



Outthink. Outperform.

Low profit margin

MRCB's 1Q17 result was disappointing. Net profit of RM10m (+139% yoy) in 1Q17 was only 7% of consensus and our full-year forecasts of RM144-153m. The construction and property development earnings were below our expectation. We slash our EPS forecasts by 15-39% in FY17-19E. We also cut our TP to RM1.47 from RM1.85 (based on the same 20% discount to RNAV) following downward revision to our RNAV. The proposed 1-for-1 rights issue of new shares with free detachable warrants will remain a share overhang. HOLD.

Below expectation

Revenue was up 20% yoy to RM525m, driven by higher progress billings for construction and property development divisions. But revenue declined 49% qoq in 1Q17 due to the absence of land sale to MRT Corp in 4Q16 and high progress billings for completed units of Sentral Residences. PBT fell 88% qoq due to lower one-off gains from asset disposals of RM1.6m in 1Q17 compared to RM201m (gains from sale of land and Menara Shell) in 4Q16. Excluding the one-off gains, PBT fell 26% qoq to RM27.7m in 1Q17 due to lower construction and property earnings.

Weak construction earnings

Construction operating profit fell 21% qoq to RM1.3m in 1Q17 due to lower progress billings as certain projects were completed. Profit margin remained low at 0.5% in 1Q17 compared to 0.4% in 4Q16 due to low-margin legacy projects. Its new projects with better margins such as LRT3 and Kwasa Damansara have not started to contribute to earnings.

Good property sales

MRCB achieved property sales of RM513m in 1Q17 with the maiden launches for the Sentral Suites (Tower 1 and 3) and Kalista, Bukit Rahman Putra projects and maintains target sales of RM1.2bn for FY17. We revise our RNAV/share down to RM1.84 from RM2.30 to reflect the higher net debt and lower property development and construction valuation. Net debt increased in 1Q17 as MRCB drew down loans to finance the Bukit Jalil Stadium refurbishment project.

Still a HOLD

Maintain HOLD with lowered TP of RM1.47, based on 20% discount to RNAV. Key risk is slower property sales and weak construction margin.

Earnings & Valuation Summary

FYE 31 Dec	2015	2016	2017E	2018E	2019E
Revenue (RMm)	1,696.7	2,408.1	2,093.9	2,326.0	2,115.4
EBITDA (RMm)	249.4	364.8	308.2	399.4	472.1
Pretax profit (RMm)	370.1	392.6	152.1	236.5	308.4
Net profit (RMm)	330.4	267.4	81.4	158.6	205.7
EPS (sen)	15.2	11.8	4.1	6.9	8.6
PER (x)	7.6	10.2	37.7	19.4	14.9
Core net profit (RMm)	1.0	114.0	79.8	158.6	205.7
Core EPS (sen)	1.3	5.7	4.0	6.8	8.5
Core EPS growth (%)	(12.5)	338.3	(30.4)	71.8	25.0
Core PER (x)	108.0	24.6	35.4	20.6	16.5
Net DPS (sen)	2.5	2.8	2.8	2.8	2.8
Dividend Yield (%)	1.8	2.0	2.0	2.0	2.0
EV/EBITDA (x)	19.1	21.3	14.6	17.6	13.2
Chg in EPS (%)			(39.4)	(24.4)	(14.8)
Affin/Consensus (x)			0.6	1.0	1.0

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

MRCB

MRC MK

Sector: Construction & Infrastructure

RM1.41 @ 29 May 2017

HOLD (maintain)

Upside 4%

Price Target: RM1.47

Previous Target: RM1.85



Price Performance

	1M	3M	12M
Absolute	-7.2%	-0.7%	+21.6%
Rel to KLCI	-7.1%	-4.7%	+12.8%

Stock Data

Issued shares (m)	2,184.3
Mkt cap (RMm)/(US\$m)	3079.9/720.5
Avg daily vol - 6mth (m)	6.5
52-wk range (RM)	1.02-1.8
Est free float	42.4%
BV per share (RM)	1.36
P/BV (x)	1.03
Net cash/ (debt) (RMm) (1Q17)	(2,758)
ROE (2017E)	2.8%
Derivatives	Yes
Warr 2018 (RM0.10, EP: RM2.30)	
Shariah Compliant	Yes

Key Shareholders

EPF	33.4%
Gapurna Sdn Bhd	16.7%
Bank Kerjasama Rakyat	7.9%

Source: Affin Hwang, Bloomberg

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Securities

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Fig 1: Results comparison

FYE 31 Dec (RMm)	1Q16	4Q16	1Q17	QoQ % chg	YoY % chg	1Q17 Comment
Revenue	436.0	1,031.7	524.9	(49.1)	20.4	Lower qoq due to absence of one-off land sale to MRT Corp and lower progress billings. Higher yoy due to strong property sales in FY16.
Op costs	(397.8)	(937.5)	(463.4)	(50.6)	16.5	
EBITDA	38.2	94.1	61.5	(34.7)	60.9	
EBITDA margin (%)	8.8	9.1	11.7	2.6ppt	3.0ppt	
Depreciation	(13.1)	(13.1)	(13.1)	0.0	0.0	
EBIT	25.1	81.0	48.4	(40.3)	92.8	
Int expense	(46.7)	(42.8)	(35.2)	(17.9)	(24.7)	Lower interest cost due to repayment of borrowings in FY16 but drawdown of loans to finance Bukit Jalil project in 1Q17 will increase interest expense going forward.
Int and other inc	39.5	34.6	17.2	(50.3)	(56.4)	
Associates	0.8	8.5	(1.1)	NA	NA	
Exceptional items	0.0	157.4	0.0	NA	NA	
Pretax profit	18.7	238.6	29.3	(87.7)	56.9	Lower qoq due to lower one-off gains from asset disposals but better operating performance drove yoy PBT growth.
Core pretax profit	18.7	81.2	29.3	(64.0)	56.9	
Tax	(5.2)	(29.6)	(8.9)	(70.1)	70.6	
Tax rate (%)	29.1	12.9	29.1	16.3ppt	0.1ppt	
Minority interests	(9.1)	(20.9)	(9.9)	(52.5)	9.5	
Net profit	4.4	188.1	10.5	(94.4)	138.7	Below expectation due to weak operating performance.
EPS (sen)	0.3	8.9	0.5	(94.5)	96.0	
Core net profit	4.4	68.5	10.5	(84.7)	138.7	Below expectation due to weak operating performance.

Source: Affin Hwang estimates, Company

Fig 2: Segmental operating profit

FYE 31 Dec (RMm)	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	QoQ % chg	YoY % chg
Engineering & construction	(44.0)	1.1	1.8	7.0	1.6	1.3	(21.0)	10.3
Ppty dev & investment	82.8	67.3	90.4	70.5	236.4	50.1	(78.8)	(25.5)
Infrastructure	14.4	13.1	19.5	13.7	12.1	17.5	44.1	33.0
Building services	7.1	7.4	4.6	0.4	3.4	3.7	11.6	(49.4)
Investment holding & others	27.0	(17.2)	(1.2)	(1.5)	26.8	(4.5)	NA	(73.6)
Total	87.3	71.8	115.2	90.2	280.3	68.1	(75.7)	(5.2)

Source: Affin Hwang estimates, Company

Fig 3: Segmental operating profit margin

FYE 31 Dec (%)	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	QoQ ppt	YoY ppt
Engineering & construction	(24.6)	0.7	1.0	4.8	0.4	0.5	0.1	(0.2)
Ppty dev & investment	52.7	29.4	61.2	19.9	39.4	20.7	(18.8)	(8.7)
Infrastructure	50.4	46.7	67.2	48.7	44.9	61.3	16.3	14.6
Building services	35.7	41.2	24.0	2.9	17.8	22.2	4.4	(19.0)
Total	22.5	16.5	29.6	16.4	27.2	13.0	(14.2)	(3.5)

Source: Affin Hwang estimates, Company



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Fig 4: Change in RNAV and target price assumptions

Segment	New value (RMm)	Old value (RMm)
Property development	3,900	3,918
Property investment	410	410
Construction	321	578
Concession	220	220
Car Park & REIT	583	583
Total	5,435	5,710
Net cash/(debt)	(1,699)	(724)
RNAV	3,736	4,986
No. of shares	2,180	2,147
RNAV / share	1.71	2.32
Fully-diluted no. of shares	2,757	2,723
Fully-diluted RNAV	1.84	2.32
Target price @ 20% discount	1.47	1.85

Source: Affin Hwang estimates

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

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

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