

Equities



MALAYSIA

MRC MK Outperform

Price (at 08:44, 30 Nov 2016 GMT) RM1.31

Valuation	RM	1.85
- DCF (WACC 8.1%, beta 1.1, ERP 6.5%, RFR 4.5%)		
12-month target	RM	1.85
Upside/Downside	%	+41.2
12-month TSR	%	+43.1
Volatility Index		Medium
GICS sector		Capital Goods
Market cap	RMm	2,809
Market cap	US\$m	629
30-day avg turnover	US\$m	0.5
Number shares on issue	m	2,144

Investment fundamentals

Year end 31 Dec		2015A	2016E	2017E	2018E
Revenue	m	1,696.7	1,751.9	1,946.4	2,132.6
EBITDA	m	242.3	343.3	398.0	455.9
EBITDA growth	%	-17.6	41.7	15.9	14.6
EBIT	m	178.2	276.6	322.2	367.9
EBIT growth	%	-26.2	55.2	16.5	14.2
Reported profit	m	330.4	118.7	138.4	179.2
Adjusted profit	m	0.8	74.3	138.4	179.2
EPS rep	sen	17.3	6.1	6.0	7.8
EPS rep growth	%	161.0	-65.0	-1.5	31.0
EPS adj	sen	0.0	3.8	6.0	7.8
EPS adj growth	%	-95.2	8,577.5	57.3	30.9
PER rep	x	7.6	21.6	21.9	16.7
PER adj	x	2,994.6	34.5	21.9	16.8
Total DPS	sen	2.5	2.5	2.5	2.5
Total DPS growth	%	0.0	0.0	0.0	0.0
Total div yield	%	1.9	1.9	1.9	1.9
ROA	%	2.5	4.0	4.5	4.8
ROE	%	0.0	3.0	5.0	6.2
EV/EBITDA	x	22.3	15.1	14.0	12.3
Net debt/equity	%	124.2	78.1	82.5	81.0
P/BV	x	1.4	1.2	1.3	1.2

MRC MK rel KLCI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, November 2016
(all figures in MYR unless noted)

Analyst(s)

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1 December 2016

Macquarie Capital Securities (Malaysia) Sdn. Bhd.

MRCB

Major earnings lift possible in 4Q16

Event

- MRCB reported its 3Q16 results on 30 November 2016.
- MRCB's cumulative 9M16 rep. PAT registered at RM79mn (-74% y/y); this is 67% of Macquarie's FY16E estimates and 72% of consensus FY16E forecasts. On the quarterly results, 3Q16 rep. PAT jumped 564% y/y to RM29mn due to the rise in revenue by 47% y/y to RM551mn. Earnings were weaker in 9M16 due to the RM279mn gain recorded from MRCB's asset disposal program in 9M15.

Impact

- Property division to lift earnings in 4Q16.** MRCB's shareholders approved the resolution to dispose the Menara Shell at RM640mn, during an EGM, which took place today. MRCB expects the disposal to bring RM89mn gain for MRCB in FY16E. Menara Shell will be sold to MRCB's REIT arm – MRCB-Quill REIT, paid in cash and REIT units. Recall that MRCB has also [agreed to sell](#) its land plot in the KLCC vicinity called The Grid to MRT Corp in a deal worth RM180mn. The land disposal is estimated to bring after-tax gain of RM38.1mn to MRCB. These disposals should lift MRCB's consolidated earnings in 4Q16.
- Property division exceeded MRCB's FY16E sales target.** In light of the proposed sale of Menara Shell, MRCB's YTD property sales registered at RM1.17bn, exceeding its RM1bn FY16E sales target. Its unbilled sales stood at RM1.4bn and MRCB is planning to launch two more property projects in December 2016 – Kalista in Bukit Rahman Putra and Sentral Suites, carrying a combined GDV of RM1.35bn. Based on the soft launches of these projects, Kalista and Sentral Suites have had 50% and 45% bookings, respectively.
- Construction division showed signs of life with margin expansion.** EBIT margin for the construction division expanded to 4.8% in 3Q16 vs. 1.8% in 2Q16 as MRCB begins to recognize the value of its orderbook, which currently stands at RM5.2bn. YTD earnings for this division were weaker due to the loss recognition from the LRT2 project. Going forward we expect margins to expand further as MRCB moves on from the loss-making legacy projects inherited from the previous management.

Earnings and target price revision

- No change.

Price catalyst

- 12-month price target: RM1.85 based on a Sum of Parts methodology.
- Catalyst: new order wins for MRCB's construction and engineering division

Action and recommendation

- MRCB is our top pick in the Malaysian property sector, as we believe its transport-oriented development (TOD) projects will bode well with the completion of the upcoming mega infra projects in Malaysia, and hence will generate strong take-up rates. MRCB is also one of our top picks in the [ASEAN Emerging Leaders](#) – Macquarie's top picks in the ASEAN small mid cap (SMID) coverage. Maintain Outperform.

Analysis

Fig 1 Breakdown of 3Q16 results

RM 'mil	Quarterly					Cumulative		
	3Q16	3Q15	YoY (%)	2Q16	QoQ (%)	9M16	9M15	YoY (%)
Revenue	551	374	47.4%	389	41.6%	1,376	1,309	5.2%
EBIT	86	55	56.3%	107	-19.9%	255	466	-45.2%
Interest income	3	7	-59.3%	2	28.3%	7	29	-74.5%
Finance costs	-42	-44	5.6%	-44	5.5%	-133	-134	0.8%
Associates and JV	15	8	90.3%	9	70.7%	24	8	199.7%
Pre-tax income	62	25	143.2%	74	-16.5%	154	370	-58.3%
Net Profit*	29	4	564.3%	46	-35.4%	79	299	-73.5%
EPS (sen)*	1.5	0.3	496.0%	2.5	-39.9%	4.2	16.8	-74.8%

Segmental Analysis

Revenue

Property	354	89	296.3%	224	58.0%	731	567	28.9%
Construction	147	234	-37.2%	103	41.9%	479	595	-19.4%
Infrastructure	28	29	-2.1%	29	-3.0%	85	86	-1.1%
Facilities Management	15	18	-17.1%	19	-20.6%	52	55	-4.1%
Others	7	4	97.7%	13	-48.3%	28	5	439.9%
Total	551	374	47.4%	389	42%	1,376	1,309	5.2%

EBIT

Property	70	8	838.8%	90	-22.1%	228	360	-36.6%
Construction	7	50	-85.9%	2	283.5%	10	79	-87.4%
Infrastructure	14	12	11.6%	20	-29.7%	46	44	5.0%
Facilities Management	0	0	121.2%	5	-90.5%	12	3	346.2%
Others	-2	-15	89.8%	-1	-23.7%	-20	-20	1.1%
Unallocated corporate expenses	-4	0	nmf	-8	46.6%	-22	0	nmf
Total	86	55	56.3%	107	-20%	255	466	-45.2%

Margins (%)

			Difference		Difference			Difference
EBIT	15.6%	14.7%	0.9%	27.6%	-12.0%	18.6%	35.6%	-17.1%
PBT	11.2%	6.8%	4.4%	19.0%	-7.8%	11.2%	28.3%	-17.1%
PAT	5.3%	1.2%	4.1%	11.7%	-6.4%	5.8%	22.8%	-17.1%

Segmental EBIT margins (%)

			Difference		Difference			Difference
Property	19.9%	8.4%	11.5%	40.4%	-20.5%	31.2%	63.5%	-32.3%
Construction	4.8%	21.2%	-16.5%	1.8%	3.0%	2.1%	13.3%	-11.3%
Infrastructure	48.7%	42.7%	6.0%	67.2%	-18.5%	54.3%	51.2%	3.1%
Facilities Management	2.9%	1.1%	1.8%	24.0%	-21.2%	23.8%	5.1%	18.7%

*FY15 net profit and EPS figures are only based on profit from continuing operations

Source: Company data, Macquarie Research, December 2016

Fig 2 Results tracking

RM 'mil	Macquarie		Actual	% of FY16E	Consensus	Actual	% of FY16E	Macquarie	Consensus	Difference
Revenue	1,752	1,376	78.6%		1,745	1,376	78.9%	1,752	1,745	0.4%
EBIT	277	255	92.3%		274	255	93.3%	277	274	1.1%
Rep. PAT	119	79	66.8%		110	79	72.3%	119	110	8.2%

Source: Company data, Bloomberg, Macquarie Research, December 2016

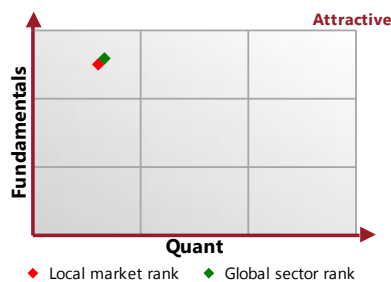
Macquarie Quant View

The quant model currently holds a reasonably negative view on MRCB. The strongest style exposure is Earnings Momentum, indicating this stock has received earnings upgrades and is well liked by sell side analysts. The weakest style exposure is Valuations, indicating this stock is over-priced in the market relative to its peers.

1482/1899

Global rank in
Capital Goods

% of BUY recommendations 50% (4/8)
Number of Price Target downgrades 0
Number of Price Target upgrades 0

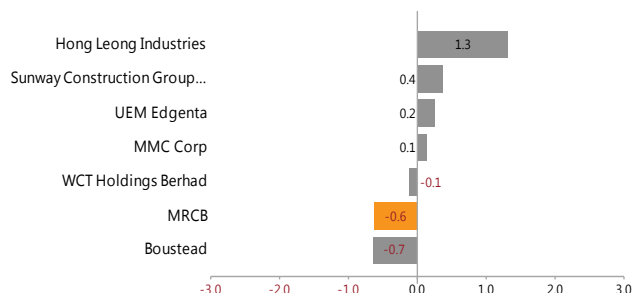


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (Malaysia) and Global sector (Capital Goods)

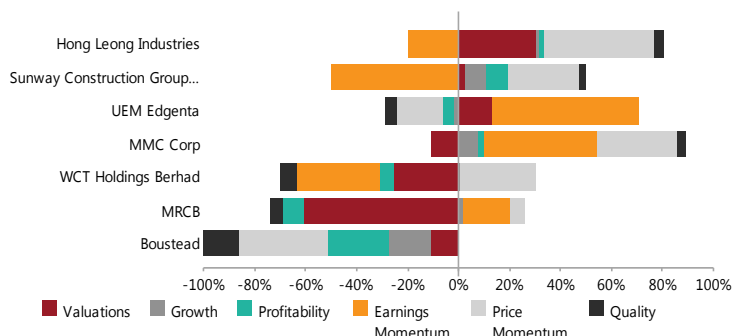
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



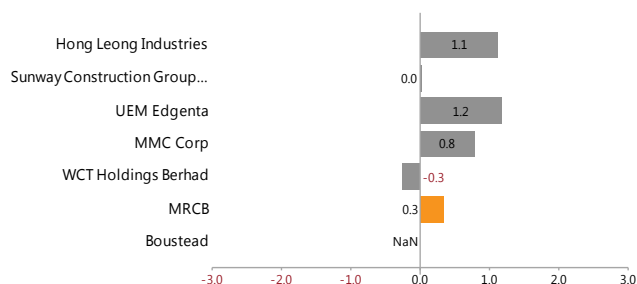
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



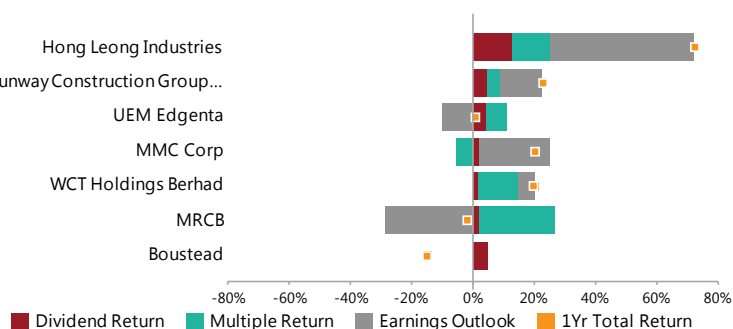
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



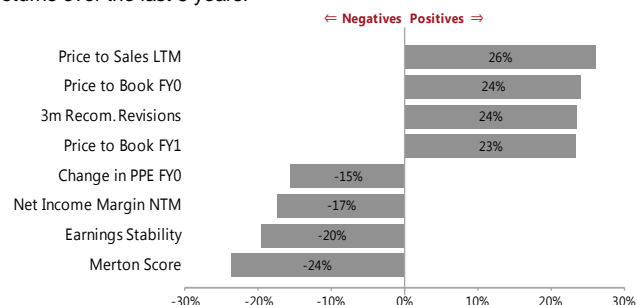
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



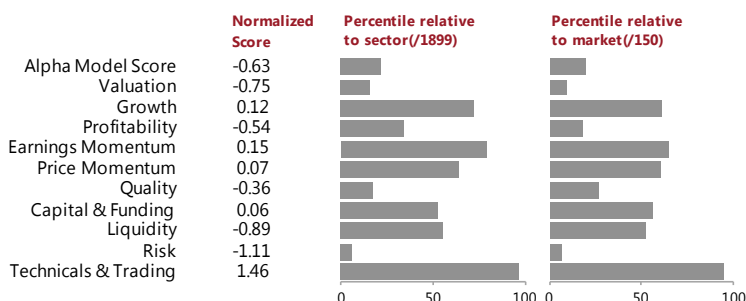
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpq@macquarie.com)

MRCB (MRC MK, Outperform, Target Price: RM1.85)

Interim Results		1H/16A	2H/16E	1H/17E	2H/17E
Net Property Income	m	788	964	876	1,070
Development Income	m	0	0	0	0
Other Revenue	m	0	0	0	0
Total Revenue	m	788	964	876	1,070
Management Fees	m	0	0	0	0
Other Expenses	m	-664	-811	-731	-893
EBITDA	m	154	189	179	219
Dep & Amortisation	m	30	37	34	42
EBIT	m	124	152	145	177
Net Interest Income	m	-78	-95	-68	-83
Associates	m	13	16	17	20
Exceptionals	m	20	24	0	0
Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	80	98	94	115
Tax Expense	m	-19	-24	-23	-28
Net Profit	m	61	75	71	87
Minority Interests	m	-8	-9	-9	-11
Reported Earnings	m	53	65	62	76
Adjusted Earnings	m	33	41	62	76
EPS (rep)	sen	3.0	3.1	2.9	3.1
EPS (adj)	sen	1.9	1.9	2.9	3.1
EPS Growth yoy (adj)	%	8,661.2	8,497.6	55.1	59.4
EBITDA Margins	%	19.6	19.6	20.4	20.4
EBIT Margins	%	15.8	15.8	16.6	16.6
Earnings Split	%	45.0	55.0	45.0	55.0
Revenue Growth	%	3.3	3.3	11.1	11.1
EBIT Growth	%	55.2	55.2	16.5	16.5

Profit & Loss Ratios		2015A	2016E	2017E	2018E
Revenue Growth	%	12.0	3.3	11.1	9.6
EBITDA Growth	%	-17.6	41.7	15.9	14.6
EBIT Growth	%	-26.2	55.2	16.5	14.2
EBITDA Margins	%	14.3	19.6	20.4	21.4
EBIT Margins	%	10.5	15.8	16.6	17.3
Net Profit Margins	%	0.0	4.2	7.1	8.4
Payout Ratio	%	5,715.0	65.9	41.9	32.0
EV/EBITDA	x	22.3	15.1	14.0	12.3
EV/EBIT	x	30.0	18.4	17.0	15.0
Balance Sheet Ratios					
ROE	%	0.0	3.0	5.0	6.2
ROA	%	2.5	4.0	4.5	4.8
ROIC	%	3.4	4.1	4.9	5.3
Net Debt/Equity	%	124.2	78.1	82.5	81.0
Interest Cover	x	1.2	1.6	2.1	2.6
Price/Book	x	1.4	1.2	1.3	1.2
Book Value per Share		1.0	1.1	1.0	1.1

Profit & Loss		2015A	2016E	2017E	2018E
Net Property Income	m	1,697	1,752	1,946	2,133
Development Income	m	0	0	0	0
Other Revenue	m	0	0	0	0
Total Revenue	m	1,697	1,752	1,946	2,133
Management Fees	m	0	0	0	0
Other Expenses	m	-1,537	-1,475	-1,624	-1,765
EBITDA	m	242	343	398	456
Dep & Amortisation	m	64	67	76	88
EBIT	m	178	277	322	368
Net Interest Income	m	-146	-172	-150	-139
Associates	m	8	30	37	38
Exceptionals	m	330	44	0	0
Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	370	179	209	267
Tax Expense	m	-6	-43	-50	-64
Net Profit	m	364	136	158	203
Minority Interests	m	-34	-17	-20	-24
Reported Earnings	m	330	119	138	179
Adjusted Earnings	m	1	74	138	179
EPS (rep)	sen	17.3	6.1	6.0	7.8
EPS (adj)	sen	0.0	3.8	6.0	7.8
EPS Growth (adj)	%	-95.2	8,577.5	57.3	30.9
PE (rep)	x	7.6	21.6	21.9	16.7
PE (adj)	x	2,994.6	34.5	21.9	16.8
Total DPS	sen	2.5	2.5	2.5	2.5
Total Div Yield	%	1.9	1.9	1.9	1.9
Basic Shares Outstanding	m	2,350	2,465	2,822	2,720
Diluted Shares Outstanding	m	1,908	1,956	2,314	2,288

Cashflow Analysis		2015A	2016E	2017E	2018E
EBITDA	m	242	343	398	456
Tax Paid	m	-81	-43	-50	-64
Chg in Working Capital	m	-194	262	-180	-65
Net Interest Paid	m	-188	-172	-150	-139
Other	m	360	0	0	0
Operating Cashflow	m	140	390	18	188
Acquisitions	m	-129	0	0	0
Capex	m	-526	-87	-145	-189
Asset Sales	m	218	0	0	0
Other	m	27	0	0	0
Investing Cashflow	m	-409	-87	-145	-189
Dividend (Ordinary)	m	-82	-45	-54	-54
Equity Raised	m	0	408	0	0
Debt Movements	m	213	-687	306	5
Other	m	170	0	0	0
Financing Cashflow	m	300	-323	252	-48
Net Chg in Cash/Debt	m	-139	-4	98	-74
Free Cashflow	m	-385	303	-128	-2

Balance Sheet		2015A	2016E	2017E	2018E
Cash	m	522	517	615	542
Receivables	m	1,095	960	1,066	1,169
Inventories	m	63	52	63	67
Investments	m	414	407	400	393
Fixed Assets	m	337	393	500	640
Intangibles	m	317	317	317	313
Other Assets	m	4,342	4,247	4,489	4,614
Total Assets	m	7,090	6,894	7,450	7,737
Payables	m	1,324	1,325	1,471	1,602
Short Term Debt	m	1,049	677	710	910
Long Term Debt	m	2,345	2,030	2,303	2,109
Provisions	m	58	58	58	58
Other Liabilities	m	0	0	0	0
Total Liabilities	m	4,777	4,091	4,543	4,680
Shareholders' Funds	m	2,260	2,733	2,818	2,944
Minority Interests	m	53	70	90	113
Total S/H Equity	m	2,313	2,803	2,908	3,057
Total Liab & S/H Funds	m	7,090	6,894	7,450	7,737

All figures in MYR unless noted.

Source: Company data, Macquarie Research, December 2016

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie – South Africa

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense

Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 September 2016

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	47.26%	55.50%	38.46%	45.47%	59.09%	48.21%	(for US coverage by MCUSA, 8.20% of stocks followed are investment banking clients)
Neutral	38.01%	29.31%	42.86%	48.77%	37.88%	36.79%	(for US coverage by MCUSA, 8.25% of stocks followed are investment banking clients)
Underperform	14.73%	15.19%	18.68%	5.76%	3.03%	15.00%	(for US coverage by MCUSA, 8.00% of stocks followed are investment banking clients)

MRC MK vs KLCI, & rec history



(all figures in MYR currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, November 2016

12-month target price methodology

MRC MK: RM1.85 based on a Sum of Parts methodology

Company-specific disclosures:

MRC MK: Macquarie may be an Issuer of Structured Warrants on securities mentioned in this report

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

Date	Stock Code (BBG code)	Recommendation	Target Price
07-Nov-2016	MRC MK	Outperform	RM1.85

Target price risk disclosures:

MRC MK: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification:

We hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The Analysts responsible for preparing this report receive compensation from Macquarie that is based upon various factors including Macquarie Group Ltd total revenues, a portion of which are generated by Macquarie Group's Investment Banking activities.

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