investment - Book value	683	1.0	683	0.25
Eastern Dispersal Link - FCFE		10%	581	0.21
Stake in MRCB-Quill REIT at RM1.34 TP	886	31%	276	0.10
Firm value			4,017	1.48
Add: Cash proceeds from warrants			1,326	0.49
Add: Cash proceeds from placement			443	0.16
Less: Net debt (ex Sukuk)			(1,805)	(0.66)
Equity value			3,981	1.46
Discount applied		10%	(398)	(0.15)
Target price			3,583	1.32

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
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