AmInvestment Bank

Company report

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PROPERTY

MRCB

(MRC MK EQUITY, MYRS.KL)

27 Feb 2017

Earnings boosted by property disposals

BUY

(Maintained)

Rationale for report: Company results

Price	RM1.43
Fair Value	RM1.61
52-week High/Low	RM1.55/RM1.02

Key Changes

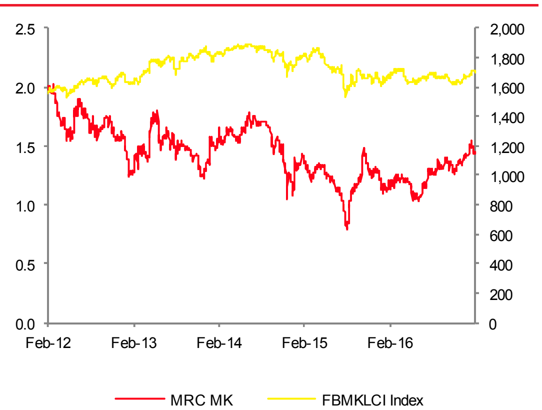
Fair value	⇧
EPS	⇔

YE to Dec	FY16	FY17F	FY18F	FY19F
Revenue (RM mil)	2,408.1	1,933.5	2,275.6	2,734.6
Core net profit (RM mil)	267.4	115.2	150.1	198.9
FD Core EPS (sen)	6.1	6.5	8.0	10.1
FD Core EPS growth (%)	254.0	6.7	22.5	25.7
Consensus Net Profit (RM mil)	-	91.9	112.4	150.4
DPS (sen)	2.0	2.0	2.0	2.0
PE (x)	23.3	21.9	17.9	14.2
EV/EBITDA (x)	8.5	16.6	13.9	10.9
Div yield (%)	1.4	1.4	1.4	1.4
ROE (%)	10.3	4.3	6.1	7.7
Net Gearing (%)	69.5	131.0	126.7	117.3

Stock and Financial Data

Shares Outstanding (million)	1,760.1
Market Cap (RMmil)	2,516.9
Book Value (RM/share)	1.64
P/BV (x)	0.9
ROE (%)	10.3
Net Gearing (%)	69.5
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)	3.2

Price performance	3mth	6mth	12mth
Absolute (%)	11.7	12.6	26.5
Relative (%)	7.3	11.9	24.3



Investment Highlights

- **We make no changes to our FY17-18F net earnings forecasts, and introduce our FY19 numbers. We maintain our BUY call, with a higher target price of RM1.61 (from RM1.49 previously), based on a 20% discount to RNAV (previously 30%), due to the improving outlook for the group, especially in the construction segment.**

- **MRCB's FY16 results came in above expectations, with its core net profit making up 251% of our full-year forecast and 288% of consensus. The strong performance was mainly due to a RM144.9mil gain recognised on the disposal of Menara Shell, a RM41.6mil gain from the disposal of Sooka Sentral and a RM56.1mil gain on the sale of leasehold land to MRT. On a YoY basis, FY16 core net earnings were higher by 19.4% at RM264.6m.**

- **We are positive on the continuously improving gearing position of the group. Net gearing stood at 0.73X as at end-FY16, compared to 1.0x as at end-9M16. This was mainly due to the completion of the second and third tranches of its private placement exercise. The third tranche of its placement shares comprising 63.7mil shares was issued on 8 Nov 2016.**

- **We are encouraged by the positive performance at MRCB's property division. Its unbilled property sales stood at RM1.2bil as at end-FY16, compared to RM1.4bil at end-3Q16. It recorded FY16 total property sales of RM1.2bn, with the disposal of Menara Shell to MRCB-Quill REIT (RM640mil) and the Putrajaya office to SOCSO (RM371mil). It is targeting RM1.2bil of total property sales in FY17.**

- **MRCB's construction order increased to RM7.0bil as at end-4Q16 (from RM6.6bil at end-3Q16, with a total unbilled portion of RM5.4bil. The value of contracts won in FY16 stood at RM1.55bil.**

- **We believe the potential disposal of the Eastern Dispersal Link (EDL) Highway in Johor would be a potential re-rating catalyst for the stock. The disposal of this highway would reduce MRCB's debt by RM1.18bil, which would further bring down its net gearing level to 0.3x.**

- **Apart from EDL, we believe there are a few other assets with a high potential to be disposed of, which would be positive to MRCB's future earnings and the reduction in its gearing level. These include Menara Celocm in PJ Sentral (est. value RM428mil) and Ascott Sentral in KL Sentral (est. value RM120mil).**

EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM m)	4QFY16	4QFY15	3QFY16	YoY (%)	QoQ (%)	FY16	FY15	YoY (%)
Revenue	**1,031.7**	**388.2**	**551.2**	***165.8***	***87.2***	**2,408.1**	**1,696.7**	***41.9***
EBIT	**273.0**	**51.3**	**88.8**	***432.3***	***207.4***	**535.9**	**547.1**	***(2.0)***
Finance costs	(42.8)	(50.7)	(42.0)	*(15.5)*	*2.1*	(175.9)	(184.8)	*(4.8)*
Share of profit from associates	7.2	(0.8)	12.1	*(949.2)*	*(40.8)*	26.3	16.0	*64.6*
Share of profit from JVs	1.3	0.7	2.6	*95.1*	*(51.6)*	6.3	(8.1)	*(177.7)*
EIs/Others						2.8	108.8	
Pretax profit	**238.6**	**0.4**	**61.6**	***63,194.4***	***287.4***	**392.6**	**370.1**	***6.1***
Tax	(29.6)	38.3	(22.0)	*(177.4)*	*34.6*	(73.5)	(6.1)	*1,108.8*
Non-controlling interests	20.9	7.2	10.2	*188.9*	*105.3*	51.7	33.6	*53.8*
Net Profit	**188.1**	**31.4**	**29.4**	***499.1***	***539.9***	**267.4**	**330.4**	***(19.1)***
Core Profit	**188.1**	**31.4**	**29.4**	***499.1***	***539.9***	**264.6**	**221.6**	***19.4***
EBIT Margin (%)	26.5%	13.2%	16.1%			22.3%	32.2%	
Pretax Margin (%)	23.1%	0.1%	11.2%			16.3%	21.8%	
Effective tax rate (%)	12.9%	-6700.2%	47.0%			20.4%	1.7%	
Core net Margin (%)	18.2%	8.1%	5.3%			11.0%	13.1%	

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART

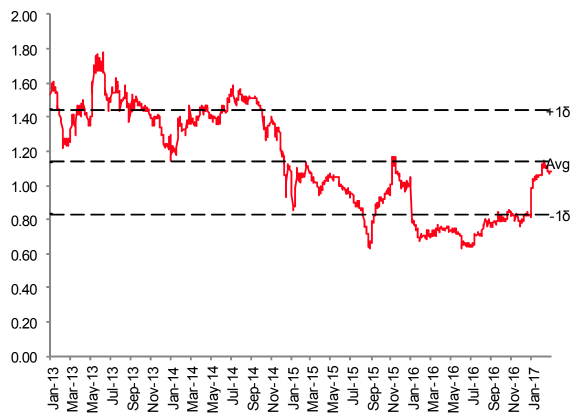


EXHIBIT 3: PE BAND CHART

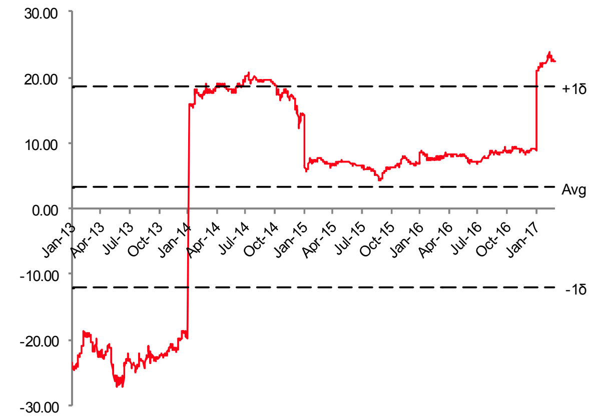


EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	1,696.7	2,408.1	1,933.5	2,275.6	2,734.6
EBITDA	242.3	535.9	341.6	411.9	520.7
Depreciation/Amortisation	(64.2)	-	(36.3)	(67.2)	(125.5)
Operating income (EBIT)	178.2	535.9	305.4	344.7	395.2
Other income & associates	7.9	32.7	68.1	51.1	83.6
Net interest	(145.5)	(175.9)	(156.7)	(165.8)	(162.3)
Exceptional items	329.6	-	-	-	-
Pretax profit	370.1	392.6	216.7	229.9	316.4
Taxation	(6.1)	(73.5)	(63.6)	(62.5)	(85.8)
Minorities/pref dividends	(33.6)	(51.7)	(38.0)	(17.4)	(31.7)
Net profit	330.4	267.4	115.2	150.1	198.9
Core net profit	0.8	267.4	115.2	150.1	198.9

Balance Sheet (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Fixed assets	337.5	437.8	321.0	297.1	272.5
Intangible assets	317.1	252.9	303.2	296.3	289.3
Other long-term assets	3,741.0	3,895.9	3,854.9	3,839.5	3,799.2
Total non-current assets	4,395.5	4,586.6	4,479.0	4,432.9	4,361.0
Cash & equivalent	339.2	722.2	199.3	178.6	239.3
Stock	63.1	57.5	57.6	67.4	80.1
Trade debtors	1,113.8	1,580.6	1,430.2	1,683.3	2,022.9
Other current assets	1,178.1	805.4	1,457.1	1,633.1	1,810.4
Total current assets	2,694.3	3,165.6	3,144.3	3,562.4	4,152.7
Trade creditors	1,199.3	1,586.4	1,420.0	1,640.1	1,948.3
Short-term borrowings	1,049.5	806.3	683.4	698.4	713.5
Other current liabilities	47.1	42.6	25.3	25.3	25.3
Total current liabilities	2,295.9	2,435.2	2,128.7	2,363.8	2,687.0
Long-term borrowings	2,345.9	2,130.8	2,847.0	2,852.2	2,852.4
Other long-term liabilities	135.2	161.2	135.2	135.2	135.2
Total long-term liabilities	2,481.2	2,292.0	2,982.2	2,987.4	2,987.6
Shareholders' funds	2,260.1	2,925.8	2,404.1	2,518.4	2,681.6
Minority interests	52.6	99.2	108.3	125.6	157.3
BV/share (RM)	1.27	1.64	1.35	1.41	1.50

Cash Flow (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Pretax profit	370.1	392.6	216.7	229.9	316.4
Depreciation/Amortisation	64.2	-	36.3	67.2	125.5
Net change in working capital	606.2	-	(211.8)	(218.9)	(221.4)
Others	(900.1)	(533.9)	(131.7)	(113.5)	(169.4)
Cash flow from operations	140.4	(141.3)	(90.5)	(35.3)	51.2
Capital expenditure	(1,135.6)	-	10.0	30.0	30.0
Net investments & sale of fixed assets	696.6	626.5	-	-	-
Others	29.8	16.4	-	-	-
Cash flow from investing	(409.3)	642.9	10.0	30.0	30.0
Debt raised/(repaid)	(295.9)	(461.2)	100.3	20.3	15.3
Equity raised/(repaid)	0.8	401.9	-	-	-
Dividends paid	(82.4)	(76.6)	(35.7)	(35.7)	(35.7)
Others	677.5	(112.2)	-	-	-
Cash flow from financing	299.9	(248.1)	64.5	(15.5)	(20.5)
Net cash flow	31.0	253.5	(15.9)	(20.8)	60.7
Net cash/(debt) b/f	308.2	339.2	215.3	199.3	178.6
Net cash/(debt) c/f	339.2	592.8	199.3	178.6	239.3

Key Ratios (YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue growth (%)	12.0	41.9	(19.7)	17.7	20.2
EBITDA growth (%)	(17.6)	121.1	(36.3)	20.6	26.4
Pretax margin (%)	21.8	16.3	11.2	10.1	11.6
Net profit margin (%)	19.5	11.1	6.0	6.6	7.3
Interest cover (x)	1.2	3.0	1.9	2.1	2.4
Effective tax rate (%)	1.6	18.7	29.3	27.2	27.1
Dividend payout (%)	13.5	13.4	31.0	23.8	18.0
Debtors turnover (days)	240	240	270	270	270
Stock turnover (days)	20	17	15	15	15
Creditors turnover (days)	371	466	370	365	365

Source: Company, AmInvestment Bank Bhd estimates

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