26 February 2014

AFFIN INVESTMENT BANK
KDN: PP 10251/07/2013 (032736)

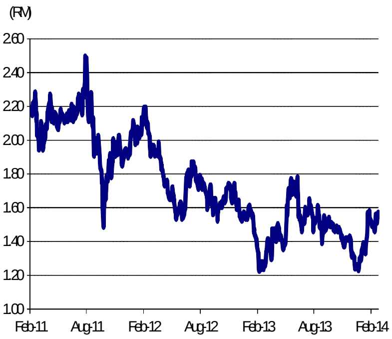
Results Note

MRCB

MRC MK
RM1.57

BUY (maintain)

Price Target: RM2.37 (↔)



Price Performance

	1M	3M	12M
Absolute	+1.3%	+10.6%	+23.0%
Rel to KLCI	-0.4%	+7.6%	+8.9%

Stock Data

Issued shares (m)	1,651.3
Mkt cap (RMm)	2,592.6 / 789.7
Avg daily vol - 6mth (m)	2.92
52-wk range (RM)	1.23 – 1.84
Est free float	52.0%
NA per share (RM)	1.02
P/NA (x)	1.5
Net cash/(debt) (RMm)	(3,021.9)
ROE (FY14E)	5.3%
Derivatives	Yes
(Warr 13/18, P RM0.235, EP RM2.30)	
Shariah Compliant	No

Key Shareholders

EPF	38.9%
Gapurna Sdn Bhd	12.5%
Lembaga Tabung Haji	8.8%

Earnings & Valuation Revisions

	14E	15E	16E
Prev EPS (sen)	4.6	6.1	-
Curr EPS (sen)	4.6	6.1	6.2
Chg (%)	-	-	-
Prev target price (RM)			2.37
Curr target price (RM)			2.37

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Below expectations, focus continues on transformation

Marginal profit in 4QFY13 insufficient to narrow large 3QFY13 loss

MRCB recorded a PBT of RM19.3m in 4QFY13 on the back of on-going property development on Lot B and Lot D in its flagship KL Sentral project. Engineering & Construction (E&C) posted a pretax loss of RM22m as key contracts, such as the LRT extension project continued to be bogged down by land acquisition issues. For full year FY13, headline net profit amounted to RM114.0m mainly due to the large provision of RM158.7m in 3QFY13. The major kitchen sinking exercise covered variation orders still pending, additional construction costs as well as a one-off fair value adjustment - bulk of FV adjustment through the revenue line. Adjusted for the variation order amounting to RM34.2m and one-off fair value adjustment of RM55.4m which are recoverable, full year FY13 core net loss amounted to RM24.4m – which is closer to consensus average loss of RM32.2m than our more optimistic estimate of a small core loss of RM0.7m.

New management to focus on improving returns and monetizing assets

The new management of MRCB continues to focus on a number of plans and strategies to improve margins, unlock and monetise assets and strengthen the financial position of the group. Immediately, construction margins will be improved through better project management as well as timely and efficient completion of jobs while the group seeks new jobs on its own and through joint bids with strategic partners to replenish construction order book of RM1.2bn. In property development, the newly acquired Old Klang Road (OKR) project will be launched in 1Q14 to complement the stream from on-going projects in KL Sentral. Discussion with the government on the commencement of tolling for the Eastern Dispersal Link (EDL) is expected to have an outcome by the middle of the year. Monetisation of more than RM1bn of investment assets is in progress, including the proposed sale of 30% stake in DUKE and Platinum Sentral to Quill Capital Trust. These disposals are expected to reduce group borrowings from RM3.4bn to RM2.4bn. A court decision on the PJ Sentral acqusition is expected this Thursday.

Maintain BUY with a RNAV-based price target of RM2.37

With a clean slate after the kitchen sinking exercise as well as tighter management and key development projects to contribute signficantly from this year onwards, we maintain our **BUY** rating on the stock. Until earnings bloom, we continue to peg our price target for MRCB to its RNAV of RM2.37. Key risks to our ratings include; (i) further delays in the award of jobs; (ii) sharp spikes in construction costs; (iii) further govenrment tightening measures sharply cutting property demand; and (iv) unfair valuation for its concession assets.

Earnings & Valuation Summary

FYE 31 Dec	2012	2013	2014E	2015E	2016E
Revenue (RMm)	1,283.2	940.9	1,220.8	1,424.5	1,428.4
EBITDA (RMm)	263.5	204.1	144.6	172.6	172.3
Pretax profit (RMm)	134.0	(110.4)	123.5	154.6	154.2
Net profit (RMm)	60.1	(109.1)	76.7	100.9	101.7
EPS (sen)	4.4	(6.6)	4.6	6.1	6.2
PER (x)	35.5	n.m	33.8	25.7	25.5
Core net profit (RMm)	90.1	(19.5)	76.7	100.9	102.7
Core EPS (sen)	6.6	(1.2)	4.6	6.1	6.2
Core EPS growth (%)	(1.5)	(117.9)	492.4	31.7	1.7
Core PER (x)	23.7	n.m	33.8	25.7	25.3
Net DPS (sen)	1.5	0.0	1.5	1.5	2.5
Dividend Yield (%)	1.0	0.0	1.0	1.0	1.6
EV/EBITDA (x)	18.3	20.8	29.9	25.0	24.5
Consensus profit (RMm)			80.2	137.0	148.2
Affin/Consensus (x)			1.0	0.7	0.7

Source: Company data, Affin estimates

Fig 1: Quarterly Results Comparison

FYE 31 Dec (RMm)	4QFY12	3QFY13	4QFY13	QoQ % chg	YoY % chg	Comment
Revenue	303.1	159.7	369.0	131.0	21.8	Sharply higher QoQ due to provisons made through revenue line. Higher YoY mainly due to higher E&C billings
Op costs	(280.8)	(299.5)	(351.2)	17.2	25.0	
EBITDA	22.2	(139.8)	17.8	(112.7)	(19.9)	
EBITDA margin (%)	7.3	(87.5)	4.8	n.m	n.m	Negative in 3QFY13 due mainly to provision of RM158.7m made
Depn and amort	(3.2)	(3.2)	(3.2)	(0.0)	0.0	
Forex gain (losses)	0.0	0.0	0.0	0.0	0.0	
EBIT	19.0	(143.0)	14.6	110.2	23.2	
Int expense	(35.9)	(45.2)	(36.0)	(20.3)	0.2	High mainly due to full charge out of the EDL project finance cost
Int and other inc	44.0	45.7	41.0	(10.1)	(6.8)	Non-operating income from Government's interim payment for EDL
Associates	5.3	2.8	(0.3)	(111.0)	105.8	
Pretax profit	32.4	(139.7)	19.3	(113.8)	(40.4)	Profit in 4QFY13 mainly due to on-going property development project on Lot B and Lot D. Sharp 3QFY13 loss due to provision
Tax	(23.3)	(0.9)	(9.1)	865.0	(60.8)	
Tax rate (%)	86.2	(0.7)	46.6	n.m	n.m	Tax still payable due to non availability of tax losses and certain expenses not tax deductible
MI	(12.0)	18.3	(8.8)	(148.2)	(26.9)	
Net profit	(3.0)	(122.4)	1.4	(101.1)	(146.2)	
EPS (sen)	(0.2)	(8.2)	0.1	(101.0)	(138.1)	
Core net profit	27.0	(32.8)	1.4	(104.2)	(94.9)	After adjustment for RM89.6m of the provisions

Source: Company data, Affin estimates

Fig 2: Cumulative Results Comparison

FYE 31 Dec (RMm)	6MFY13	6MFY14	YTD % chg	Comments
Revenue	1,283.2	940.9	(26.7)	Lower as all divisions recorded lower revenue as well as provisions in 3QFY13
Op costs	(1,134.0)	(1,047.3)	(7.6)	
EBITDA	149.2	(106.4)	(171.3)	
EBITDA margin (%)	11.6	(11.3)	n.m	Negative due mainly to provision of RM158.7m made in 3QFY13
Depn and amort	(12.9)	(12.9)	0.0	
Forex gain (losses)	0.0	0.0	0.0	
EBIT	136.3	(119.3)	(187.5)	
Int expense	(118.5)	(147.9)	24.8	Significantly higher mainly due to full charge out of the EDL project finance cost as tollway was opened to public on 1 April 2012
Int and other inc	114.3	151.8	32.8	Non-operating income sharply higher mainly due to cumulative income recognition for EDL following Government's interim payments, which was first recognised in 3QFY12
Associates	1.9	5.0	169.2	
Pretax profit	134.0	(110.4)	(182.4)	Loss due to provisions made in 3QFY13 and on-going proejcts in early stages of construction. There was also profit from en-bloc sale in FY12
Tax	(42.8)	(12.5)	70.9	
Tax rate (%)	32.4	(10.8)	n.m	
MI	(31.0)	8.8	(128.4)	Tax still payable due to non availability of tax losses and certain expenses not tax deductible
Net profit	60.1	(114.0)	(289.7)	
EPS (sen)	4.3	(7.7)	(278.1)	
Core net profit	90.1	(24.4)	(127.1)	After adjustment for RM89.6m of the provisions

Source: Company data, Affin estimates

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Figure 3: Segmental Operating Profit Breakdown

FYE 31 Dec (RMm)	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	12MFY12	12MFY13
Engineering & construction	(29.5)	6.5	2.8	(66.7)	(22.0)	(25.7)	(79.4)
Property development	49.1	15.4	28.8	(53.6)	19.7	187.9	10.3
Infrastructure & environmental	21.7	(0.5)	(0.5)	(3.4)	(2.8)	66.4	(7.3)
Building services	4.1	2.7	0.3	3.9	0.6	11.3	7.5
Investment holding & others	2.4	(8.8)	(10.4)	(7.2)	4.0	(18.9)	(22.4)
Total	**47.8**	**15.3**	**20.9**	**(127.0)**	**(0.5)**	**220.9**	**(91.3)**

Source: Company data, Affin estimates

Figure 4: Segmental Operating Profit Margin Breakdown

FYE 31 Dec (%)	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	12MFY12	12MFY13
Engineering & construction	(56.6)	3.9	5.6	(228.9)	(16.8)	(5.7)	(21.1)
Property development	21.9	21.6	24.4	(55.5)	11.3	27.2	2.2
Infrastructure & environmental	139.1	(6.4)	(42.9)	(41.7)	(13.9)	90.3	(19.2)
Building services	19.8	16.2	1.7	15.1	7.7	16.1	11.2
Total	**15.3**	**5.8**	**11.3**	**(79.6)**	**(0.1)**	**17.2**	**(9.7)**

Source: Company data, Affin estimates

Fig 5: RNAV estimate

Business divisions		Area (m sf)	Value psf (RM)	Stake (%)	Valuation (RMm)
Property Investment	- Alam Sentral Plaza	0.734	600.0	100.0	440.7
	- Kompleks (Resource) Sentral	0.776	200.0	100.0	155.2
	- Sooka Sentral	0.077	500.0	100.0	38.6
	- Completed and on-going projects in KL Sentral				680.0
	Sub-total				**1,314.4**
			GDV (RMm)	**Pretax Mgn (%)**	**Valuation (RMm)**
Property development	- KL Sentral developments		6,963.5	25.0	1,305.7
	- Other developments		4,101.9	22.0	676.8
	- Future GDVs		3,000.0	22.0	495.0
	Sub-total				**2,477.5**
		Net Profit (RMm)	**PER (x)**	**Stake (%)**	**Valuation (RMm)**
Engineering & Construction		50.0	12	100.0	600.0
Environment		10.0	10	100.0	100.0
Building Services		15.0	10	100.0	150.0
	Sub-total				**850.0**
			DCF (RMm)	**Stake (%)**	**Valuation (RMm)**
Infrastructure & Concessions	- Duta Ulu Kelang Expressway *		670.6	30.0	201.2
	- Eastern Dispersal Link, JB **		1,705.8	100.0	250.0
	Sub-total				**451.2**
New acquisitions	- Nusa Gapurna lands (GDV = RM4.9bn, Pretax margin = 15%)				547.5
	- Gelanggang Harapan (OB = RM4.3bn, Pretax margin = 10%)				322.5
	Sub-total				**870.0**
Total Asset Value					**5,963.1**
Less Adjusted Net Debt @ 30 Sept 2013					(2,046.0)
Total Revised Net Asset Value					**3,917.1**
No of shares after new acqusitions (m)					1,651.3
RNAV per share after new acquisitions (RM)					**2.37**
Proceeds from conversion of 479.3m warrants @ RM2.30					1,102.39
Total Revised Net Asset Value upon full conversion of warrants'					**5,019.5**
No of shares after new acqusitions and upon full conversion of warrants (m)					2,130.61
RNAV per share after new acqusitions and upon full conversion of warrants (RM)					**2.36**

* *NPV based on project cost of RM1bn, IRR of 13% and WACC of 9%. Implied valuation RM139.5m based on recent Ekovest share swap proposal*

** *Estimated net value upon disposal to government*

Source: Company data, Affin estimates

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

Investment Banking Relationship
Within the preceding 12 months, for all completed investment banking proposals, Affin Investment Bank has not acted as lead-manager for public offerings and/or secondary offerings in the securities of the company under its research coverage.

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