Securities

AFFIN HWANG CAPITAL

Out**think**. Out**perform**.

Lower exceptional gains

MRCB's net profit of RM167.6m (-37% yoy) in 2017 was above market and our expectations. We were surprised by exceptional gains of RM66.3m in FY17 and higher-than-expected construction earnings. Core net profit increased more than 4-fold to RM117.2m in 2017. We fine-tune our 2018-19E EPS forecasts (+1-2%) and introduce our 2020E EPS (+19% yoy). We maintain our HOLD call with a raised TP of RM1.20, based on 20% discount to RNAV.

Above expectations

MRCB's net profit of RM167.6m in FY17 was 82-89% above consensus and our forecasts of RM89-92m. MRCB realised exceptional gains before tax of RM66.3m, which relates to the 59Inc (joint venture with Lembaga Tabung Haji to develop the Setapak land), sale of Semasa Services and Dekad Kaliber. Core PBT of RM181m (+23% yoy) in 2017 was also above our forecast of RM158m due to higher-than-expected construction earnings. But the lower exceptional gains of RM66.3m in 2017 compared to RM245.4m in 2016 led to PBT declining 37% to RM247m in FY17.

Surge in construction earnings

Construction core PBT increased 7-fold to RM93m in 2017. PBT margin improved to 5.2% in 2017 compared to 1.4% in 2016 with higher contribution from infrastructure projects such as the LRT3 (50% share of joint venture profit amounting to RM15.2m) and MRT Line 2 V210 package. Its outstanding order book of RM5.2bn will sustain construction earnings growth ahead.

Exceeded target property sales

MRCB achieved property sales of RM1.42bn in 2017, exceeding its initial target sales of RM1.2bn. The bulk of the sales came from its Sentral Suites project in KL Sentral (RM886m). Property development core PBT increased 28-fold to RM46m in FY17. MRCB set a more cautious sales target of RM1bn in FY18 due to the sustained weak market conditions. High unbilled sales of RM1.74bn will sustain property earnings.

Maintain HOLD

We raise our RNAV/share estimate to RM1.50 from RM1.28 previously to reflect higher valuation for its construction division, Kwasa Damansara and KL Sports City projects. Maintain HOLD call with a TP raised to RM1.20 from RM1.02, based on 20% discount to RNAV.

Earnings & Valuation Summary

FYE 31 Dec	2016	2017	2018E	2019E	2020E
Revenue (RMm)	2,408.1	2,823.7	2,409.0	2,650.0	2,723.4
EBITDA (RMm)	288.1	261.4	396.7	513.9	597.4
Pretax profit (RMm)	392.6	247.3	308.9	454.8	564.2
Net profit (RMm)	267.4	167.6	217.3	323.3	401.5
EPS (sen)	13.8	6.6	5.0	7.4	9.2
PER (x)	7.8	16.5	21.8	14.6	11.8
Core net profit (RMm)	22.0	117.2	217.3	323.3	400.5
Core EPS (sen)	0.6	4.6	5.0	7.4	9.1
Core EPS growth (%)	56.8	282.6	3.0	36.1	19.3
Core PER (x)	166.3	23.6	21.8	14.6	11.8
Net DPS (sen)	2.8	1.8	1.8	1.8	1.8
Dividend Yield (%)	2.5	1.6	1.6	1.6	1.6
EV/EBITDA (x)	25.1	22.0	22.7	15.0	11.6
Chg in EPS (%)			2.3	1.4	New
Affin/Consensus (x)			1.4	1.6	NA

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

MRCB

MRC MK
Sector: Construction & Infrastructure

RM1.08 @ 28 February 2018

HOLD (maintain)

Upside 11%

Price Target: RM1.20

Previous Target: RM1.02

	1M	3M	12M
Absolute	-10.0%	0.9%	-12.8%
Rel to KLCI	-9.4%	-6.6%	-20.5%

Stock Data

Issued shares (m)	4,390.8
Mkt cap (RMm)/(US$m)	4742/1209.3
Avg daily vol - 6mth (m)	12.1
52-wk range (RM)	0.87-1.57
Est free float	41.3%
BV per share (RM)	1.10
P/BV (x)	1.0
Net cash/ (debt) (RMm) (4Q17)	(2,6658)
ROE (2018E)	4.4%
Derivatives	Yes
Warr 2018 (RM0.03, EP: RM1.68)	
Warr 2027 (RM0.345, EP: RM1.25)	
Shariah Compliant	Yes

Key Shareholders

EPF	34.9%
Gapurna Sdn Bhd	16.6%
Lembaga Tabung Haji	7.2%

Source: Affin Hwang, Bloomberg

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Potential exceptional gains

MRCB is pursuing the potential injection of its land in Bukit Jalil for the KL Sports City project into a 20%-owned joint venture with EPF, which is expected to complete in 2Q18 (RM1.34bn asset value). It is also negotiating with the government to buy back or pay compensation for the termination of its Eastern Dispersal Link (EDL) concession (RM1.135bn asset value). A favourable outcome could lead to potential exceptional gains and raise cash to reduce its current net gearing of 0.54x.

Fig 1: Results comparison

FYE 31 Dec (RMm)	4Q17	QoQ % chg	YoY % chg	2017	YoY % chg	Comment
Revenue	**408.2**	***(64.0)***	***(60.4)***	**2,823.7**	***17.3***	FY17: Higher construction revenue (+107% yoy) revenue on the back of high order book and one-off NSC project contribution in 3Q17. But lower property revenue (-35% yoy) due to near completion of some projects.
Op costs	(339.7)	*(67.9)*	*(63.8)*	(2,562.3)	*20.9*	Higher operating costs for National Stadium project and high promotional cost for property development.
EBITDA	68.5	*(24.2)*	*(27.2)*	261.4	*(9.3)*	
EBITDA margin (%)	*16.8*	*8.8ppt*	*7.7ppt*	*9.3*	*-2.7ppt*	
Depreciation	(13.1)	0.0	*0.0*	(52.4)	*0.0*	
EBIT	**55.4**	***(28.3)***	***(31.6)***	**208.9**	***(11.3)***	
Int expense	(2.1)	*(94.9)*	*(95.1)*	(116.1)	*(34.0)*	Despite higher borrowings, lower interest expense due to capitalisation of interest cost for National Stadium project.
Int and other inc	8.9	*12.6*	*(74.2)*	63.2	*15.3*	
Associates	8.6	*0.0*	*1.3*	25.0	*(23.4)*	
Exceptional items	60.8	*#DIV/0!*	*(61.4)*	66.3	*(73.0)*	Gain from sale of non-core subsidiaries.
Pretax profit	**131.6**	***151.5***	***(44.9)***	**247.3**	***(37.0)***	Decline in PBT due to lower exceptional gain.
Core pretax profit	**70.8**	***35.3***	***(12.9)***	**181.0**	***23.0***	Higher operating profit for construction arm but lower for property development division.
Tax	(26.7)	*>100*	*(9.8)*	(65.5)	*(10.9)*	
Tax rate (%)	*21.7*	*-28.1ppt*	*8.9ppt*	*26.5*	*7.8ppt*	
Minority interests	0.8	*(133.7)*	*(103.9)*	(14.2)	*(72.5)*	
Net profit	**105.7**	***276.1***	*(43.8)*	**167.6**	***(37.3)***	Above expectation due to exceptional gains.
EPS (sen)	4.8	*276.6*	*(46.0)*	6.6	*(52.5)*	
Core net profit	**59.4**	***111.6***	***93.8***	**117.2**	***433.6***	Above expectation due to strong construction earnings.

Source: Affin Hwang estimates, Company

Fig 2: Segmental operating profit

FYE 31 Dec (RMm)	4Q16	3Q17	4Q17	*QoQ % chg*	*YoY % chg*	FY16	FY17	*YoY % chg*
Engineering & construction	1.6	31.3	46.1	*47.6*	*2,807.6*	11.6	92.7	*700.3*
Property	236.4	32.7	63.5	*94.1*	*(73.2)*	464.6	176.0	*(62.1)*
Infrastructure	12.1	12.7	13.5	*6.0*	*11.2*	58.5	55.2	*(5.7)*
Building services	3.4	0.3	0.3	*(19.6)*	*(92.1)*	15.8	11.4	*(27.8)*
Others	26.8	2.4	(0.8)	*(131.8)*	*(102.8)*	6.9	2.1	*(68.9)*
Total	**280.3**	**79.4**	**122.6**	**54.4**	**(56.3)**	**557.5**	**337.4**	**(39.5)**

Source: Affin Hwang estimates, Company

Fig 3: Segmental operating profit margin

FYE 31 Dec (%)	4Q16	3Q17	4Q17	*QoQ ppt*	*YoY ppt*	FY16	FY17	*YoY ppt*
Engineering & construction	0.4	3.4	28.9	*25.5*	*28.5*	1.4	5.2	*3.9*
Property	39.4	18.8	32.1	*13.3*	*(7.4)*	34.9	20.5	*(14.4)*
Infrastructure	44.9	43.9	46.7	*2.8*	*1.8*	52.1	48.0	*(4.0)*
Building services	17.8	2.7	1.9	*(0.7)*	*(15.9)*	22.2	20.5	*(1.7)*
Total	**27.2**	**7.0**	**30.0**	***23.0***	***2.9***	**23.2**	**11.9**	***(11.2)***

Source: Affin Hwang estimates, Company

Fig 4: Potential de-gearing exercises and impact

RM million	Unaudited FYE 2017*	EPF to subscribe in the Bkt Jalil Project	Dispose EDL	Dispose Ascott	Dispose Celcom
Bank Borrowings	2,323	2,323	2,323	2,323	2,092
EDL Financing	1,059	1,059	-	-	-
Loan Stock	2	2	2	2	2
Total Borrowings	3,384	3,384	2,325	2,325	2,094
Cash & Bank Balances	(778)	(1,918)	(1,918)	(2,048)	(2,109)
Net Borrowings/(Cash)	2,606	1,466	407	277	-15
Total Equity	**4,929**	**4,929**	**4,929**	**4,929**	**4,929**
Net Gearing (times)	**0.53**	**0.30**	**0.08**	**0.06**	**0.00**

Source: Company

Fig 5: Change in RNAV and target price assumptions

Segment	New value (RMm)	Old value (RMm)
Property development	4,906	3,659
Property investment	1,557	410
Construction	851	796
Concession	335	353
Car Park & REIT	530	583
Total	**8,179**	**5,803**
Net cash/(debt)	(1,599)	(203)
RNAV	**6,580**	**5,600**
No. of shares	4,385	4,385
RNAV / share	**1.50**	**1.28**
Fully-diluted no. of shares	4,385	4,385
Fully-diluted RNAV	**1.50**	**1.28**
Target price @ 20% discount	1.20	1.02

Source: Affin Hwang estimates

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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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