



AmInvestment Bank

Company report

MRCB

(MRC MK EQUITY, MYRS.KL)

23 Feb 2016

Stepping up its turnaround efforts

BUY

(Maintained)

Mak Hoy Ken

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Rationale for report: Company result

Price RM1.21
Fair Value RM2.00
52-week High/Low RM1.52/RM0.80

Key Changes

Fair value
EPS

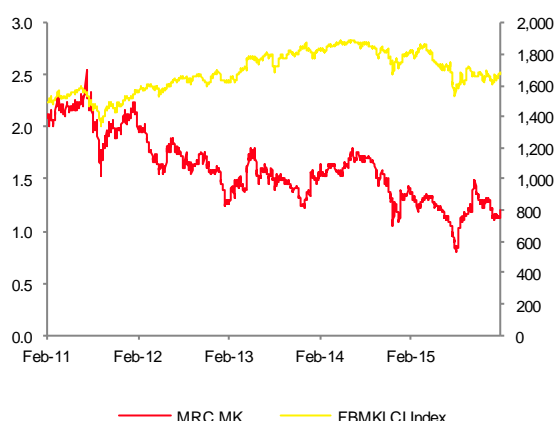
YE to Dec	FY15	FY16F	FY17F	FY18F
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Revenue (RM mil)	1,696.7	1,953.9	2,339.0	2,583.4
Core net profit (RM mil)	1.1	37.4	72.0	94.6
FD Core EPS (sen)	1.7	3.3	4.7	5.7
FD Core EPS growth (%)	8.4	87.8	44.5	20.1
Consensus Net Profit (RM mil)	-	-	110.2	171.3
DPS (sen)	2.5	2.0	2.0	2.0
PE (x)	69.5	37.0	25.6	21.3
EV/EBITDA (x)	16.1	17.4	16.1	14.4
Div yield (%)	2.1	1.7	1.7	1.7
ROE (%)	15.6	1.8	3.2	4.1
Net Gearing (%)	127.1	180.5	186.5	182.1

Stock and Financial Data

Shares Outstanding (million)	1,760.1
Market Cap (RMmil)	2,129.7
Book Value (RM/share)	1.27
P/BV (x)	1.0
ROE (%)	15.6
Net Gearing (%)	127.1

Major Shareholders	Employees Provident Fund Board(36.5%) Gapurna Sdn Bhd(15.5%) Lembaga Tabung Haji(9.3%)
Free Float	38.8
Avg Daily Value (RMmil)	3.1

Price performance	3mth	6mth	12mth
Absolute (%)	(10.4)	33.0	(14.2)
Relative (%)	(11.1)	25.0	(7.4)



Investment Highlights

- We maintain our BUY call on MRCB with a lower fair value of RM2.00/share (from RM2.05/share). This pegs the stock at a lower discount rate of 30% (from 35%) to reflect increasing prospects for MRCB to unlock its latent value and continued orderbook momentum.
- MRCB's FY15 results were below expectations. Core net profit was only RM1mil vs. RM17mil in FY14. The main drag came from (i) slower progress billings for key construction jobs; (ii) delays in property launches; and (iii) RM15mil upfront cost for the Sg. Pahang river project ahead of c.RM500mil worth of additional works under Phases 4-5 (LOI received).
- But, we expect sequential earnings to improve from 2H16 as work progress for 9 Seputeh and PJ Sentral improve along with maiden contributions from the LRT 3 project.
- 2016 could well shape up to be a watershed year for MRCB as it forges ahead with its restructuring efforts. We foresee more asset monetisation moves ahead, following the recent disposals of Menara Shell (RM650mil) and Sooka Sentral (RM91mil).
- Also, MRCB's foresee MRCB's transformation into a Bumiputera-controlled PLC will open up more construction/landbanking opportunities and expedite its NAV expansion. The proposed Bumiputera private placement is to conclude by end-2Q16.
- Last year, MRCB secured a record of >RM5bil worth of construction jobs and another RM607mil worth of fee-based contracts. The latter will help nurture a re-profiling of MRCB's orderbook via higher-value fee-income.
- Moreover, we expect MRCB to be at the forefront of several large-scale infrastructure projects under the 11MP. This will include the upcoming MRT 2, Pan Borneo Expressway and more works under the Sg. Pahang river project. The imminent signing of the PDP contract for LRT 3 is another positive.
- New property sales fell to RM597mil in FY15 vs RM1.1bil in FY14. Nevertheless, sales momentum should pick-up again this year via the crystallization of bookings from The Grid @ Kia Ping (over 80% booking + sales to-date). New launches for the year include new phases for 9 Seputeh as well as affordable homes in Kajang and Bandar Seri Iskandar, Perak.
- MRCB's key appeal is as a turnaround story; more value could be unlocked from its property and construction units. The former is well underway via the recycling of MRCB's prime commercial assets into MQ REIT. To be sure, its net gearing has improved from 153% in FY14 to 127% in FY15 (FY13: 173%).

EXHIBIT 1: NAV TABLE

Divisions/Operations	Size (acres)	psf	Value (RM)		Method	% of NAV	Effective stake (%)
			mil	/share			
Landbank							
Kota Kinabalu, Sabah	3	32	3.8	0.00	MV		100
Bandar Seri Iskandar	4,000	4	487.9	0.21	MV		70
Sub-total			491.7	0.21		7.2	
Development properties							
Senawang Sentral			6.4	0.00	NPV @ 9%		100.0
St.Regis Service Residences (Lot C)			1.2	0.00	NPV @ 9%		30.0
Q Sentral (Lot B)			6.5	0.00	NPV @ 9%		66.0
Sentral Residences (Lot D)			12.9	0.01	NPV @ 9%		51.0
Lot F - Office Towers			310.6	0.13	NPV @ 9%		100.0
9 Seputeh, Old Klang Road			178.3	0.08	NPV @ 9%		100.0
Suria Subang, Subang Jaya			37.5	0.02	NPV @ 9%		100.0
Selborn 2, Shah Alam			17.0	0.01	NPV @ 9%		100.0
Lot 349, privatization agreement, Brickfields			181.8	0.08	NPV @ 9%		100.0
The Grid, Kia Peng			35.0	0.01	NPV @ 9%		100.0
Semarak City, Setapak			262.9	0.11	NPV @ 9%		100.0
3 Residences, Kajang			15.8	0.01	NPV @ 9%		100.0
Lot 2C4, Putrajaya			23.9	0.01	NPV @ 9%		70.0
PJ Sentral Phase 1			200.6	0.08	NPV @ 9%		100.0
MX-1, KWASA Damansara, Sg.Buloh			589.3	0.25	NPV @ 9%		70.0
Rahman Putra, Sg.Buloh			47.9	0.02	NPV @ 9%		100.0
German Embassy land, Jln Kia Peng			114.5	0.05	NPV @ 9%		100.0
Cyberjaya City Centre Phase 1, Cyberjaya			352.5	0.15	NPV @ 9%		70.0
KL Sports City land swap			904.8	0.38	NPV @ 9%		85.0
Batu Ferringghi land			33.2	0.01	NPV @ 9%		100.0
Penang Sentral			312.3	0.13	NPV @ 9%		100.0
Pulai Land			130.4	0.05	NPV @ 9%		100.0
Burwood			16.6	0.01	NPV @ 9%		100.0
Unbilled sales			125.7	0.05	NPV @ 9%		100.0
Sub-total			3,917.5	1.65		57.6	
		NLA/room bays	Value (RM) mil	/share	Method		Effective stake (%)
Investment properties							
Celcom-Axiata (Lot 8)		450,908	402.6	0.17	NOI@6.25%		100.0
Plaza Alam Sentral, Shah Alam		433,349	105.7	0.04	NOI@6.5%		100.0
Kompleks Sentral, Segambut Industrial Park		484,689	45.0	0.02	NOI@6.75%		100.0
Ascott Residences (ILot 348)		143 rooms	114.4	0.05	RM0.8mil/room		100.0
St. Regis Hotel (Lot C)		208 rooms	62.4	0.03	RM1mil/room		30.0
Sub-total			730.0	0.31		10.7	
Cark parks							
Plaza Alam Sentral, Shah Alam		1,400 bays	70.0	0.03	RM50k/bay		100.0
St. Regis Hotel (Lot C)		797 bays	12.0	0.01	RM50k/bay		30.0
Sub-total			82.0	0.03		1.2	
Property management							
Quill Capita Management (QCM)			119.5	0.05	NPI@7%		41.0
Sub-total			119.5	0.05		1.8	
Expressways							
Eastern Dispersal Link (EDL)			270.7	0.11	DCF @ 7%		100.0
Sub-total			270.7	0.11		4.0	
Construction & Infrastructure							
Construction			450.5	0.19	8x ave.FY16F net profit		
Facilities management			14.9	0.01	6x FY16F net profit		
Sub-total			465.4	0.20		6.8	
Listed-investments							
MRCB-Quill REIT			224.8	0.09	Market Value		31.2
Sub-total			224.8	0.09		3.3	
Disposal of assets							
Sooka Sentral			90.8	0.04	Acquisition value		100.0
Menara Shell			650.0	0.27	Acquisition value		100.0
Sub-total			740.8	0.31		10.9	
Others			225.8	0.10	Book value	3.3	
Gross RNAV			7,268.1	3.06			
Net debt			(1,814.4)	(0.76)	As at 31 December 2015	(26.7)	
Proceeds from ESOS/warrant conversions			1,343.4	0.57	Warrants exercise price: RM2.30	19.8	
Total RNAV			6,797.1	2.86		100.0	
FD no of shares			2,376.7				
RNAV/share			2.86				
Fair Value (less: 30% discount)			2.00				
Capital gain (%)			46.1				
Yield (%)			1.8				
Total Return (%)			50.0				
Discount to RNAV (%)			(52.1)				

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART

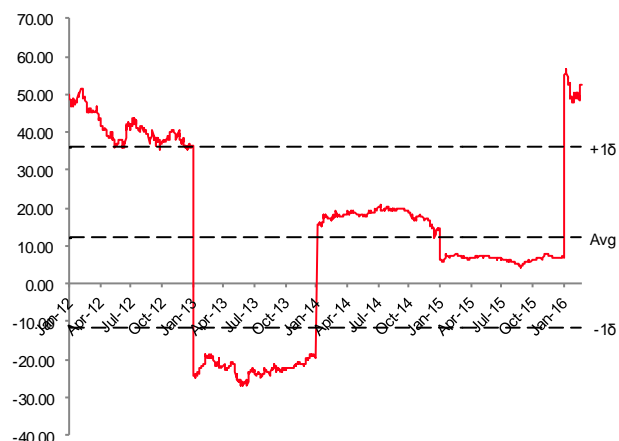


EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
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Revenue	1,514.8	1,696.7	1,953.9	2,339.0	2,583.4
EBITDA	294.3	309.8	356.1	397.2	446.1
Depreciation/Amortisation	(52.4)	(131.3)	(136.3)	(124.8)	(127.1)
Operating income (EBIT)	241.8	178.4	219.8	272.4	319.0
Other income & associates	(24.3)	7.9	49.4	69.0	51.1
Net interest	(132.8)	(145.5)	(189.1)	(217.6)	(219.4)
Exceptional items	135.9	329.3	3.8	-	-
Pretax profit	220.6	370.1	83.9	123.8	150.6
Taxation	(53.3)	(6.1)	(33.9)	(40.5)	(42.8)
Minorities/pref dividends	(14.7)	(33.6)	(8.7)	(11.3)	(13.3)
Net profit	152.6	330.4	41.3	72.0	94.6
Core net profit	16.7	1.1	37.4	72.0	94.6
Balance Sheet (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
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Fixed assets	228.6	337.5	312.5	286.7	260.2
Intangible assets	271.8	317.1	310.1	303.2	296.3
Other long-term assets	3,277.2	3,741.0	4,726.0	4,722.9	4,650.3
Total non-current assets	3,777.5	4,395.5	5,348.6	5,312.8	5,206.8
Cash & equivalent	308.2	339.2	232.9	129.6	143.1
Stock	42.6	63.1	57.8	70.2	77.3
Trade debtors	1,319.8	1,113.8	1,391.8	1,730.2	1,911.0
Other current assets	1,593.7	1,178.1	1,382.9	1,625.8	1,771.6
Total current assets	3,264.4	2,694.3	3,065.5	3,555.9	3,903.0
Trade creditors	1,121.5	1,199.6	1,425.3	1,732.2	1,880.8
Short-term borrowings	1,390.6	1,049.1	726.9	842.0	857.0
Other current liabilities	58.4	47.7	47.7	47.7	47.7
Total current liabilities	2,570.5	2,296.5	2,200.0	2,621.9	2,785.6
Long-term borrowings	2,300.1	2,345.2	3,760.7	3,745.9	3,751.1
Other long-term liabilities	106.8	135.2	135.2	135.2	135.2
Total long-term liabilities	2,406.9	2,480.5	3,896.0	3,881.2	3,886.4
Shareholders' funds	1,985.3	2,260.1	2,256.7	2,293.0	2,351.9
Minority interests	79.3	52.6	61.4	72.6	85.9
BV/share (RM)	1.13	1.27	1.26	1.28	1.32
Cash Flow (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
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Pretax profit	220.6	370.1	83.9	123.8	150.6
Depreciation/Amortisation	52.4	131.3	136.3	124.8	127.1
Net change in working capital	(725.2)	606.6	(251.8)	(286.9)	(185.0)
Others	274.1	(921.2)	(83.3)	(109.6)	(93.8)
Cash flow from operations	(178.1)	186.8	(114.9)	(147.8)	(1.1)
Capital expenditure	(168.5)	(1,248.5)	(1,040.0)	(20.0)	30.0
Net investments & sale of fixed assets	228.1	696.6	-	-	-
Others	(44.1)	766.9	-	-	-
Cash flow from investing	15.5	214.9	(1,040.0)	(20.0)	30.0
Debt raised/(repaid)	(159.7)	(58.3)	1,093.3	100.3	20.3
Equity raised/(repaid)	0.1	0.8	-	-	-
Dividends paid	(17.6)	(82.4)	(44.7)	(35.7)	(35.7)
Others	339.5	(230.8)	-	-	-
Cash flow from financing	162.3	(370.7)	1,048.6	64.5	(15.5)
Net cash flow	(0.3)	31.0	(106.3)	(103.3)	13.4
Net cash/(debt) b/f	308.5	308.2	339.2	232.9	129.6
Net cash/(debt) c/f	308.2	339.2	232.9	129.6	143.1
Key Ratios (YE31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
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Revenue growth (%)	61.0	12.0	15.2	19.7	10.4
EBITDA growth (%)	649.4	5.3	15.0	11.5	12.3
Pretax margin (%)	14.6	21.8	4.3	5.3	5.8
Net profit margin (%)	10.1	19.5	2.1	3.1	3.7
Interest cover (x)	1.8	1.2	1.2	1.3	1.5
Effective tax rate (%)	24.1	1.6	40.4	32.7	28.4
Dividend payout (%)	29.3	13.5	86.6	49.6	37.8
Debtors turnover (days)	318	240	260	270	270
Stock turnover (days)	14	20	15	15	15
Creditors turnover (days)	375	378	370	370	365

Source: Company, AmlInvestment Bank Bhd estimates

EXHIBIT 5: RESULTS TABLE

YE 31 Dec (RMmil)	FY14	FY15	% YoY	3Q15	4Q15	% QoQ
Turnover	1,514.8	1,696.7	12.0	374.1	388.2	3.8
EBIT	123.9	178.4	44.0	55.0	(28.7)	n/m
Interest Expense	(53.3)	(184.8)		(44.5)	(50.7)	
Interest Income	38.4	39.3		7.1	10.0	
Pre-Exceptionals Profit	109.0	32.9		17.6	(69.4)	
Exceptionals	135.9	329.3		0.0	70.0	
Pre-Associates/JV Profit	244.9	362.2		17.6	0.6	
Associates/JVs	(24.3)	7.9		7.8	(0.2)	
Pretax Profit	220.6	370.1	67.8	25.3	0.4	(98.5)
Taxation	(53.3)	(6.1)		(18.7)	38.3	
Minority Interest/disc. ops	(14.7)	(33.6)		(0.9)	(11.8)	
Net Profit	152.6	330.4	116.5	5.6	26.8	n/m
Core Net profit	16.7	1.1	(93.5)	5.6	(43.2)	n/m
Core EPS (sen)	1.0	0.1		0.3	(2.4)	
Gross DPS (sen)	2.5	2.5		0.0	2.5	
NA/share (RM)	1.13	1.27		1.27	1.27	
EBIT Margin (%)	8.2	10.5		14.7	(7.4)	
Pretax Margin (%)	14.6	21.8		6.8	0.1	
Effective Tax (%)	24.1	1.6		74.0	n/m	

Segmental Breakdown (RM mil)

Turnover

Construction	510.7	773.7	51.5	234.0	178.5	(23.7)
Property development & investment	876.4	724.0	(17.4)	89.3	156.9	75.7
Infrastructure & environmental	49.0	115.0	134.6	28.8	28.6	(0.7)
Facilities management & parking	77.5	74.6	(3.8)	18.4	19.9	8.2
Investment holding & Others	1.1	9.5	788.8	3.5	4.2	19.9
Total	1,514.8	1,696.7	12.0	374.1	388.2	3.8

EBIT

Construction	42.6	35.4	(16.8)	49.7	(44.0)	n/m
Property development & investment	160.3	443.0	176.4	7.5	342.1	n/m
Infrastructure & environmental	20.3	58.6	188.6	12.3	14.4	17.1
Facilities management & parking	9.7	9.9	2.3	0.2	7.1	n/m
Investment holding & Others	(108.9)	(368.5)	n/m	(14.7)	(348.3)	n/m
Total	123.9	178.4	44.0	55.0	(28.7)	n/m

Source: Bursa Malaysia, , AmlInvestment Bank Bhd

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Printed by

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For AmlInvestment Bank Bhd



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