

01 December 2016

Buy

Price
RM1.31

Target price
RM1.60

Bloomberg Code
MRC MK

Equity | Malaysia | Construction

Flashnote

Analyst

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MRCB

Operational improvements continue

Financial Highlights

FYE Dec (RMm)	2014	2015	2016F	2017F	2018F
Revenue	1,514.8	1,696.7	1,629.1	2,382.5	2,578.7
Core net profit	16.5	1.0	10.7	63.8	145.7
Core EPS (sen)	1.6	1.7	1.9	3.9	7.0
Core EPS growth (%)	n/m	9.8	10.0	104.0	78.6
DPS (sen)	2.5	2.5	2.0	2.0	2.0
Net gearing (%)	152.6	127.2	72.7	121.1	115.1
Core PE (x)	98.4	78.8	68.6	33.6	18.8
ROE (%)	8.3	15.6	7.8	2.3	5.2
Yield (%)	1.6	1.8	1.5	1.5	1.5
PBV (x)	1.4	1.1	1.0	1.0	1.0

Source: Company, KAF

* Price as at 30 November 2016

- We maintain our BUY rating on MRCB with an unchanged TP of RM1.60 (35% discount to its NAV). MRCB reported stronger core 3Q16 numbers with net profit expanding to RM29m from only RM1m in 2Q16. The sequential gains were largely driven by higher property billings for ongoing projects (+140% QoQ). Key property projects that contributed to this are the Sentral Residences, MRCB Putra, 9 Seputeh and PJ Sentral.
- Contributions from the construction division remained muted. The LRT extension project was completed in 2Q16, while newly-secured projects were still at the early stages of implementation. Positively, we do not expect any major risks for large provisions for its ongoing jobs.
- MRCB's outstanding orderbook stands at a healthy RM5.2b, with an active tenderbook of RM8.7b. We expect more construction wins to emerge as the group leverages on its newly-minted status as a Bumiputera-controlled plc. We also expect more recognition from its PDP-based contracts in the months to come.
- MRCB has started recognizing some small profits from the LRT 3 project. It secured the greenlight to implement the PDP infrastructure contract for the Kwasa Damansara project (provisional fee: RM113m), after it was approved during yesterday's EGM.
- The Sentral Suites, soft-launched in 3Q16, received an encouraging response with 80% bookings for Tower 1 (458 units), and 45% for Tower 3 (518 units). The residential project is set for an official launch next month, and will help underpin the group's new sales target of RM1b for FY16F (3Q16 new sales: RM409m). Its unbilled sales stood at RM1.4b.
- MRCB's de-leveraging efforts are gaining traction. As of 30 September, its net gearing position has improved slightly to 100% vs 109% in 2Q16 (FY15: 127%). Earlier this month, MRCB struck an agreement with MRT Corp to dispose a piece of land along Jln. Kia Peng for RM180m. The entire disposal exercise should be wrapped up year-end (net gain: ~RM38m). We also expect the disposal of Menara Shell to MQREIT (MQREIT MK, Buy, TP=RM1.45) to be concluded by 1Q16, raising RM640m in the process.
- However, all eyes will be on MRCB's ability to divest its 100% stake in the EDL concession. Such a move will help MRCB pare down c.RM1.2b in concession borrowings (~35% of the group's debts), and plug EDL's earnings leakages (9M16 losses: ~RM23m). This could be followed by the monetization of Menara Celcom and Ascott Sentral, possibly by next year.

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Important disclosures can be found in the Disclosure Appendix

Table 1 : Quarterly results

YE 31 Dec (RM m)	9M15	9M16	% YoY	2Q16	3Q16	% QoQ
Turnover	1,308.5	1,376.4	5.2	389.2	551.2	41.6
EBIT	207.1	211.0	1.9	58.6	85.9	46.7
Interest Expense	(134.1)	(133.1)		(41.5)	(42.0)	
Interest Income	29.4	7.5		2.2	2.9	
Pre-Exceptionals Profit	102.4	85.4		19.3	46.8	
Exceptionals	259.3	44.4		44.4	0.0	
Pre-Associates/JV Profit	361.7	129.8		63.7	46.8	
Associates/JVs	8.1	24.2		10.0	14.8	
Pretax Profit	369.7	154.0	(58.3)	73.8	61.6	(16.5)
Taxation	(44.3)	(43.9)		(16.7)	(22.0)	
Minority Interest/disc. ops	(21.8)	(30.8)		(11.6)	(10.2)	
Net Profit	303.6	79.3	(73.9)	45.5	29.4	(35.4)
Core Net Profit	44.3	34.9	(21.3)	1.1	29.4	n/m
Core EPS (sen)	2.5	1.9		0.1	1.5	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	1.27	1.28		1.28	1.28	
EBIT Margin (%)	15.8	15.3		15.0	15.6	
Pretax Margin (%)	28.3	11.2		19.0	11.2	
Effective Tax (%)	12.0	28.5		22.6	35.7	
Segmental Breakdown (RM m)						
Turnover						
Construction	595.2	479.5	(19.4)	179.7	146.9	(18.3)
Property development & investment	567.0	730.7	28.9	147.7	353.9	139.6
Infrastructure & environmental	86.4	85.4	(1.1)	29.1	28.2	(3.0)
Facilities management & parking	54.7	52.5	(4.1)	19.2	15.3	(20.6)
Investment holding & Others	5.3	28.4	439.9	13.5	7.0	(48.3)
Total	1,308.5	1,376.4	5.2	389.2	551.2	41.6
EBIT						
Construction	79.4	10.0	(87.4)	1.8	7.0	283.5
Property development & investment	100.9	228.2	126.2	90.4	70.5	(22.1)
Infrastructure & environmental	44.2	46.4	5.0	19.5	13.7	(29.7)
Facilities management & parking	2.8	12.5	n/m	4.6	0.4	(90.5)
Investment holding & Others	(20.2)	(76.1)	n/m	(54.9)	1.3	n/m
Total	207.1	211.0	1.9	58.6	85.9	46.7
EBIT margins (%)						
Construction	13.3	2.1		1.0	4.8	
Property development & investment	17.8	31.2		61.2	19.9	
Infrastructure & environmental	51.2	54.3		67.2	48.7	
Facilities management & parking	5.1	23.8		24.0	2.9	
Investment holding & Others	n/m	n/m		n/m	n/m	
Total	15.8	15.3		15.0	15.6	

Source: Bursa Malaysia

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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