

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

Valuation

- 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.
- 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 | MRCB 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 | -7.8 |

Major 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 | 0.8 | 1.1 |
| BV per share | 1.11 | 1.27 | 1.16 | 1.20 |
| P/B (x) | 0.9 | 0.8 | 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 | 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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| | |
|--------------------|------------------------------------------------------------------------------------------------------------------------------|
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| 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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