

MRCB (HOLD ↔; EPS ↓)
INDUSTRY: OVERWEIGHT
EARNINGS EVALUATION / BRIEFING
1 June 2016
Price Target: RM1.22 (↓)
Share price: RM1.16
Dented at the start
Results

- MRCB reported 1QFY16 results with revenue of RM436m (+8% YoY, +12% QoQ) and core earnings of RM4m (-75% YoY, 4QFY15: -RM43m loss).
- Included in the quarter's results was RM31m in "agency fee" earned from the disposal of NU Tower 2. Had this not been the case, MRCB would have slipped into the red.
- MI was exceptionally high, estimated at 2.6x its subsidiary income, which we reckon was due to the previously mentioned "agency fee" (i.e. not wholly earned).

Deviation

- Needless to say, 1Q results were a disappointment with core earnings at only 5% of our full year estimate (6% of consensus).
- While revenue was inline at 26% of our full year forecast, the disappointment largely stemmed from razor thin construction margins with EBIT level at 0.5% (1QFY15: 1.6%, 4QFY15: 4.6%). Management explained that this was due to variation orders (VOs) being executed for the LRT extension.

Dividends

- None declared.

Highlights

- Weak sales figures.** Property sales amounted to RM142m during the quarter, down 43% YoY. Management is targeting to achieve RM1bn in sales this year (FY15: RM597m) which is certainly a tall order in our view. In view of the soft property market, our assumption remains conservative at RM500m. Its unbilled sales of RM1.5bn translate to a cover of 2x on FY15 property revenue.
- Strong contract wins.** MRCB's job wins have been strong YTD at RM813m (including the Kwasa Damansara PDP role at RM112m). Its orderbook currently stands at RM2.2bn, translating to a healthy cover ratio of 2.8x on FY15 construction revenue. Management shared that it has tendered for RM8bn worth of jobs.

Risks

- Inconsistency in core earnings delivery from quarter to quarter.

Forecasts

- We cut FY16-17 earnings forecasts by 28% and 24% as we impute lower construction margins and higher operating expense.

Rating
Maintain HOLD, TP: RM1.22

- Whilst there is certainly no lacking of catalytic projects that MRCB has in hand, consistency in its core earnings delivery remains the key issue.

Valuation

- Despite the earnings cut, our TP is only reduced slightly from RM1.32 to RM1.22 as the bulk of our SOP valuation comes from the longer term NPV of its property developments.
- Our TP implies a rather pricey FY16-17 P/E of 35x and 26x respectively.

Jeremy Goh, CFA
pwgoh@hlib.hongleong.com.my
(603) 2168 1138

KLCI	1626.0
Expected share price return	4.9%
Expected dividend return	0.8%
Expected total return	5.7%

Share price

Information

Bloomberg Ticker	MRC MK
Bursa Code	1651
Issued Shares (m)	1,887
Market cap (RM m)	2,188
3-mth avg. volume ('000)	1,509
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	27.3	36.3	22.2
Relative	-1.8	4.0	-1.5

Major shareholders

EPF	37.9%
Gapurna	18.9%
Lembaga Tabung Haji	9.6%

Summary Earnings Table

FYE Dec (RM m)	FY14	FY15	FY16F	FY17F
Revenue	1,515	1,697	1,686	1,873
EBITDA	305	267	220	262
EBIT	279	218	189	229
Profit Before Tax	122	41	101	144
Core PATAMI	54	1	63	85
vs Consensus (%)			(17)	(16)
Core EPS (sen)	3.0	0.1	3.5	4.8
P/E (x)	38.4	n.m.	33.0	24.3
Net DPS (sen)	2.5	2.5	0.9	1.2
Net DY (%)	2.2	2.2	0.8	1.0
BV per share	1.11	1.27	1.16	1.20
P/B (x)	1.0	0.9	1.0	1.0
ROE (%)	2.9	0.1	2.9	4.0
Net Gearing (%)	153	118	150	157

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Figure #1 Quarterly results comparison

FYE Dec (RM m)	1QFY16	1QFY15	4QFY15	YoY (%)	QoQ (%)	Comments
Revenue	436.0	404.2	388.2	7.9	12.3	Higher YoY and QoQ which was largely driven by the construction division.
EBIT	64.5	77.9	(18.7)	(17.2)	n.m.	EBIT lower YoY due to VO's for the LRT extension job.
Finance cost	(46.7)	(45.4)	(50.7)	3.0	(7.9)	
Associates	0.8	(0.6)	(0.2)	(236.8)	n.m.	
PBT	18.6	32.0	(69.6)	(41.8)	n.m.	
PAT	13.4	28.3	(36.0)	(52.6)	n.m.	
PATMI - core	4.3	17.4	(43.2)	(75.1)	n.m.	1Q only made up 5% of our full year forecast.
PATMI - reported	4.3	237.9	26.9	(98.2)	n.m.	Reported earnings was high last year due to disposal of Plaza Sentral (RM221m disposal gain).
EPS - core	0.2	1.0	(2.4)			
EBIT margin	14.8	19.3	(4.8)			As explained above.
PBT margin	4.3	7.9	(17.9)			

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Figure #2 SOP valuation for MRCB

Sum of Parts	RM m	PE (x) / WACC	Value to MRCB	FD Per Share
Construction - FY16 earnings	26	15	385	0.14
Property development - NPV of profits		10%	1,708	0.63
Property investment - Book value	683	1.0	683	0.25
Eastern Dispersal Link - FCFE		10%	581	0.21
Stake in MRCB-Quill REIT at RM1.24 TP	820	31%	256	0.09
Firm value			3,612	1.33
Add: Cash proceeds from warrants			1,326	0.49
Add: Cash proceeds from placement			443	0.16
Less: Net debt (ex Sukuk)			(1,702)	(0.63)
Equity value			3,679	1.35
Discount applied		10%	(368)	(0.14)
Target price			3,311	1.22

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 Level 23, Menara HLA
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 50450 Kuala Lumpur
 Tel 603 2168 1168 / 603 2710 1168
 Fax 603 2161 3880

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