

20 Nov 2017

Buy

Price
RM0.98

Target Price
RM1.26

Bloomberg code
MRC MK

Equity | Malaysia | Property

Flashnote

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MRCB

Sequential pick-up

Financial Highlights

FYE Dec	2015	2016	2017F	2018F	2019F
Revenue (RMm)	1,697	2,408	2,449	2,334	2,556
Core net profit (RMm)	1	75	61	132	185
Core EPS (Sen)	1.7	4.2	2.2	3.5	4.2
EPS growth (%)	9.8	>100	(47.7)	58.2	19.8
DPS (Sen)	2.5	2.8	2.0	3.0	3.0
Core PE (x)	58.3	24.9	44.2	27.9	23.3
Div yield (%)	2.5	2.6	2.1	3.1	3.1
ROE (%)	15.6	10.3	1.7	2.8	3.9
Net Gearing (%)	127.2	75.7	9.9	18.5	24.8
PBV(x)	0.8	0.8	0.9	0.9	0.9

Source: Company, KAF

- We maintain our BUY rating on MRCB with an unchanged TP of RM1.26 (15% discount to NAV). MRCB delivered 3Q17 core net profits of RM28m, representing a sequential jump of 46% QoQ. The big improvement to earnings largely came from a pick-up in construction and property profits.
- The construction division benefited from higher progress billings (+96% YoY), particularly with the completion of the National Sports Centre project. Construction margins nudged up slightly from 3% in 2Q17 to 3.4% in 3Q17. The property division's earnings rose 123% QoQ, aided by a 6.6pts increase in margins QoQ to 18.8% following the completion of Sentral Residences in 1Q17 and better progress at MRCB Putra.
- MRCB's added RM468m worth of new contracts ytd, bringing its outstanding orderbook to RM5.3b. The LRT 3 project contributed PDP fees of RM7m for the 9M17 period, and should accelerate in the coming months, as most of the major works packages have already been awarded.
- Ytd, MRCB has almost matched its FY17F new property sales target of RM1.2b. The Sentral Suites project contributed c.70% of sales, with take-ups for the first two blocks (official launch: January 2017) reaching 65% and 73%, respectively. The pre-marketing campaign for TRIA, the latest residential block at its 9 Seputeh development, has commenced ahead of its official launch in March next year.
- We understand development orders for planned projects under MRCB's existing landbank are already in place. Hence, the group would not likely be impacted by the Federal Government's directive for an indefinite freeze on future developments of high-end condos (priced above RM1m), retail malls and commercial projects.
- MRCB's net gearing position stood at 110% as of 30 September, although this should come down significantly by 4Q once proceeds from the rights issue flow through.
- The government's recent decision to abolish toll collection (announced during the Budget 2018) provides renewed hope for MRCB to reignite its divestment plans for EDL, in our view. EDL has been a drag to MRCB's earnings, and constitutes ~30% of its total debt as of 30 September, per our estimates.
- The EDL concession (net of debt) contributes c.RM0.01 or less than 1% of group NAV. But, any imminent disposal would significantly improve MRCB's balance sheet strength, and may turn the company into a net cash position vs our projected net gearing ratio of 9.9% for 2017F. At the same time, it would also help plug the associated earnings leakages. The potential injection of Menara Celcom into MRCB-Quill REIT (MQ REIT MK, RM1.26, Buy) is still at a preliminary stage, and will like flow through in 2018.

- Moving into FY18F, we expect MRCB's core net profit to improve to RM132m vs an estimated RM61m in FY17F, albeit from a low base. Forward ROE's are still relatively low at <2%. More earnings support should come from the LRT 3 project, for which a bulk of the major civil contracts has already been awarded ahead of its scheduled completion by August 2020.
- Having recently completed its massive rights issue, a key overhang for the stock has been removed. Nevertheless, with a re-capitalized balance sheet, investors will likely re-focus on how management extracts value from its property landbank, which are NAV-accretive.
- This should start with the roll-out of KL Sports City, one of several prime, transit-oriented developments (TOD). Other TOD projects that are waiting in the wings include PJ Sentral, Kwasa Sentral, Penang Sentral and Cyber City Center. As with the planned disposal of EDL, the litmus test is on its execution.

Exhibit 1 : Quarterly results

YE 31 Dec (RM m)	9M16	9M17	% YoY	2Q17	3Q17	% QoQ
Turnover	1376.4	2415.5	75.5	756.5	1134.1	49.9
EBIT	211.0	194.3	(7.9)	55.5	81.5	47.0
Interest Expense	(133.1)	(114.0)		(37.4)	(41.4)	
Interest Income	7.5	15.7		5.1	3.6	
Pre-Exceptionals Profit	85.4	96.0		23.2	43.7	
Exceptionals	44.4	5.5		3.8	0.0	
Pre-Associates/JV Profit	129.8	101.5		27.0	43.7	
Associates/JVs	24.2	14.2		6.8	8.6	
Pretax Profit	154.0	115.8	(24.8)	33.8	52.3	54.8
Taxation	(43.9)	(38.8)		(8.1)	(21.8)	
Minority Interest/disct. ops	(30.8)	(15.0)		(2.7)	(2.4)	
Net Profit	79.3	61.9	(21.9)	23.0	28.1	22.1
Core Net Profit	34.9	56.4	61.8	19.2	28.1	46.3
Core EPS (sen)	1.9	2.6		0.9	1.3	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	1.28	1.37		1.38	1.37	
EBIT Margin (%)	15.3	8.0		7.3	7.2	
Pretax Margin (%)	11.2	4.8		4.5	4.6	
Effective Tax (%)	28.5	33.5		24.0	41.7	
Segmental Breakdown (RM m)						
Turnover						
Construction	479.5	1614.4	236.7	467.6	915.5	95.8
Property development & investment	730.7	660.7	(9.6)	243.9	174.3	(28.5)
Infrastructure & environmental	85.4	86.1	0.8	28.6	29.0	1.5
Facilities management & parking	52.5	42.0	(19.9)	12.7	12.4	(2.3)
Investment holding & Others	28.4	12.3	(56.9)	3.7	2.9	(21.2)
Total	1376.4	2415.5	75.5	756.5	1134.1	49.9
EBIT						
Construction	10.0	46.5	n/m	14.0	31.3	n/m
Property development & investment	228.2	112.5	(50.7)	29.7	32.7	10.2
Infrastructure & environmental	46.4	41.7	(10.1)	11.5	12.7	10.3
Facilities management & parking	12.5	11.2	(10.4)	7.1	0.3	(95.3)
Investment holding & Others	(76.1)	28.9	n/m	7.2	35.8	n/m
Total	211.0	194.3	(7.9)	55.5	81.5	47.0
EBIT margin (%)						
Construction	2.1	2.9		3.0	3.4	
Property development & investment	31.2	17.0		12.2	18.8	
Infrastructure & environmental	54.3	48.5		40.4	43.9	
Facilities management & parking	23.8	26.6		55.7	2.7	
Investment holding & Others	n/m	n/m		n/m	n/m	
Total	15.3	8.0		7.3	7.2	

Source: Company, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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