Securities

AFFIN HWANG CAPITAL

Out think. Out perform.

Gearing reduced

MRCB's 2018 result was within our expectation but above market expectations. Net profit fell 38% yoy to RM101m in 2018 due to lower construction and property earnings. The termination of the Eastern Dispersal Link (EDL) concession and repayment of borrowings to the government reduced its net gearing to 19% in 2018. We expect strong core EPS growth of 47% yoy in 2019E, driven by higher progress billings for its construction and property divisions. Maintain BUY with lifted TP of RM0.98, based on 40% discount to RNAV.

Within expectation

Net profit of RM101m in 2018 was 12% above market consensus forecast of RM90m but close to our estimate of RM96m. Revenue fell 29% yoy due to lower progress billings for its construction division. The National Stadium project was completed in 2017. Progress on the Light Rail Transit Line 3 (LRT3) project slowed down due to the review of the project cost in 2018 and the cost was only finalised last month. The completion of the Easton Burwood project in Melbourne in 2017 and higher operating costs led to lower property earnings in 2018. New projects such as Sentral Suites in KL Sentral and TRIA in 9 Seputeh are still at early stages on completion.

Lower core net profit

PBT fell 54% yoy to RM123m in 2018 due to lower construction (-39% yoy) and property (-42% yoy) earnings. Net profit declined by slower rate of 38% yoy mainly due to lower minority interest. One-off gain of RM68.9m from the sale of land in Batu Kawan and Jalan Kia Peng shored up earnings in 2018. Core net profit fell by a sharper 83% yoy to RM23m in 2018 on weaker construction and property segment performance.

High order book and unbilled sales

MRCB achieved property pre-sales of RM470m in 2018, mainly contributed by its Sentral Suites and 9 Seputeh projects. Unbilled sales of RM1.56bn will support property earnings going forward. Its high construction order book of RM21.8bn and property gross development value of RM31bn will sustain its core activities over the long term. The reduction in net gearing from a high of 125% in 2015 to 19% in 2018 will also allow the group to gear up and accelerate development of its land bank with total size of 282 acres. We cut our 2020 core EPS forecast by 13% to reflect slower property launches and introduce our 2021 estimate. We raise our TP to RM0.98 from RM0.90 to reflect lower net debt. Maintain BUY.

Earnings & Valuation Summary

FYE 31 Dec	2017A	2018A	2019E	2020E	2021E
Revenue (RMm)	2,640.6	1,870.7	1,668.3	1,802.9	2,192.5
EBITDA (RMm)	177.2	122.8	175.3	215.9	321.3
Pretax profit (RMm)	269.2	123.0	153.6	224.2	353.2
Net profit (RMm)	161.9	101.2	108.0	160.1	251.9
EPS (sen)	6.6	2.3	2.5	3.6	5.7
PER (x)	12.2	34.7	32.6	22.0	14.0
Core net profit (RMm)	111.5	48.8	108.0	160.1	251.9
Core EPS (sen)	4.4	1.1	2.5	3.6	5.7
Core EPS growth (%)	271.4	(54.9)	47.2	28.3	38.9
Core PER (x)	18.3	72.0	32.6	22.0	14.0
Net DPS (sen)	1.8	1.8	1.8	1.8	1.8
Dividend Yield (%)	2.2	2.2	2.2	2.2	2.2
EV/EBITDA (x)	17.7	25.2	35.0	24.9	21.1
Chg in EPS (%)			1.4	(12.7)	New
Affin/Consensus (x)			0.8	1.0	NA

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

MRCB

MRC MK
Sector: Construction & Infra

RM0.80 @ 26 February 2019

BUY (maintain)

Upside 23%

Price Target: RM0.98

Previous Target: RM0.90

Price Performance

	1M	3M	12M
Absolute	14.3%	11.9%	-27.9%
Rel to KLCI	13.1%	10.8%	-22.0%

Stock Data

Issued shares (m)	4,399.9
Mkt cap (RMm)/(US$m)	3,519.9/864.6
Avg daily vol - 6mth (m)	16.4
52-wk range (RM)	0.55-1.15
Est free float	37%
BV per share (RM)	1.09
P/BV (x)	0.73
Net cash/ (debt) (RMm) (4Q18)	(947.7)
ROE (2019E)	2.2%
Derivatives	Yes
(Warr 17/27, WP RM0.25, EP RM1.25)	
Shariah Compliant	Yes

Key Shareholders

EPF	36.0%
Gapurna Sdn Bhd	16.1%
LTH	7.0%
Bank Kerjasama Rakyat	3.9%

Source: Affin Hwang, Bloomberg

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Fig 1: Results comparison

FYE 31 Dec (RMm)	3Q17	3Q18	4Q18	QoQ % chg	YoY % chg	2017	2018	YoY % chg	Comment
Revenue	**1,129.8**	**663.8**	**374.1**	***(43.6)***	***7.0***	**2,640.6**	**1,870.7**	***(29.2)***	2018: Lower construction (-57% yoy) revenue was partly offset by higher property revenue (+32% yoy), driven by land sales.
Op costs	(1,034.2)	(622.5)	(353.9)	*(43.2)*	*8.4*	(2,463.4)	(1,747.9)	*(29.0)*	Lower operating costs due to cost saving initiatives and value engineering.
EBITDA	95.6	41.3	20.3	*(50.9)*	*(12.9)*	177.2	122.8	*(30.7)*	
EBITDA margin (%)	*8.5*	*6.2*	*5.4*	*(0.8ppt)*	*(1.2ppt)*	*6.7*	*6.6*	*(0.1ppt)*	
Depreciation	(17.0)	(8.8)	(15.7)	*77.9*	*59.3*	(31.1)	(31.0)	*(0.3)*	
EBIT	**78.5**	**32.4**	**4.5**	***(86.0)***	***(66.1)***	**146.1**	**91.8**	***(37.1)***	
Int expense	(41.4)	(15.1)	(7.2)	*(52.0)*	*(136.7)*	(28.4)	(44.0)	*54.9*	High debt burden for EDL before repayment of borrowings at end-2018.
Int and other inc	7.9	(59.0)	14.6	*(124.8)*	*(47.1)*	60.2	(19.2)	*(132.0)*	
Associates	8.6	13.2	(4.2)	*(131.8)*	*(138.9)*	25.0	25.5	*1.8*	Lower contribution from LRT3 JV project but high associate earnings.
Exceptional items	0.0	68.9	0.0	*(100.0)*	*(100.0)*	66.3	68.9	*3.9*	Land sale gains in 2Q18 and 3Q18.
Pretax profit	**53.6**	**40.5**	**7.7**	***(81.0)***	***(94.2)***	**269.2**	**123.0**	***(54.3)***	
Core pretax profit	**53.6**	**(28.4)**	**7.7**	***(127.1)***	***(89.2)***	**202.9**	**54.1**	***(73.3)***	All divisions saw lower operating profits.
Tax	(20.7)	(22.0)	(7.4)	*(66.5)*	*(72.4)*	(68.8)	(46.1)	*(33.0)*	
Tax rate (%)	*45.9*	*80.8*	*62.0*	*(18.8ppt)*	*40.0ppt*	*25.5*	*37.5*	*11.9ppt*	
Discontinued operations	0.0	0.0	26.0	*100.0*	*(436.5)*	(24.3)	25.8	*NA*	
Minority interests	(2.4)	1.3	0.1	*(93.7)*	*(89.3)*	(14.2)	(1.5)	*(89.5)*	
Net profit	**30.6**	**19.8**	**26.4**	***33.4***	*(73.2)*	**161.9**	**101.2**	***(37.5)***	Within expectation
EPS (sen)	1.4	0.5	0.6	*33.3*	*(86.7)*	6.3	2.3	*(63.7)*	
Core net profit	**30.6**	**(32.6)**	**26.4**	***(181.1)***	***(49.7)***	**111.5**	**48.8**	***(56.2)***	Exclude one-off gains.

Source: Affin Hwang, Company data

Fig 2: Changes in RNAV and target price

Segment	New value (RMm)	Old value (RMm)	Change (%)
Property development	4,859	4,912	(1)
Property investment	1,557	1,557	0
Construction	958	958	0
Concession	0	0	0
Car Park & REIT	530	530	0
Total	**7,904**	**7,957**	**(1)**
Net cash/(debt)	(721)	(1,373)	(47)
RNAV	**7,183**	**6,584**	**9**
No. of shares	4,400	4,385	0
RNAV / share	**1.63**	**1.50**	**9**
Target price @ 40% discount	**0.98**	**0.90**	**9**

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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