

Outthink. Outperform.

## Property sale gains

MRCB's net profit more than doubled to RM330m in FY15 due to gain on disposal of investment properties. Core net profit of RM1m was below expectations due to high financing and operating costs. We cut our FY16E earnings by 15% to reflect the higher costs and delay in new property launches. Its strong pipeline of projects will drive long-term earnings growth. We reiterate our BUY call on MRCB with a reduced target price of RM1.46, based on 20% discount to RNAV.

### 2015 earnings below expectation

MRCB's core net profit of RM1m was below consensus forecast of RM60m and our estimate of RM54m. We were surprised by the high financing and operating costs. MRCB incurred a core net loss of RM38.6m in 4Q15 due to preliminary project costs for its construction division (RM15m) and high financing cost. But the RM70m gain from the sale of its 51% stake in Nu Sentral Mall and write-back of deferred tax led to a net profit of RM26.8m for 4Q15.

### Investment property sale gains

MRCB reaped one-off gains of RM329.4m from the sale of Platinum Sentral (RM220.5m), Paradigma Berkat (RM38.8m) and Nu Sentral Mall (RM70.1m). It has agreed to sell its Shell Tower to MRCB Quill REIT for RM640m and stands to reap an estimated gain of RM76m (not factored into our forecasts).

### Strong pipeline of projects

MRCB has a record construction order book of RM4.59bn after securing major projects such as the Klang Valley LRT Line 3, KL Sports City, Kwasa Utama C8 and Cardiac and Vascular Medical Centre projects in 2015. Property sales of RM597m in FY15 was lower than the RM1.08bn achieved in FY14 due to delays in new property project launches, ie, The Grid, 3 Residences in Kajang and Semarak City in Setapak.

### Maintain BUY with an unchanged TP of RM1.95

The proposed private placement of up to 20% of share capital is expected to complete in 2Q16. We reduce our target price to RM1.46 from RM1.60 to reflect lower valuation of its concession and asset disposals in our RNAV estimate. Maintain BUY. Key risk is further property launch delays.

### Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	1,514.8	1,696.7	1,569.1	1,593.0	1,881.7
EBITDA (RMm)	281.8	249.4	282.8	329.8	407.0
Pretax profit (RMm)	220.6	370.1	173.0	142.8	204.5
Net profit (RMm)	152.6	330.4	104.7	90.5	135.6
EPS (sen)	8.0	15.2	5.7	5.1	7.0
PER (x)	13.5	6.5	20.6	23.9	15.9
Core net profit (RMm)	4.2	1.0	62.9	90.5	135.6
Core EPS (sen)	0.2	0.1	3.5	5.1	7.6
Core EPS growth (%)	NM	(12.5)	200.7	29.8	37.5
Core PER (x)	81.1	92.7	30.8	23.8	17.3
Net DPS (sen)	2.5	2.5	2.5	2.5	2.5
Dividend Yield (%)	2.1	2.1	2.1	2.1	2.1
EV/EBITDA (x)	72.0	17.9	27.7	25.3	22.5
Chg in EPS (%)			(0.1)	(15.2)	New
Affin/Consensus (x)			1.0	0.7	NA

Source: Company, Affin Hwang estimates

Affin Hwang Investment Bank Bhd (14389-U)  
(Formerly known as HwangDBS Investment Bank Bhd)

## Results Note

# MRCB

MRC MK

Sector: Construction &amp; Infrastructure

RM1.21 @ 22 February 2016

BUY (maintain)

Upside 21%

Price Target: RM1.46

Previous Target: RM1.60



## Price Performance

	1M	3M	12M
Absolute	+6.1%	-10.4%	-14.2%
Rel to KLCI	+3.0%	-11.1%	-7.4%

## Stock Data

Issued shares (m)	1786.6
Mkt cap (RMm)/(US\$m)	2,161.8/515.4
Avg daily vol - 6mth (m)	4.4
52-wk range (RM)	0.80 -
Est free float	34.5%
BV per share (RM)	1.27
P/BV (x)	0.95
Net cash/ (debt) (RMm) (4Q15)	(1,665.9)
ROE (2016F)	4.6%
Derivatives	Yes
Warr 2018 (RM0.155, EP: RM2.30)	
Shariah Compliant	Yes

## Key Shareholders

EPF	38.4%
Gapurna Sdn Bhd	16.7%
Lembaga Tabung Haji	10.1%

Source: Affin Hwang, Bloomberg

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Fig 1: Results comparison

FYE 31 Dec (RMm)	4Q15	QoQ % chg	YoY % chg	FY15	YoY % chg	FY15 Comment
Revenue	388.2	3.8	(20.3)	1,696.7	12.0	Higher revenue due to higher progress billings for its construction division while property revenue was lower due to completion of Q Sentral and delay in new project launches.
Op costs	(396.7)	30.7	(5.7)	(1,484.4)	11.2	
EBITDA	(8.5)	NA	NA	212.4	18.2	
EBITDA margin (%)	(2.2)	NA	NA	12.5	5.5	
Depreciation	(23.6)	79.9	349.1	(52.4)	149.7	
EBIT	(32.0)	NA	NA	159.9	0.8	
Int expense	(50.7)	14.1	11.6	(184.8)	8.0	
Int and other inc	13.3	14.8	29.8	57.7	(57.0)	
Associates	(0.2)	NA	(98.0)	7.9	NA	
Forex gain (losses)	0.0	0.0	0.0	0.0	0.0	
Exceptional items	70.0	100.0	100.0	329.4	167.4	Gain from sale of Platinum Sentral, Paradigma Berkat and 51% of Nu Sentral Mall.
<b>Pretax profit</b>	<b>0.4</b>	<b>(98.5)</b>	<b>(97.7)</b>	<b>370.1</b>	<b>67.8</b>	
<b>Core pretax</b>	<b>(69.6)</b>	<b>NA</b>	<b>NA</b>	<b>40.7</b>	<b>(58.2)</b>	
Tax	38.3	NA	NA	(6.1)	(88.6)	
Tax rate (%)	NA	NA	NA	1.6	(93.2)	
Discontinuing operations	(4.6)	NA	NA	0.0	(100.0)	
Minority interests	(7.2)	236.4	(40.5)	(33.6)	8.9	
<b>Net profit</b>	<b>26.8</b>	<b>375.2</b>	<b>NA</b>	<b>330.4</b>	<b>116.5</b>	Below expectation due to high financing and operating costs.
EPS (sen)	1.5	368.8	NA	18.5	131.5	
<b>Core net profit</b>	<b>(38.6)</b>	<b>NA</b>	<b>185.7</b>	<b>1.0</b>	<b>(92.5)</b>	Excludes one-off gains from disposal of investment property assets

Source: Affin Hwang, Company data

Besides the proposed sale of Shell Tower, MRCB is close to completing the sale of Sooka Sentral for RM90.8m (RM38m gain) and its 40% stake in Ekovest-MRCB Construction for RM8.5m (RM3.8m gain) in 2016. This is reflected in our FY16E earnings. MRCB is targeting property sales of RM1bn in FY16 with the launch of The Grid, 3 Residences and Semarak City new projects.

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**Fig 2: Change in RNAV and target price assumptions**

Segment	New value (RMm)	Old value (RMm)
Property development	3,265	3,306
Property investment	1,141	1,261
Construction	604	604
Concession	744	987
Car Park & REIT	423	423
<b>Total</b>	<b>6,176</b>	<b>6,581</b>
Net cash/(debt)	(1,666)	(1,580)
<b>RNAV</b>	<b>4,510</b>	<b>5,000</b>
No. of shares	1,786	1,787
<b>RNAV / share</b>	<b>2.53</b>	<b>2.80</b>
Fully-diluted no. of shares	2,362	2,363
<b>Fully-diluted RNAV</b>	<b>2.47</b>	<b>2.68</b>
Post-placement FD no. of shares *	2,719	2,720
<b>Fully-diluted RNAV post-placement *</b>	<b>1.82</b>	<b>2.00</b>
Target price @ 20% discount	1.46	1.60

\* Assumes share placement is 20% of share capital at RM1.24 price. Source: Affin Hwang, Company data



#### Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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