

**MRCB (HOLD ↔; EPS ↑)**
**INDUSTRY: OVERWEIGHT**
**EARNINGS EVALUATION / BRIEFING**
**1 December 2016**
**Price Target: RM1.37 (↑)**
**Share price: RM1.31**
**Strong quarterly recovery**
**Results**

- MRCB announced 3QFY16 results with revenue of RM551m (+42% QoQ, +47% YoY) and core earnings of RM29m. The latter was a stark improvement compared to RM1m in 2QFY16 (QoQ) and RM6m in 3QFY15 (YoY).
- Despite strong 3Q recovery, cumulative 9M core earnings of RM35m was still down -21% YoY due to a weak 1H.

**Deviation**

- 9M core earnings were above expectations, surpassing our full year forecast of RM25m by 40%. The surprise results were due to our earlier expectations that the weak 1H numbers would persist into 2H.
- Against consensus, 9M core earnings made up 36% but this could possibly be due to estimate distortions from ElS.

**Dividends**

- None declared.

**Highlights**

- Property performs well.** 9M property revenue increased +29% while EBIT was much stronger at +85% due to margin expansion (25.5% vs 17.8%). Key developments contributing were Sentral Residences, MRCB Putra, 9 Seputeh and PJ Sentral. Sales amounted to RM409m for the 9M period, declining from RM467m last year. Unbilled sales of RM1.4bn translates to a strong 2.4x cover on FY15 property revenue.
- Construction recovers.** The construction division staged a strong recovery in 3Q with EBIT of RM10m compared to breakeven levels in 1-2Q. This recovery was aided by the completion of Ampang LRT ext which plagued margins in 1H. MRCB has managed to bag RM1.2bn worth of new jobs YTD, bringing its orderbook to RM5.2bn, implying a strong cover of 6.7x on FY15 construction revenue.

**Risks**

- Inconsistency in quarterly core earnings delivery.

**Forecasts**

- In light of the stronger than expected earnings recovery, we raise FY16 earnings by 123% and FY17 by a lesser magnitude of 18% (FY18 unchanged).

**Rating**
**Maintain HOLD, TP: RM1.37**

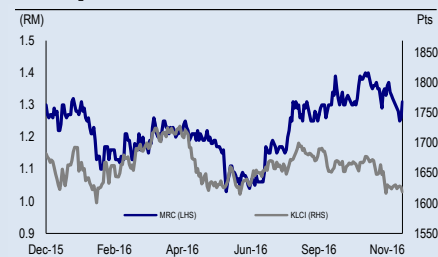
- Whilst there is certainly no lacking of catalytic projects that MRCB has in hand, the issue here as always, is about core earnings delivery. Despite the strong recovery posted in 3Q, we are holding our horses for a rating upgrade as we remain cautious on its core earnings consistency.

**Valuation**

- Following our earnings upgrade, our SOP based TP is revised upwards from RM1.23 to RM1.37. The implied P/E at our TP continues to remain expensive at 53x and 41x for FY16-17.

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|                             |        |
|-----------------------------|--------|
| KLCI                        | 1619.1 |
| Expected share price return | 4.6%   |
| Expected dividend return    | 0.0%   |
| Expected total return       | 4.6%   |

**Share price**

**Information**

|                          |        |
|--------------------------|--------|
| Bloomberg Ticker         | MRC MK |
| Bursa Code               | 1651   |
| Issued Shares (m)        | 2,144  |
| Market cap (RM m)        | 2,809  |
| 3-mth avg. volume ('000) | 2,774  |
| SC Shariah-compliant     | Yes    |

| Price Performance | 1M   | 3M  | 12M |
|-------------------|------|-----|-----|
| Absolute          | -3.7 | 2.3 | 0.8 |
| Relative          | -0.6 | 5.6 | 4.7 |

**Major shareholders**

|         |       |
|---------|-------|
| EPF     | 34.0% |
| Gapurna | 17.0% |
| LTH     | 8.5%  |

**Summary Earnings Table**

| FYE Dec (RM m)    | FY15  | FY16F | FY17F | FY18F |
|-------------------|-------|-------|-------|-------|
| Revenue           | 1,697 | 1,718 | 1,793 | 2,060 |
| EBITDA            | 209   | 240   | 229   | 246   |
| EBIT              | 178   | 207   | 191   | 205   |
| Profit Before Tax | 41    | 99    | 110   | 137   |
| Core PATAMI       | 1     | 56    | 71    | 91    |
| vs Consensus (%)  |       | (42)  | (37)  | (44)  |
| Core EPS (sen)    | 0.0   | 2.6   | 3.3   | 4.2   |
| P/E (x)           | n.m.  | 50.6  | 39.3  | 30.9  |
| Net DPS (sen)     | 2.1   | -     | 1.0   | 1.3   |
| Net DY (%)        | 1.6   | -     | 0.8   | 1.0   |
| BV per share      | 1.05  | 1.14  | 1.17  | 1.20  |
| P/B (x)           | 1.2   | 1.1   | 1.1   | 1.1   |
| ROE (%)           | 0.0   | 2.4   | 2.9   | 3.6   |
| Net Gearing (%)   | 126.8 | 104.4 | 104.4 | 104.2 |

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**Figure #1 Quarterly results comparison**

| FYE Dec (RM m)   | 3QFY15 | 2QFY16 | 3QFY16 | QoQ (%) | YoY (%) | Comments                                  |
|------------------|--------|--------|--------|---------|---------|---|
| Revenue          | 374.1  | 389.2  | 551.2  | 41.6    | 47.4    | Largely driven by property.               |
| EBIT             | 62.0   | 65.1   | 88.8   | 36.4    | 43.1    |   |
| Finance cost     | (44.5) | (44.4) | (42.0) | (5.5)   | (5.6)   |   |
| Associates       | 7.8    | 8.6    | 14.8   | 70.7    | 90.3    | Strong YoY and QoQ coming off a low base. |
| PBT              | 25.3   | 29.4   | 61.6   | 109.8   | 143.2   |   |
| PAT              | 7.8    | 12.7   | 39.6   | 212.5   | 408.1   |   |
| PATMI - core     | 5.6    | 1.1    | 29.4   | 2,562.5 | 421.4   |   |
| PATMI - reported | 5.6    | 45.5   | 29.4   | (35.4)  | 421.4   |   |
| EPS - core       | 0.3    | 0.1    | 1.4    |         |         |   |
| EBIT margin      | 16.6   | 16.7   | 16.1   |         |         |   |
| PBT margin       | 6.8    | 7.5    | 11.2   |         |         |   |

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**Figure #2 Cumulative results comparison**

| FYE Dec (RM m)   | 9MFY15  | 9MFY16  | YoY (%) | Comments   |
|------------------|---------|---------|---------|--|
| Revenue          | 1,308.5 | 1,376.4 | 5.2     | Stronger property more than offsets weaker construction. |
| EBIT             | 236.5   | 218.4   | (7.6)   |  |
| Finance cost     | (134.1) | (133.1) | (0.8)   |  |
| Associates & JVs | 8.1     | 24.2    | 199.7   | Still lower YoY due to weak 1H results.                  |
| PBT              | 110.4   | 109.5   | (0.8)   |  |
| PAT              | 70.7    | 65.6    | (7.2)   |  |
| PATMI - core     | 44.3    | 34.8    | (21.4)  |  |
| PATMI - reported | 303.6   | 79.2    | (73.9)  | Includes disposal gains.                                 |
| EPS - core       | 2.1     | 1.6     |         | Margins still lower as was dragged by 1H performance.    |
| EBIT margin      | 18.1    | 15.9    |         |  |
| PBT margin       | 8.4     | 8.0     |         |  |

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**Figure #3 SOP valuation for MRCB**

| Sum of Parts                          | RM m | PE (x) / WACC | Value to MRCB | FD Per Share |
|---------------------------------------|------|---------------|---------------|--------------|
| Construction - FY17 earnings          | 52   | 12            | 621           | 0.23         |
| LRT3 PDP fees - annual average        | 34   | 12            | 410           | 0.15         |
| Property development - NPV of profits |      | 12%           | 1,825         | 0.67         |
| Property investment - Book value      | 192  | 1.0           | 192           | 0.07         |
| Investment properties for disposal    | 731  | 1.0           | 731           | 0.27         |
| Eastern Dispersal Link - DCF          |      | 10%           | 523           | 0.19         |
| Stake in MRCB-Quill REIT at RM1.34 TP | 886  | 31%           | 276           | 0.10         |
| <b>Firm value</b>                     |      |               | <b>4,578</b>  | <b>1.68</b>  |
| Add: Cash proceeds from warrants      |      |               | 1,326         | 0.49         |
| Add: Cash proceeds from placement     |      |               | 393           | 0.14         |
| Less: Net debt                        |      |               | (1,645)       | (0.60)       |
| <b>Equity value</b>                   |      |               | <b>4,651</b>  | <b>1.71</b>  |
| Discount applied                      |      | 20%           | (930)         | (0.34)       |
| <b>Target price</b>                   |      |               | <b>3,721</b>  | <b>1.37</b>  |

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## Financial Projections for MRCB

### Balance Sheet

| FYE Dec (RM m)        | FY14         | FY15F        | FY16F        | FY17F        | FY18F        |
|-----------------------|--------------|--------------|--------------|--------------|--------------|
| Cash                  | 661          | 522          | 682          | 584          | 475          |
| Receivables           | 1,326        | 1,119        | 1,198        | 1,200        | 1,376        |
| Inventories           | 43           | 63           | 40           | 43           | 50           |
| PPE                   | 229          | 337          | 386          | 406          | 424          |
| Investment properties | 813          | 414          | 436          | 459          | 481          |
| Others                | 3,971        | 4,635        | 4,368        | 4,493        | 4,625        |
| <b>Assets</b>         | <b>7,042</b> | <b>7,090</b> | <b>7,111</b> | <b>7,186</b> | <b>7,432</b> |
| Debits                | 3,691        | 3,387        | 3,245        | 3,199        | 3,152        |
| Payables              | 1,115        | 1,178        | 1,170        | 1,240        | 1,466        |
| Others                | 172          | 212          | 168          | 168          | 168          |
| <b>Liabilities</b>    | <b>4,977</b> | <b>4,777</b> | <b>4,583</b> | <b>4,606</b> | <b>4,786</b> |
| Shareholder's equity  | 1,985        | 2,260        | 2,455        | 2,505        | 2,568        |
| Minority interest     | 79           | 53           | 74           | 75           | 77           |
| <b>Equity</b>         | <b>2,065</b> | <b>2,313</b> | <b>2,528</b> | <b>2,580</b> | <b>2,645</b> |

### Cash Flow Statement

| FYE Dec (RM m)              | FY14         | FY15F        | FY16F        | FY17F        | FY18F        |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Profit before taxation      | 122          | 41           | 99           | 110          | 137          |
| Depreciation & amortisation | 26           | 30           | 33           | 37           | 41           |
| Changes in working capital  | (605)        | 261          | (67)         | 65           | 43           |
| Taxation                    | (53)         | (6)          | (19)         | (17)         | (21)         |
| Others                      | 390          | (186)        | -            | -            | -            |
| <b>CFO</b>                  | <b>(120)</b> | <b>140</b>   | <b>46</b>    | <b>196</b>   | <b>200</b>   |
| Net capex                   | (97)         | (71)         | (75)         | (50)         | (50)         |
| Others                      | 161          | (338)        | 376          | (197)        | (191)        |
| <b>CFI</b>                  | <b>64</b>    | <b>(409)</b> | <b>301</b>   | <b>(247)</b> | <b>(241)</b> |
| Changes in borrowings       | 180          | (303)        | (142)        | (47)         | (47)         |
| Issuance of shares          | 185          | 30           | -            | -            | -            |
| Dividends paid              | (17)         | (45)         | (45)         | -            | (21)         |
| Others                      | (293)        | 617          | -            | -            | -            |
| <b>CFF</b>                  | <b>56</b>    | <b>300</b>   | <b>(187)</b> | <b>(47)</b>  | <b>(68)</b>  |
| <b>Net cash flow</b>        | <b>(0)</b>   | <b>31</b>    | <b>160</b>   | <b>(97)</b>  | <b>(109)</b> |
| Forex                       | -            | -            | -            | -            | -            |
| Others                      | 58           | (170)        | -            | -            | -            |
| Beginning cash              | 603          | 661          | 522          | 682          | 584          |
| Ending cash                 | 661          | 522          | 682          | 584          | 475          |

### Income Statement

| FYE Dec (RM m)           | FY14         | FY15F        | FY16F        | FY17F        | FY18F        |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Revenue</b>           | <b>1,515</b> | <b>1,697</b> | <b>1,718</b> | <b>1,793</b> | <b>2,060</b> |
| EBITDA                   | 305          | 209          | 240          | 229          | 246          |
| EBIT                     | 279          | 178          | 207          | 191          | 205          |
| Net finance cost         | (133)        | (146)        | (126)        | (122)        | (119)        |
| Associates & JV          | (24)         | 8            | 18           | 40           | 51           |
| <b>Profit before tax</b> | <b>122</b>   | <b>41</b>    | <b>99</b>    | <b>110</b>   | <b>137</b>   |
| Tax                      | (53)         | (6)          | (19)         | (17)         | (21)         |
| <b>Net profit</b>        | <b>69</b>    | <b>34</b>    | <b>79</b>    | <b>93</b>    | <b>117</b>   |
| Discontinued ops         | 16           | -            | -            | -            | -            |
| Minority interest        | (31)         | (34)         | (24)         | (22)         | (26)         |
| <b>PATMI (core)</b>      | <b>54</b>    | <b>1</b>     | <b>56</b>    | <b>71</b>    | <b>91</b>    |
| Exceptionals             | 99           | 330          | 139          | -            | -            |
| <b>PATMI (reported)</b>  | <b>153</b>   | <b>330</b>   | <b>195</b>   | <b>71</b>    | <b>91</b>    |

### Valuation & Ratios

| FYE Dec (RM m) | FY14   | FY15F   | FY16F  | FY17F  | FY18F  |
|----------------|--------|---------|--------|--------|--------|
| Core EPS (sen) | 2.5    | 0.0     | 2.6    | 3.3    | 4.2    |
| P/E (x)        | 52.1   | 3,359.7 | 50.6   | 39.3   | 30.9   |
| EV/EBITDA (x)  | 18.3   | 26.8    | 23.3   | 24.4   | 22.7   |
| DPS (sen)      | 2.1    | 2.1     | -      | 1.0    | 1.3    |
| Dividend yield | 1.6%   | 1.6%    | 0.0%   | 0.8%   | 1.0%   |
| BVPS (RM)      | 0.93   | 1.05    | 1.14   | 1.17   | 1.20   |
| P/B (x)        | 1.4    | 1.2     | 1.1    | 1.1    | 1.1    |
| EBITDA margin  | 20.2%  | 12.3%   | 14.0%  | 12.8%  | 11.9%  |
| EBIT margin    | 18.4%  | 10.5%   | 12.1%  | 10.7%  | 10.0%  |
| PBT margin     | 8.0%   | 2.4%    | 5.7%   | 6.1%   | 6.7%   |
| Net margin     | 3.6%   | 0.0%    | 3.2%   | 4.0%   | 4.4%   |
| ROE            | 2.9%   | 0.0%    | 2.4%   | 2.9%   | 3.6%   |
| ROA            | 0.8%   | 0.0%    | 0.8%   | 1.0%   | 1.2%   |
| Net gearing    | 152.6% | 126.8%  | 104.4% | 104.4% | 104.2% |

### Assumptions

| FYE Dec (RM m)    | FY14  | FY15F | FY16F | FY17F | FY18F |
|-------------------|-------|-------|-------|-------|-------|
| Contracts secured | 338   | 2,243 | 1,100 | 800   | 800   |
| Property sales    | 1,080 | 597   | 600   | 700   | 800   |

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## Equity rating definitions

|                     |  |
|---------------------|--|
| <b>BUY</b>          | Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.             |
| <b>TRADING BUY</b>  | Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity. |
| <b>HOLD</b>         | Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.          |
| <b>TRADING SELL</b> | Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity. |
| <b>SELL</b>         | Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.                                     |
| <b>NOT RATED</b>    | No research coverage and report is intended purely for informational purposes.   |

## Industry rating definitions

|                    |  |
|--------------------|--|
| <b>OVERWEIGHT</b>  | The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.    |
| <b>NEUTRAL</b>     | The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months. |
| <b>UNDERWEIGHT</b> | The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.    |