



AmInvestment Bank

## Company report

## MRCB

(MRC MK EQUITY, MYRS.KL)

26 Aug 2016

## Few property launches; construction mobilisation in 1H

# BUY

(Maintained)

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Rationale for report: Company result

Price	RM1.29
Fair Value	RM2.00
52-week High/Low	RM1.52/RM0.80

## Key Changes

Fair value	↔
EPS	↔

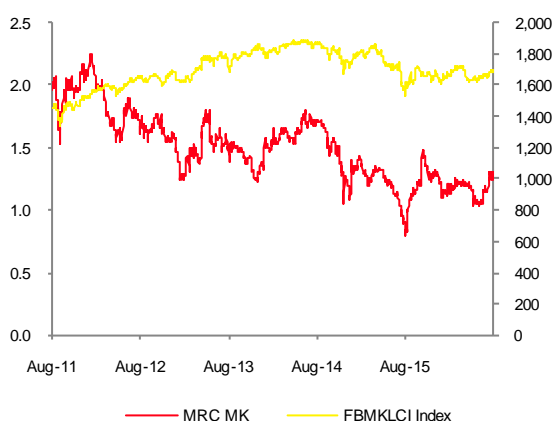
YE to Dec	FY15	FY16F	FY17F	FY18F
Revenue (RM mil)	1,696.7	1,953.9	2,339.0	2,583.4
Core net profit (RM mil)	1.1	37.4	72.0	94.6
FD Core EPS (sen)	1.7	3.3	4.7	5.7
FD Core EPS growth (%)	8.4	87.8	44.5	20.1
Consensus Net Profit (RM mil)	-	80.4	96.3	122.5
DPS (sen)	2.5	2.0	2.0	2.0
PE (x)	74.1	39.4	27.3	22.7
EV/EBITDA (x)	16.6	17.8	16.5	14.7
Div yield (%)	2.1	1.7	1.7	1.7
ROE (%)	15.6	1.8	3.2	4.1
Net Gearing (%)	127.1	180.5	186.5	182.1

## Stock and Financial Data

Shares Outstanding (million)	1,760.1
Market Cap (RMmil)	2,270.5
Book Value (RM/share)	1.27
P/BV (x)	1.0
ROE (%)	15.6
Net Gearing (%)	127.1

Major Shareholders	Employees Provident Fund Board (36.5%) Gapurna Sdn Bhd (15.5%) Lembaga Tabung Haji (9.3%)
Free Float	38.8
Avg Daily Value (RMmil)	3.0

Price performance	3mth	6mth	12mth
Absolute (%)	10.3	11.2	59.3
Relative (%)	7.0	9.7	48.2



## Investment Highlights

- We maintain **BUY** on MRCB with an unchanged fair value of RM2.00/share (20% discount to NAV).
- MRCB posted a 2QFY16 core net profit of RM1.1mil (-75% QoQ), bringing the total for 1HFY16 to RM5.5mil (-86% YoY). This is below our (RM37.4mil) and consensus (RM80.4mil) estimates.
- The unusual items comprised a RM41.6mil gain from the disposal of Sooka Sentral and a RM2.8mil gain from the disposal of its interest in its JV with Ekovest. The previous corresponding period had disposal gains totaling RM259mil.
- Stripping off these one-off items, the result was achieved against the backdrop of few property launches, while major construction projects were still at the mobilisation stages.
- Management is maintaining its target of RM1bil property sales, while unbilled sales amounted to RM1.3bil as at end-June 2016.
- Upcoming launches include the RM1.4bil Sentral Suites and Bukit Rahman Putra's Kalista super-link and semi-D homes (total GDV RM517mil).
- We expect MRCB to register improving property sales moving forward, with potential GDV for ongoing and future projects totaling over RM50bil, as well as see a pick-up in construction activities.
- The Engineering, Construction & Environment division's (ECE) external order book stands at RM6.6bil, with a total RM5.3bil unbilled. The tender book stands at RM8.7bil.
- Management is hopeful of securing a consistent flow of projects to enable a steady stream of income for the ECE division.
- Gearing has fallen below 1x to 0.92x following the recent completion of its second tranche private placement comprising 193.6mil shares. Of these, 170mil shares were taken up by Bank Kerjasama Rakyat Malaysia Bhd. Management expects the last tranche of 64mil shares to be placed out by year-end.
- Management also reiterated that it is looking for a buyer for the Eastern Dispersal Link (EDL) in Johor, which would reduce its debt by a further RM1.18bil and thereby potentially pare down its gearing to 0.29x. Due to high finance cost, EDL incurred a loss of RM15mil in 1HFY16.

## EXHIBIT 1: RESULT SUMMARY

YE 31 Dec (RMmil)	1H15	1H16	% YoY	1Q16	2Q16	% QoQ	Ann
Turnover	934.5	825.2	(11.7)	436.0	389.2	(10.7)	1,650.4
EBIT	152.1	125.1	(17.8)	63.1	62.0	(1.8)	250.2
Interest Expense	(89.6)	(91.1)		(46.7)	(44.4)		
Interest Income	22.3	4.6		2.4	2.2		
Pre-Exceptionals Profit	84.8	38.6		18.7	19.8		
Exceptionals	259.3	44.4		0.0	44.4		
Pre-Associates/JV Profit	344.1	83.0		18.7	64.2		
Associates/JVs	0.3	9.4		(0.1)	9.5		
<b>Pretax Profit</b>	<b>344.4</b>	<b>92.4</b>	<b>(73.2)</b>	<b>18.7</b>	<b>73.8</b>	<b>295.4</b>	<b>184.8</b>
Taxation	(25.6)	(21.9)		(5.2)	(16.7)		
Minority Interest/disct. ops	(20.9)	(20.6)		(9.1)	(11.6)		
<b>Net Profit</b>	<b>298.0</b>	<b>49.9</b>	<b>(83.3)</b>	<b>4.4</b>	<b>45.5</b>	<b>938.4</b>	<b>99.8</b>
<b>Core Net profit</b>	<b>38.7</b>	<b>5.5</b>	<b>(85.8)</b>	<b>4.4</b>	<b>1.1</b>	<b>(74.8)</b>	<b>11.0</b>
Core EPS (sen)	2.2	0.3		0.2	0.1		
Gross DPS (sen)	0.0	0.0		0.0	0.0		
NA/share (RM)	1.29	1.29		1.26	1.29		
EBIT Margin (%)	16.3	15.2		14.5	15.9		
Pretax Margin (%)	36.9	11.2		4.3	19.0		
Effective Tax (%)	7.4	23.7		27.8	22.6		

Source: Company

EXHIBIT 2: PB BAND CHART

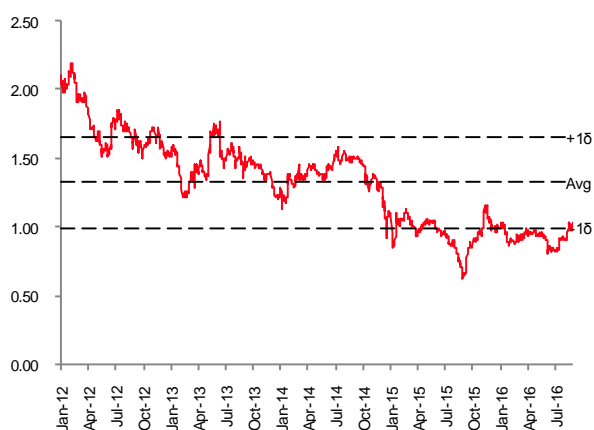
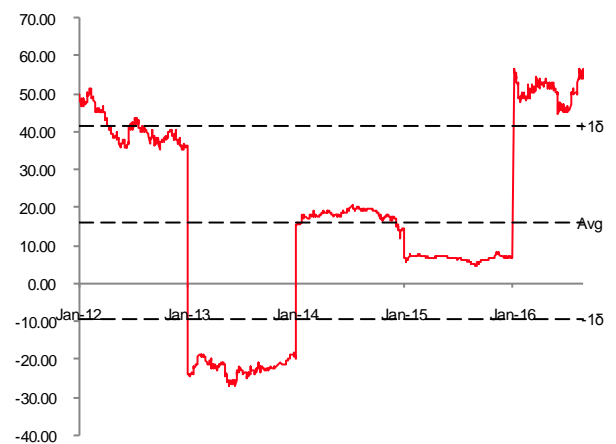


EXHIBIT 3: PE BAND CHART



## EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Revenue	1,514.8	1,696.7	1,953.9	2,339.0	2,583.4
EBITDA	294.3	309.8	356.1	397.2	446.1
Depreciation/Amortisation	(52.4)	(131.3)	(136.3)	(124.8)	(127.1)
Operating income (EBIT)	241.8	178.4	219.8	272.4	319.0
Other income & associates	(24.3)	7.9	49.4	69.0	51.1
Net interest	(132.8)	(145.5)	(189.1)	(217.6)	(219.4)
Exceptional items	135.9	329.3	3.8	-	-
<b>Pretax profit</b>	<b>220.6</b>	<b>370.1</b>	<b>83.9</b>	<b>123.8</b>	<b>150.6</b>
Taxation	(53.3)	(6.1)	(33.9)	(40.5)	(42.8)
Minorities/pref dividends	(14.7)	(33.6)	(8.7)	(11.3)	(13.3)
<b>Net profit</b>	<b>152.6</b>	<b>330.4</b>	<b>41.3</b>	<b>72.0</b>	<b>94.6</b>
Core net profit	16.7	1.1	37.4	72.0	94.6
Balance Sheet (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Fixed assets	228.6	337.5	312.5	286.7	260.2
Intangible assets	271.8	317.1	310.1	303.2	296.3
Other long-term assets	3,277.2	3,741.0	4,726.0	4,722.9	4,650.3
<b>Total non-current assets</b>	<b>3,777.5</b>	<b>4,395.5</b>	<b>5,348.6</b>	<b>5,312.8</b>	<b>5,206.8</b>
Cash & equivalent	308.2	339.2	232.9	129.6	143.1
Stock	42.6	63.1	57.8	70.2	77.3
Trade debtors	1,319.8	1,113.8	1,391.8	1,730.2	1,911.0
Other current assets	1,593.7	1,178.1	1,382.9	1,625.8	1,771.6
<b>Total current assets</b>	<b>3,264.4</b>	<b>2,694.3</b>	<b>3,065.5</b>	<b>3,555.9</b>	<b>3,903.0</b>
Trade creditors	1,121.5	1,199.6	1,425.3	1,732.2	1,880.8
Short-term borrowings	1,390.6	1,049.1	726.9	842.0	857.0
Other current liabilities	58.4	47.7	47.7	47.7	47.7
<b>Total current liabilities</b>	<b>2,570.5</b>	<b>2,296.5</b>	<b>2,200.0</b>	<b>2,621.9</b>	<b>2,785.6</b>
Long-term borrowings	2,300.1	2,345.2	3,760.7	3,745.9	3,751.1
Other long-term liabilities	106.8	135.2	135.2	135.2	135.2
<b>Total long-term liabilities</b>	<b>2,406.9</b>	<b>2,480.5</b>	<b>3,896.0</b>	<b>3,881.2</b>	<b>3,886.4</b>
<b>Shareholders' funds</b>	<b>1,985.3</b>	<b>2,260.1</b>	<b>2,256.7</b>	<b>2,293.0</b>	<b>2,351.9</b>
Minority interests	79.3	52.6	61.4	72.6	85.9
BV/share (RM)	1.13	1.27	1.26	1.28	1.32
Cash Flow (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Pretax profit	220.6	370.1	83.9	123.8	150.6
Depreciation/Amortisation	52.4	131.3	136.3	124.8	127.1
Net change in working capital	(725.2)	606.6	(251.8)	(286.9)	(185.0)
Others	274.1	(921.2)	(83.3)	(109.6)	(93.8)
<b>Cash flow from operations</b>	<b>(178.1)</b>	<b>186.8</b>	<b>(114.9)</b>	<b>(147.8)</b>	<b>(1.1)</b>
Capital expenditure	(168.5)	(1,248.5)	(1,040.0)	(20.0)	30.0
Net investments & sale of fixed assets	228.1	696.6	-	-	-
Others	(44.1)	766.9	-	-	-
<b>Cash flow from investing</b>	<b>15.5</b>	<b>214.9</b>	<b>(1,040.0)</b>	<b>(20.0)</b>	<b>30.0</b>
Debt raised/(repaid)	(159.7)	(58.3)	1,093.3	100.3	20.3
Equity raised/(repaid)	0.1	0.8	-	-	-
Dividends paid	(17.6)	(82.4)	(44.7)	(35.7)	(35.7)
Others	339.5	(230.8)	-	-	-
<b>Cash flow from financing</b>	<b>162.3</b>	<b>(370.7)</b>	<b>1,048.6</b>	<b>64.5</b>	<b>(15.5)</b>
<b>Net cash flow</b>	<b>(0.3)</b>	<b>31.0</b>	<b>(106.3)</b>	<b>(103.3)</b>	<b>13.4</b>
<b>Net cash/(debt) b/f</b>	<b>308.5</b>	<b>308.2</b>	<b>339.2</b>	<b>232.9</b>	<b>129.6</b>
<b>Net cash/(debt) c/f</b>	<b>308.2</b>	<b>339.2</b>	<b>232.9</b>	<b>129.6</b>	<b>143.1</b>
Key Ratios (YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Revenue growth (%)	61.0	12.0	15.2	19.7	10.4
EBITDA growth (%)	649.4	5.3	15.0	11.5	12.3
Pretax margin (%)	14.6	21.8	4.3	5.3	5.8
Net profit margin (%)	10.1	19.5	2.1	3.1	3.7
Interest cover (x)	1.8	1.2	1.2	1.3	1.5
Effective tax rate (%)	24.1	1.6	40.4	32.7	28.4
Dividend payout (%)	29.3	13.5	86.6	49.6	37.8
Debtors turnover (days)	318	240	260	270	270
Stock turnover (days)	14	20	15	15	15
Creditors turnover (days)	375	378	370	370	365

Source: Company, AmlInvestment Bank Bhd estimates

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