

MRCB (SELL ↓; EPS ↓)
INDUSTRY: OVERWEIGHT
EARNINGS EVALUATION / BRIEFING
28 February 2017
Price Target: RM1.25 (↓)
Share price: RM1.43
Core loss at the final quarter
Results

- MRCB announced 4QFY16 results with revenue of RM1bn (+87% QoQ, +166% YoY) and core loss of -RM12.2m (3QFY16: RM29.4m profit, 4QFY15: -RM43.2m loss). This brings full year FY16 core earnings to RM22.6m (vs an insignificant RM1.1m profit for FY15).

- While headline earnings for FY16 stood at RM268m, this was boosted by several disposal gains (EIs) which include Sooka Sentral (RM41.6m), Menara Shell (RM144.9m) and Kia Peng land (RM56.1m).

Deviation

- FY16 core earnings were below expectations at 41% of our forecast and 25% of consensus.
- The significant deviation largely stemmed from the core loss in 4Q which was likely due to the construction division.

Dividends

- Final dividend of 2.75 sen was declared (FY15: 2.5 sen).

Highlights

- Strong results but weak sales.** FY16 property revenue grew +84% YoY largely driven by developments such as Sentral Residences, 9 Seputeh and PJ Sentral. After excluding EIs, property division FY16 PBT increased +93% YoY. In terms of new property sales, after stripping off Menara Shell and the Putrajaya office (sold to SOCSO), this only amounted to RM192m (FY15: RM597m). Management is guiding for RM1.2bn for FY17 which we reckon is a tall order to achieve.
- Construction hit.** Despite FY16 construction revenue growing +11% YoY, PBT plunged -67%. PBT margin for FY16 was razor thin at 1.4% vs 4.6% in FY15. This was largely due to the recognition of full cost for variation order (VO) claims which was not offset by revenue.

Risks

- Inconsistency in quarterly core earnings delivery.

Forecasts

- Given the weak results, we cut our FY17-18 earnings forecast by 10% and 8% respectively after imputing lower construction margins and higher unallocated costs.

Rating
Downgrade to SELL, TP: RM1.25

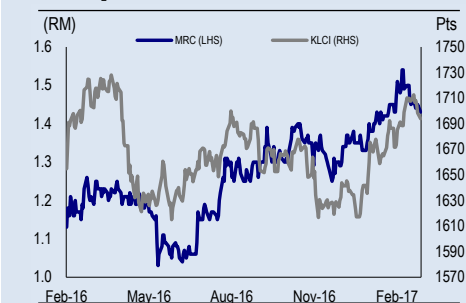
- Whilst there is certainly no lacking of catalytic projects that MRCB has in hand, the issue here as always, is about core earnings delivery. This is the 3rd consecutive year that MRCB has recorded a core loss in 4Q.

Valuation

- Following our earnings cut, our SOP based TP is reduced from RM1.37 to RM1.25. This implies an expensive FY17-18 P/E of 42x and 32x respectively.

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KLCI	1,693.8
Expected share price return	-12.6%
Expected dividend return	0.6%
Expected total return	-12.0%

Share price

Information

Bloomberg Ticker	MRCB MK
Bursa Code	1651
Issued Shares (m)	2,147
Market cap (RM m)	3,070
3-mth avg. volume ('000)	2,256
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	0.0	9.2	26.5
Relative	-1.3	4.3	23.6

Major shareholders

EPF	34.0%
Gapurna	17.0%
Lembaga Tabung Haji	8.3%

Summary Earnings Table

FYE Dec (RM m)	FY15	FY16	FY17F	FY18F
Revenue	1,697	2,408	1,793	2,060
EBITDA	209	324	215	232
EBIT	178	290	178	191
Profit Before Tax	41	147	96	123
Core PATAMI	1	23	64	83
vs Consensus (%)		(40)	(43)	(45)
Core EPS (sen)	0.0	1.1	3.0	3.9
P/E (x)	n.m.	135.7	47.9	36.8
Net DPS (sen)	2.5	2.8	0.9	1.2
Net DY (%)	1.7	1.9	0.6	0.8
BV per share	1.05	1.36	1.16	1.19
P/B (x)	1.4	1.0	1.2	1.2
ROE (%)	0.0	0.9	2.4	3.3
Net Gearing (%)	126.8	75.7	104.8	105.1

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Figure #1 Quarterly results comparison

FYE Dec (RM m)	4QFY15	3QFY16	4QFY16	QoQ (%)	YoY (%)	Comments
Revenue	388.2	551.2	1,031.7	87.2	165.8	Driven by both construction and property.
EBIT	(18.7)	88.8	72.0	(18.9)	n.m.	
Finance cost	(50.7)	(42.0)	(42.8)	2.1	(15.5)	Lower finance cost following de-gearing efforts.
Associates	(0.2)	14.8	8.5	(42.7)	n.m.	
PBT	(69.6)	61.6	37.6	(38.9)	(154.0)	
PAT	(36.0)	39.6	8.0	(79.8)	(122.2)	
PATMI - core	(43.2)	29.4	(12.2)	(141.5)	(71.8)	After removing disposal gains.
PATMI - reported	26.9	29.4	188.8	542.3	602.1	Includes disposal gains on Menara Shell and Kia Peng land.
EPS - core	(2.0)	1.4	(0.6)			
EBIT margin	(4.8)	16.1	7.0			
PBT margin	(17.9)	11.2	3.6			

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Figure #2 Cumulative results comparison

FYE Dec (RM m)	12MFY15	12MFY16	YoY (%)	Comments
Revenue	1,696.7	2,408.1	41.9	Higher construction and property.
EBIT	217.8	290.4	33.4	
Finance cost	(184.8)	(175.9)	(4.8)	
Associates & JVs	7.9	32.7	314.4	
PBT	40.8	147.2	260.6	
PAT	34.7	73.6	112.0	
PATMI - core	1.1	22.6	n.m.	Made up 41% of full year forecast.
PATMI - reported	330.5	268.0	(18.9)	Includes disposal gains on Sooka Sentral, Menara Shell and Kia Peng land.
EPS - core	0.1	1.1		
EBIT margin	12.8	12.1		
PBT margin	2.4	6.1		

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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	41	12	496	0.18
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
Firm value			4,453	1.64
Add: Cash proceeds from warrants			1,326	0.49
Add: Cash proceeds from placement			393	0.14
Less: Net debt			(1,645)	(0.60)
Equity value			4,527	1.66
Discount applied		25%	(1,132)	(0.42)
Target price			3,395	1.25

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

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