Seasonal lag

MRCB's net profit jumped 149% yoy to RM21.5m 1Q18 from a low base in 1Q17. The result was below market and our expectations. But 1Q is seasonally a weak quarter due to the festive holidays. The acceleration in progress billings for its large-scale projects such as LRT Line 3 will boost earnings in subsequent quarters. We reiterate our BUY call with a 12-month target price of RM0.94, based on 40% discount to RNAV.

Below expectations

MRCB's net profit of RM21.5m in 1Q18 only comprises 10% of our full-year forecast of RM217.3m and 8% of consensus estimate of RM259.6m. MRCB saw slow property sales given uncertainties prior to election and some of its new construction projects are still at early stages of implementation. Revenue declined 18% yoy to RM427.6m as all divisions posted lower revenue – construction (-17% yoy), property (-9% yoy), infrastructure (-98% yoy) and building services (-23% yoy).

Surge in construction earnings

Construction operating profit jumped 11.8-fold to RM16m as progress billings accelerated for its projects such as LRT Line 3 (share of joint venture profit), MRT Line 2 and several commercial buildings. Remaining order book of RM4.9bn, equivalent to 2x its construction FY17 revenue, will sustain its activities. However, property earnings fell 50% yoy to RM24m in 1Q18 as the lumpy earnings from its Easton Burwood project in Melbourne was recognised in 1Q17.

Slow property sales

MRCB achieved property sales of RM101m in 1Q18, mainly from its Nine Seputeh and Sentral Suites projects. The weak property sales were due to weak market sentiment and political uncertainties prior to election. But high unbilled sales of RM1.6bn will sustain earnings in FY18E.

Maintain BUY

The share price has corrected sharply over the past month following the surprise election outcome. Current share price at 63% discount to RNAV/share of RM1.56 is attractive. Maintain BUY.

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

RM0.57 @ 30 May 2018

BUY (maintain)
Upside: 65%

Price Target: RM0.94
Previous Target: RM0.94

	1M	3M	12M
Absolute	-44.7%	-47.2%	-53.3%
Rel to KLCI	-40.0%	-43.0%	-52.1%

Stock Data

Issued shares (m)	4,390.8
Mkt cap (RMm)/(US$m)	2502.7/627.4
Avg daily vol - 6mth (m)	14.7
52-wk range (RM)	0.55-1.34
Est free float	41.1%
BV per share (RM)	1.10
P/BV (x)	0.52
Net cash/ (debt) (RMm) (4Q17)	(1,871)
ROE (2018E)	4.4%
Derivatives	Yes
Warr 2018 (RM0.005, EP: RM1.68)	
Warr 2027 (RM0.185, EP: RM1.25)	
Shariah Compliant	Yes

Key Shareholders

EPF	35.3%
Gapurna Sdn Bhd	16.6%
Lembaga Tabung Haji	7.0%

Source: Affin Hwang, Bloomberg

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Large-scale property projects to sustain activities

We believe MRCB remains in a strong position to sustain its construction and property development activities given its involvement in large-scale property projects, such as KL Sports City, Kwasa Damansara and Cyberjaya City Centre. This is despite the scrapping of the KL-Singapore High Speed Rail project, where the MRCB Gamuda Joint Venture secured the Project Delivery Partner contract earlier. We did not factor in earnings contribution from this project in our forecasts.

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 0.58x.

Fig 1: Results comparison

FYE 31 Dec (RMm)	1Q17	4Q17	1Q18	QoQ % chg	YoY % chg	Comment
Revenue	**519.8**	**408.2**	**427.6**	***4.8***	***(17.7)***	1Q18: Lower revenue for all divisions: construction (-17%), property (-9%), infrastructure (-98%) and building services (-23%).
Op costs	(458.2)	(339.7)	(412.9)	*21.6*	*(9.9)*	Higher operating costs for National Stadium project and high promotional cost for property development.
EBITDA	61.7	68.5	14.7	*(78.5)*	*(76.1)*	
EBITDA margin (%)	*11.9*	*16.8*	*3.4*	*-13.3ppt*	*-8.4ppt*	
Depreciation	(15.6)	(13.1)	(6.5)	*(50.7)*	*(58.5)*	
EBIT	**46.1**	**55.4**	**8.3**	***(85.1)***	***(82.1)***	
Int expense	(35.2)	(2.1)	(4.3)	*101.9*	*(87.9)*	Despite higher borrowings, lower interest expense due to capitalisation of interest cost for National Stadium project.
Int and other inc	15.6	8.9	15.9	*77.9*	*2.2*	
Associates	(1.1)	8.6	10.7	*24.5*	*n.m*	
Exceptional items	1.6	60.8	0.0	*(100.0)*	*(100.0)*	
Pretax profit	**27.0**	**131.6**	**30.6**	***(76.8)***	***13.3***	Decline in PBT due to absence of exceptional gains.
Core pretax profit	**25.3**	**70.8**	**30.6**	***(56.8)***	***20.6***	Higher operating profit for construction arm offset by lower profits for other divisions.
Tax	(8.4)	(26.7)	(4.9)	*(81.5)*	*(41.4)*	
Tax rate (%)	*29.9*	*21.7*	*24.8*	*3.1ppt*	*-5.1ppt*	
Minority interests	(9.9)	0.8	(4.1)	*(602.9)*	*(58.7)*	
Net profit	**8.6**	**105.7**	**21.5**	***(79.6)***	*149.2*	Below expectations.
EPS (sen)	0.4	4.8	0.5	*(89.8)*	*22.5*	
Core net profit	**7.4**	**59.4**	**21.5**	***(63.8)***	***191.5***	Below expectations.

Source: Affin Hwang estimates, Company

Fig 2: Segmental operating profit

FYE 31 Dec (RMm)	1Q17	4Q17	1Q18	QoQ % chg	YoY % chg
Engineering & construction	1.3	46.1	16.0	*(65.3)*	*1,176.2*
Property	47.9	63.5	24.1	*(61.9)*	*(49.5)*
Infrastructure	17.5	13.5	(1.3)	*NA*	*NA*
Building services	3.7	0.3	0.2	*(38.2)*	*(95.6)*
Others	(4.5)	(0.8)	(11.6)	*1,429.7*	*155.0*
Total	**65.8**	**122.6**	**27.4**	**(77.6)**	**(58.3)**

Source: Affin Hwang estimates, Company

Fig 3: Segmental operating profit margin

FYE 31 Dec (%)	1Q17	4Q17	1Q18	QoQ ppt	YoY ppt
Engineering & construction	0.5	28.9	8.4	*(20.6)*	*7.8*
Property	19.7	32.1	11.0	*(21.1)*	*(8.8)*
Infrastructure	61.3	46.7	NA	*NA*	*NA*
Building services	22.2	1.9	1.3	*(0.7)*	*(20.9)*
Total	**12.5**	**30.0**	**6.4**	***(23.6)***	***(6.1)***

Source: Affin Hwang estimates, Company

Fig 4: Potential de-gearing exercises and impact

RM million	Q1 2018	EPF to subscribe in the Bkt Jalil Project	Dispose EDL	Dispose Ascott	Dispose Celcom
Bank Borrowings	2,536	1,398	1,398	1,398	1,398
EDL Financing	1,059	1,059	-	-	-
Total Borrowings	3,595	2,457	1,398	1,398	1,398
Cash & Bank Balances	(716)	(716)	(716)	(846)	(910)
Net Borrowings/(Cash)	2,879	1,741	682	552	488
Total Equity	**4,941**	**4,941**	**4,941**	**4,941**	**4,941**
Net Gearing (times)	**0.58**	**0.35**	**0.14**	**0.11**	**0.10**

Source: Company

Fig 5: Change in RNAV and target price assumptions

Segment	Value (RMm)
Property development	4,997
Property investment	1,557
Construction	1,021
Concession	335
Car Park & REIT	530
Total	**8,441**
Net cash/(debt)	(1,599)
RNAV	**6,842**
No. of shares	4,385
RNAV / share	**1.56**
Fully-diluted no. of shares	4,385
Fully-diluted RNAV	**1.56**
Target price @ 20% discount	0.94

Source: Affin Hwang estimates

Outthink. Outperform.

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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