



AmInvestment Bank

## Company report

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2036 2025

# MRCB

(MRC MK EQUITY, MYRS.KL)

PROPERTY

30 May 2017

*Stronger performance ahead*

## BUY

(Maintained)

**Rationale for report: Company results**

Price	RM1.40
Fair Value	RM1.89
52-week High/Low	RM1.80/RM1.02

### Key Changes

Fair value	↔
EPS	↔

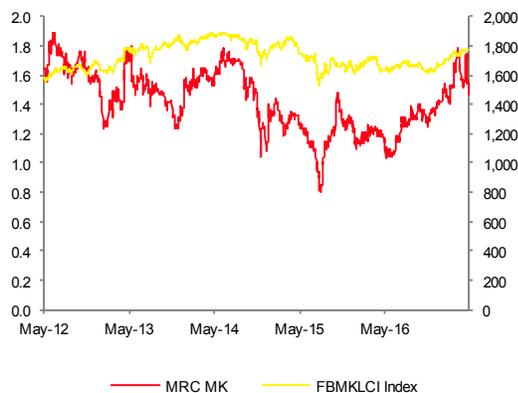
YE to Dec	FY16	FY17F	FY18F	FY19F
Revenue (RM mil)	2,408.1	1,933.5	2,275.6	2,734.6
Core net profit (RM mil)	267.4	115.2	150.1	198.9
FD Core EPS (sen)	6.1	6.5	8.0	10.1
FD Core EPS growth (%)	254.0	6.7	22.5	25.7
Consensus Net Profit (RM mil)	-	144.4	158.4	198.8
DPS (sen)	2.0	2.0	2.0	2.0
PE (x)	22.8	21.4	17.5	13.9
EV/EBITDA (x)	8.4	16.4	13.7	10.8
Div yield (%)	1.2	1.2	1.2	1.2
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)	2,464.1
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)	16.9

Price performance	3mth	6mth	12mth
Absolute (%)	(1.4)	12.0	20.7
Relative (%)	(5.8)	2.8	11.5



### Investment Highlights

- We maintain our BUY call on MRCB with an unchanged fair value of RM1.89, based on a 10% discount to its RNAV. We make no changes to our earnings forecasts
- MRCB's 1QFY17 net profit grew 138.6% YoY to RM10.5mil, making up 9% of our full-year forecast and 7% of consensus. We deem this to be broadly in line, as we expect stronger performance for the rest of the year from both its property and construction divisions. No dividend was declared, as expected.
- The positive performance was mainly due to lower finance costs, higher interest income and a stronger performance from its property development division.
- The property development division registered a 59% YoY growth in revenue to RM242.5mil in 1QFY17, generated mainly by its Sentral Residences in KL Sentral and Easton Burwood in Melbourne, as well as 9 Seputeh in Jalan Klang Lama, PJ Sentral Garden City, Menara MRCB in Putrajaya and SIDEC residential project in Perak. However, operating profit for the division dropped 26% YoY to RM50.1mil, as there was an asset disposal of NU Tower 2 which contributed a profit of RM31mil.
- We are encouraged by the positive performance at MRCB's property division. Its unbilled property sales stood at RM1.5bil as at end-1QFY17, compared to RM1.2bil at end-4Q16. It recorded 1QFY17 total property sales of RM513mil, and we believe it is on track to achieve its target of RM1.2bil of total property sales in FY17.
- MRCB's engineering, construction and environment division's operating profit rose 10% YoY to RM1.3mil on the back of a 1% YoY increase in revenue to RM231.2mil. The major contributor to revenue was mainly the refurbishment and upgrading of facilities works to the National Sports Complex in Bukit Jalil. Construction order book remained at RM7.0bil as at end-1QFY17, with a total unbilled portion of RM5.2bil.
- With its proposed rights issue recently, MRCB's net gearing will be reduced to 0.01x from 0.73x as at end-FY16. We believe the much stronger balance sheet would allow MRCB to undertake more projects that it has in its pipeline currently.
- We believe the outlook for MRCB in 2017 remains positive. Its LRT3 PDP project, a 50:50 joint venture with George Kent Sdn Bhd, is taking off with physical work commencing in 2Q17 and completion scheduled for 2020. We also expect further asset disposals this year, with the Eastern Dispersal Link Highway in Johor, Menara Celcom in PJ Sentral and Ascott Sentral in KL Sentral among the assets that are most likely to be disposed of.

## EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM m)	1QFY17	1QFY16	4QFY16	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>524.9</b>	<b>436.0</b>	<b>1,031.7</b>	<b>20.4</b>	<b>(49.1)</b>
<b>EBIT</b>	<b>65.6</b>	<b>64.6</b>	<b>273.0</b>	<b>1.6</b>	<b>(76.0)</b>
Finance costs	(35.2)	(46.7)	(42.8)	(24.7)	(17.9)
Share of profit from associates	(2.4)	0.4	7.2	(784.3)	(133.9)
Share of profit from JVs	1.3	0.4	1.3	190.2	2.0
Els/Others				#DIV/0!	
<b>Pre-tax profit</b>	<b>29.3</b>	<b>18.7</b>	<b>238.6</b>	<b>56.9</b>	<b>(87.7)</b>
Tax	(8.9)	(5.2)	(29.6)	70.6	(70.1)
Non-controlling interests	9.9	9.1	20.9	9.5	(52.5)
<b>Net Profit</b>	<b>10.5</b>	<b>4.4</b>	<b>188.1</b>	<b>138.6</b>	<b>(94.4)</b>
<b>Core Profit</b>	<b>10.5</b>	<b>4.4</b>	<b>188.1</b>	<b>138.6</b>	<b>(94.4)</b>
<i>EBIT Margin (%)</i>	12.5%	14.8%	26.5%		
<i>Pretax Margin (%)</i>	5.6%	4.3%	23.1%		
<i>Effective tax rate (%)</i>	29.1%	29.1%	12.9%		
<i>Core net Margin (%)</i>	2.0%	1.0%	18.2%		

Source: Company, AmlInvestment Bank Bhd

## EXHIBIT 2: RNAV CALCULATION

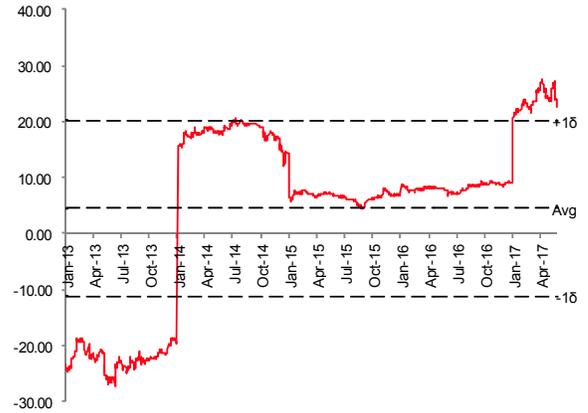
Divisions/Operations	Size (acres)	Value (RM) psf	mil	/share	Method	Effective stake (%)
<b>Landbank</b>						
Kota Kinabalu, Sabah	3	32	3.8	0.00	MV	100
Bandar Seri Iskandar	4,000	3	365.9	0.15	MV	70
<b>Development properties</b>						
Senawang Sentral			5.8	0.00	NPV @ 13%	100.0
St.Regis Service Residences (Lot C)			1.1	0.00	NPV @ 13%	30.0
Q Sentral (Lot B)			6.5	0.00	NPV @ 13%	66.0
Sentral Residences (Lot D)			12.9	0.01	NPV @ 13%	51.0
Lot F - Office Towers			250.3	0.11	NPV @ 13%	100.0
9 Seputeh, Old Klang Road			119.2	0.05	NPV @ 13%	100.0
Suria Subang, Subang Jaya			37.5	0.02	NPV @ 13%	100.0
Selborn 2, Shah Alam			17.0	0.01	NPV @ 13%	100.0
Lot 349, privatization agreement, Brickfields			138.8	0.06	NPV @ 13%	100.0
The Grid, Kia Peng			35.0	0.01	NPV @ 13%	100.0
Semarak City, Setapak			182.1	0.08	NPV @ 13%	100.0
3 Residences, Kajang			15.8	0.01	NPV @ 13%	100.0
Lot 2C4, Putrajaya			21.6	0.01	NPV @ 13%	70.0
PJ Sentral Phase 1			186.4	0.08	NPV @ 13%	100.0
MX-1, KWASA Damansara, Sg.Buloh			420.6	0.18	NPV @ 13%	70.0
Rahman Putra, Sg.Buloh			47.9	0.02	NPV @ 13%	100.0
German Embassy land, Jln Kia Peng			114.5	0.05	NPV @ 13%	100.0
Cyberjaya City Centre Phase 1, Cyberjaya			240.8	0.10	NPV @ 13%	70.0
KL Sports City land swap			563.4	0.24	NPV @ 13%	85.0
Batu Ferringghi land			33.2	0.01	NPV @ 13%	100.0
Penang Sentral			225.1	0.09	NPV @ 13%	100.0
Pulai Land			130.4	0.05	NPV @ 13%	100.0
Burwood			6.8	0.00	NPV @ 13%	100.0
Unbilled sales			112.0	0.05	NPV @ 13%	100.0
<b>Investment properties</b>						
Celcom-Axiata (Lot 8)		450,908	402.6	0.17	NOI@6.25%	100.0
Plaza Alam Sentral, Shah Alam		433,349	105.7	0.04	NOI@6.5%	100.0
Kompleks Sentral, Segambut Industrial Park		484,689	45.0	0.02	NOI@6.75%	100.0
Ascott Residences (1Lot 348)		143 rooms	114.4	0.05	RM0.8mil/room	100.0
St. Regis Hotel (Lot C)		208 rooms	62.4	0.03	RM1mil/room	30.0
<b>Expressways</b>						
Eastern Dispersal Link (EDL)			383.5	0.16	DCF @ 7%	100.0
<b>Construction &amp; Infrastructure</b>						
Construction			362.8	0.15	8x ave.FY16F net profit	
Facilities management			28.2	0.01	6x FY16F net profit	
<b>Listed-investments</b>						
MRCB-Quill REIT			224.8	0.09	Market Value	31.2
<b>Gross RNAV</b>			<b>5,454.8</b>	<b>2.39</b>		
Net debt			(1,815.4)	(0.76)	As at 31 December 2015	
Proceeds from ESOS/warrant conversions			1,343.4	0.57	Warrants exercise price: RM2.30	
<b>Total RNAV</b>			<b>4,982.8</b>	<b>2.19</b>		
FD no of shares			2,376.7			
<b>RNAV/share</b>			<b>2.10</b>			
<b>Fair Value (less: 10% discount)</b>			<b>1.89</b>			

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART



EXHIBIT 4: PE BAND CHART



## EXHIBIT 5: 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	-	-	-	-
<b>Pretax profit</b>	<b>370.1</b>	<b>392.6</b>	<b>216.7</b>	<b>229.9</b>	<b>316.4</b>
Taxation	(6.1)	(73.5)	(63.6)	(62.5)	(85.8)
Minorities/pref dividends	(33.6)	(51.7)	(38.0)	(17.4)	(31.7)
<b>Net profit</b>	<b>330.4</b>	<b>267.4</b>	<b>115.2</b>	<b>150.1</b>	<b>198.9</b>
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
<b>Total non-current assets</b>	<b>4,395.5</b>	<b>4,586.6</b>	<b>4,479.0</b>	<b>4,432.9</b>	<b>4,361.0</b>
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
<b>Total current assets</b>	<b>2,694.3</b>	<b>3,165.6</b>	<b>3,144.3</b>	<b>3,562.4</b>	<b>4,152.7</b>
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
<b>Total current liabilities</b>	<b>2,295.9</b>	<b>2,435.2</b>	<b>2,128.7</b>	<b>2,363.8</b>	<b>2,687.0</b>
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
<b>Total long-term liabilities</b>	<b>2,481.2</b>	<b>2,292.0</b>	<b>2,982.2</b>	<b>2,987.4</b>	<b>2,987.6</b>
<b>Shareholders' funds</b>	<b>2,260.1</b>	<b>2,925.8</b>	<b>2,404.1</b>	<b>2,518.4</b>	<b>2,681.6</b>
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)
<b>Cash flow from operations</b>	<b>140.4</b>	<b>(141.3)</b>	<b>(90.5)</b>	<b>(35.3)</b>	<b>51.2</b>
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	-	-	-
<b>Cash flow from investing</b>	<b>(409.3)</b>	<b>642.9</b>	<b>10.0</b>	<b>30.0</b>	<b>30.0</b>
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)	-	-	-
<b>Cash flow from financing</b>	<b>299.9</b>	<b>(248.1)</b>	<b>64.5</b>	<b>(15.5)</b>	<b>(20.5)</b>
<b>Net cash flow</b>	<b>31.0</b>	<b>253.5</b>	<b>(15.9)</b>	<b>(20.8)</b>	<b>60.7</b>
<b>Net cash/(debt) b/f</b>	<b>308.2</b>	<b>339.2</b>	<b>215.3</b>	<b>199.3</b>	<b>178.6</b>
<b>Net cash/(debt) c/f</b>	<b>339.2</b>	<b>592.8</b>	<b>199.3</b>	<b>178.6</b>	<b>239.3</b>
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, AmlInvestment Bank Bhd estimates

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