

HLIB Research

PP 9484/12/2012 (031413)

MRCB (HOLD ←→; EPS ←→)

INDUSTRY: OVERWEIGHT

NEWSBREAK

4 July 2016

Price Target: RM1.22 (←→)

Share price: RM1.05

Secures river rehab job

News

- New contract win. MRCB has been awarded a RM188.7m contract from the Department of Irrigation and Drainage involving the rehabilitation (Phase 3) of Sg Pahang, Pekan on a design and build basis.
- Scope of works. The said contract involves extension of an additional 345m length to the breakwater constructed under Phase 2 and river protection works which is scheduled for completion within 2 years (i.e. July 2018).

Comments

- Replenishing well. With this contract in the bag, MRCB's job wins YTD stands at RM893m. We estimate its orderbook to currently stand at RM2.4bn, implying a healthy cover ratio of 3.1x on FY15 construction revenue.
- S&P for Menara Shell inked. Last week, MRCB also finalised the Sale & Purchase (S&P) agreement with MRCB-Quill REIT (BUY, TP: RM1.25) involving the disposal of Menara Shell to the latter for RM640m. The purchase consideration will be satisfied via (i) new MRCB-Quill shares issued to MRCB with an aggregate value of between RM110-152m and (ii) the balance consideration of between RM488-530m via cash. MRCB-Quill REIT is a 31.2% associate of MRCB. Having seen this proposed asset disposal undergoing a timeline extension twice since Dec 2015, we are positive that the S&P has finally been signed. MRCB is expected to register a gain on disposal of RM139m.

Risks

 Consistency in core earnings delivery remains lacking from quarter to quarter.

Forecasts

As YTD job wins of RM893m have surpassed our full year target of RM800m, there is potential upside to our earnings estimate. However, judging from the razor thin construction margins recorded in 1QFY16 (EBIT: 0.5%), we are in no hurry to revise our earnings estimate upwards.

Rating

Maintain HOLD, TP: RM1.22

 Whilst MRCB has been successful to participate in recent catalytic projects, we remain cautious on its earnings delivery which has been rather patchy to say the least.

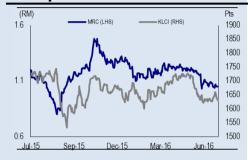
Valuation

 Our SOP based TP (10% discount) of RM1.22 implies a rather stretched FY16-17 P/E of 35x and 26x.

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KLCI	1,646.2
Expected share price return	16.2%
Expected dividend return	0.9%
Expected total return	17.0%

Share price



Information

Bloomberg Ticker	MRC MK
Bursa Code	1651
Issued Shares (m)	1,887
Market cap (RM m)	1,981
3-mth avg. volume ('000)	1,558
SC Shariah Compliant	No

Price Performance	1M	3M	12M
Absolute	-0.9	-14.6	-12.5
Relative	-1.5	-10.5	-78

Maior shareholders

Employees Provident Fund	37.4
Gapurna	19.0
Lembaga Tabung Haji	9.6

Summary Earnings Table

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F
Revenue	1,515	1,697	1,686	1,873
EBITDA	305	267	220	262
EBIT	279	218	189	229
Profit Before Tax	122	41	101	144
Core PATAMI	54	1	63	85
vs Consensus (%)			(17)	(16)
Core EPS (sen)	3.0	0.1	3.5	4.8
P/E (x)	34.8	n.m.	29.9	22.0
Net DPS (sen)	2.5	2.5	0.9	1.2
Net DY (%)	2.4	2.4	8.0	1.1
BV per share	1.11	1.27	1.16	1.20
P/B (x)	0.9	8.0	0.9	0.9
ROE (%)	2.9	0.1	2.9	4.0
Net Gearing (%)	153	118	150	157

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Figure #1 SOP valuation for MRCB

Sum of Parts	RM m	PE (x) / WACC	Value to MRCB	FD Per Share
Construction - FY16 earnings	26	15	385	0.14
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 RM1.24 TP	820	31%	256	0.09
Firm value			3,612	1.33
Add: Cash proceeds from warrants			1,326	0.49
Add: Cash proceeds from placement			443	0.16
Less: Net debt (ex Sukuk)			(1,702)	(0.63)
Equity value		·	3,679	1.35
Discount applied		10%	(368)	(0.14)
Target price	•		3,311	1.22

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Equity rating definitions

BUY TRADING BUY HOLD TRADING SELL SELL NOT RATED Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside. Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity. Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside. Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity. Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.

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Industry rating definitions

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.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.

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