Asset disposal gains

MRCB's net profit dropped 83% yoy to RM49.9m in 1H16, mainly due to lower asset disposal gains. Core net profit fell 66% yoy to RM5.5m, mainly due to lower construction earnings. The operating earnings lag was disappointing. But there is potential earnings upside from its proposed sale of Menara Shell to MRCB Quill REIT. Maintain BUY and RM1.46 target price, based on a 20% discount to RNAV.

Lag in operating earnings

Net profit of RM49.9m in 1H16 was mainly due to exceptional gains of RM44.4m. The slow core earnings recovery has given rise to earnings forecast risk in meeting the consensus full-year net profit forecast of RM80.4m and our estimate of RM116.6m. Revenue fell 12% yoy to RM852m due to weaker performance in the construction and property divisions. High operating expenses and lower revenue led to the 66% yoy contraction in core net profit. Existing construction contracts are at the tail end while new contracts clinched have not contributed significantly to earnings, and the property division saw slower sales.

Investment property sale gains

MRCB saw one-off gains of RM41.6m from the sale of Sooka Sentral and RM2.8m from the sale of its stake in a construction joint venture to Ekovest. These lifted MRCB's bottom line in 1H16. It has agreed to sell Shell Tower to MRCB Quill REIT for RM640m and stands to see an estimated gain of RM76m (not factored into our forecasts).

More aggressive property launches planned

MRCB has planned more aggressive project launches in 2H16, eg, Phase 2 of Bandar Seri Iskandar township, the Kalista high-end landed residential project in Bukit Rahman Putra and Sentral Suites in KL Sentral. It has maintained its RM1bn sales target for 2016. Unbilled sales of RM1.3bn and a construction order book of RM5.3bn should drive earnings.

Good long-term prospects

We remain positive on the group's restructuring plan but the remaining new shares to be placed by end-2016 continue as a short-term overhang. Net gearing fell to 1.03x from 1.22x at end-March following the private placement of 293.6m new shares. Maintain BUY.

Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	1,514.8	1,696.7	1,569.1	1,593.0	1,881.7
EBITDA (RMm)	281.8	249.4	282.8	329.8	407.0
Pretax profit (RMm)	220.6	370.1	189.5	171.3	234.7
Net profit (RMm)	152.6	330.4	116.6	111.0	157.4
EPS (sen)	8.0	15.2	5.9	5.7	7.6
PER (x)	14.4	7.0	20.9	21.9	15.5
Core net profit (RMm)	4.2	1.0	72.6	111.0	157.4
Core EPS (sen)	0.2	0.1	3.8	5.9	8.3
Core EPS growth (%)	NM	(12.5)	218.6	37.5	33.0
Core PER (x)	86.5	98.9	31.0	22.6	17.0
Net DPS (sen)	2.5	2.5	2.5	2.5	2.5
Dividend Yield (%)	1.9	1.9	1.9	1.9	1.9
EV/EBITDA (x)	74.0	18.4	25.5	23.4	20.5
Chg in EPS (%)			0.0	0.0	0.0
Affin/Consensus (x)			1.4	1.2	1.3

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

MRCB

MRC MK
Sector: Construction & Infrastructure

RM1.29 @ 25 Aug 2016

BUY (maintain)

Upside 13%

Price Target: RM1.46

Previous Target: RM1.46

Price Performance

	1M	3M	12M
Absolute	+12.2%	+10.3%	+59.3%
Rel to KLCI	+11.4%	+7.0%	+48.2%

Stock Data

Issued shares (m)	2,080.2
Mkt cap (RMm)/(US$m)	2683.5/667.9
Avg daily vol - 6mth (m)	2.1
52-wk range (RM)	0.8-1.52
Est free float	39.9%
BV per share (RM)	1.27
P/BV (x)	1.02
Net cash/ (debt) (RMm) (1Q16)	(2,713.1)
ROE (2016F)	5.0%
Derivatives	Yes
Warr 2018 (RM0.125, EP: RM2.30)	
Shariah Compliant	Yes

Key Shareholders

EPF	33.9%
Gapurna Sdn Bhd	17.2%
Lembaga Tabung Haji	8.7%

Source: Affin Hwang, Bloomberg

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Valuation and risks

We maintain our Buy rating and 12-month TP of RM1.46, based on a 20% discount to RNAV. Key risk: property launch delays.

Fig 1: Results comparison

FYE 31 Dec (RMm)	2Q16	QoQ % chg	YoY % chg	1H16	YoY % chg	Comments
Revenue	**389.2**	***(10.7)***	***(26.6)***	**825.2**	***(11.7)***	Existing construction projects at tail end while new contracts have not contributed significantly. Slower property sales and progress billings.
Op costs	(371.1)	*(6.6)*	*(14.5)*	(782.0)	*(0.1)*	Higher costs as construction activities intensify but billings lag on the LRT project.
EBITDA	**18.1**	***(53.2)***	***(81.2)***	**43.2**	***(71.6)***	
EBITDA margin (%)	*4.7*	*-4.2ppt*	*-13.5ppt*	*5.2*	*-11.03ppt*	
Depreciation	(13.6)	*0.0*	*29.6*	(13.6)	*29.6*	
EBIT	**4.5**	***(82.0)***	***(94.7)***	**29.6**	***(79.1)***	
Int expense	(44.4)	*(5.0)*	*0.2*	(91.1)	*1.6*	Reduced borrowings following new share placement led to lower interest income.
Int and other inc	60.6	*53.5*	*460.9*	100.1	*630.3*	
Associates	8.6	*976.5*	*854.1*	9.4	*2,861.4*	
Forex gain (losses)	0.0	*0.0*	*0.0*	0.0	*0.0*	
Exceptional items	44.4	*0.0*	*14.4*	44.4	*(84.1)*	RM41.6m from sale of Sooka Sentral and RM2.8m from sale of Ekovest-MRCB JV in 2Q16.
Pretax profit	**73.8**	***295.4***	***(19.8)***	**92.4**	***(73.2)***	Below expectations due to low operating profit.
Core pretax profit	**29.4**	***57.4***	***(44.8)***	**48.0**	***(27.1)***	
Tax	(16.7)	*221.5*	*(9.8)*	(21.9)	*(14.5)*	
Tax rate (%)	*25.6*	*-3.5ppt*	*5.3ppt*	*23.7*	*16.3ppt*	
Discontinuing operations	0.0	*0.0*	*(100.0)*	0.0	*(100.0)*	
Minority interests	(11.6)	*27.4*	*(13.4)*	(20.6)	*(14.9)*	
Net profit	**45.5**	***938.4***	***(24.3)***	**49.9**	***(83.3)***	Below expectations.
EPS (sen)	2.4	*876.0*	*(81.4)*	0.0	*(100.0)*	
Core net profit	**1.1**	***(74.8)***	***(94.8)***	**5.5**	***(65.9)***	Low construction profitability led to decline in core earnings.

Source: Company, Affin Hwang estimates

Fig 2: Segmental operating profit

FYE 31 Dec (RMm)	2Q15	1Q16	2Q16	*QoQ % chg*	*YoY % chg*	1H15	1H16	*YoY % chg*
Engineering & construction	27.5	1.1	1.8	*61.1*	*(93.3)*	29.7	3.0	*(90.0)*
Property development & investment	79.4	67.3	90.4	*34.3*	*13.9*	352.7	157.8	*(55.3)*
Infrastructure	15.4	13.1	19.5	*48.7*	*27.2*	31.9	32.7	*2.4*
Building services	(2.8)	7.4	4.6	*(37.7)*	*(267.1)*	2.6	12.0	*363.4*
Investment holding & others	9.6	(17.2)	(1.2)	*(92.9)*	*(112.7)*	(5.4)	(18.5)	*241.9*
Total	**129.1**	**71.8**	**115.2**	***60.5***	***(10.7)***	**411.5**	**187.0**	***(54.6)***

Source: Company, Affin Hwang estimates

Fig 3: Segmental operating profit margin

FYE 31 Dec (%)	2Q15	1Q16	2Q16	*QoQ ppt*	*YoY ppt*	1H15	1H16	*YoY ppt*
Engineering & construction	12.2	0.7	1.0	*0.3*	*(11.2)*	8.2	0.9	*(7.3)*
Property development & investment	31.0	29.4	61.2	*31.8*	*30.2*	73.8	41.9	*(32.0)*
Infrastructure	52.7	46.7	67.2	*20.5*	*14.5*	55.4	57.1	*1.7*
Building services	(14.9)	41.2	24.0	*(17.2)*	*38.9*	7.2	32.3	*25.2*
Total	**24.3**	**16.5**	**29.6**	***13.1***	***5.3***	**44.0**	**22.7**	***(21.4)***

Source: Company, 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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