

Equity Beat

24 February 2010

FY09 Results Review

MRCB

Impressive numbers

Maintain BUY

Ex-rights Target Price of RM1.62 from RM1.74

- The full year net earnings of RM40.3m came in above ours and consensus expectations, largely driven by improved “Engineering & Construction” (E&C) division’s contribution.
- We have revised upward our earnings forecast for FY10 and FY11 by 30% and 15% respectively, backed by strong orderbook of RM2.7b order book, lower material prices and property development pick-up pace.
- We reaffirm our BUY recommendation. We are adjusting our target price to RM1.62 ex-rights after imputing the overhang effect of an enlarged share capital.

STOCK INFO


Price (23 Feb 10)	RM1.37	KLCI	1,266.43
Issued shares (mil)	1,366.02	Bursa / Bloomberg	1651 / MRC MK
Par Value (RM)	1.00	Board / Sector	Main / Construction
Market cap. (RM'm)	RM1,871.4	Syariah Compliant	Yes
Price over NTA	1.85	Major Shareholders	
52-wk price Range	RM0.72–RM1.67	EPF	30.6%
Beta (against KLCI)	1.87	JP Morgan Chase & Co	5.1%
3-mth Avg Daily Vol	7.15 m	Merrill Lynch & Co	4.9%
3-mth Avg Daily Value	RM9.6m		

FY09 results above expectation.

MRCB full year FY09 earnings of RM40.3m came in 24% above our expectation of RM32.6m, contributed by improved margins from the engineering & construction division of 6%.

A turnaround performance. MRCB recorded a pre-tax profit of RM46.4m as compared to a loss of RM42.2m in the preceding year. The turnaround in performance was due to the improvement in margins of its engineering and construction division arising from partial recovery of material cost stability and the positive impact of its value engineering cost control efforts. Recall that the loss in the preceeding year was also due to the high finance cost of 9% and a low margin of 4% in FY09, arising from the one-off premium charged on the early settlement of a bond issued by a subsidiary.

Healthy order book that could get stronger. With a total orderbook of RM2.7bn, MRCB is going to remain busy over the next 4-5 years in particular for its KL Sentral property construction. This should assure steady earnings growth over the next 4-5 years. Management indicated to add for at least RM2bn orderbook, whereby funding will come from proceeds of the rights issue for the new land acquisition particularly in the Klang Valley, estimated at RM315m (>60% of proceeds of the rights issue).

Reiterate BUY rating. We are revising upwards our earnings forecast for FY10 and FY11 by 30% and 15% respectively on the back of stronger contribution from the E&C and property divisions next year, especially from its KL Sentral development. We are adjusting our target price to RM1.62 ex-rights after imputing the overhang effect of an enlarged share capital as a result of the 1:2 rights issue. This is based on sum-of-parts valuation (see table). 

FYE 31 Dec	FY08	FY09	FY10F	FY11F
Revenue (RM'm)	788.5	921.6	1,152.00	1,440.00
EBIT (RM'm)	45.0	36.4	46.1	64.8
Pretax Profit (RM'm)	-42.2	46.4	69.1	100.8
Net Profit (RM'm)	-61.7	40.3	53.9	75.6
EPS (sen)	n.a.	4.4	3.9	5.5
EPS growth (%)	n.m.	>100.0	na	40.2
PER(x)	n.a.	31.1	35.1	24.9
Net Dividend (sen)	n.m.	1	1	1
Net Dividend Yield (%)	n.m.	0.75	0.75	0.75

Source: Company, Forecasts by MIDFR

On-going key projects as at 31 Dec 2009

Key Projects - On Going	Total Contract Value	Outstanding	% of Completion
	(RMm)	(RMm)	
Environmental Projects			
Kuala Sg. Pahang river mouth project	258	80	69.0%
Kuala Sg Kuantan river project	20	5	75.0%
	278	85	
Engineering & Construction			
Permai Psychiatric Hospital, Johor	556	350	37.0%
Eastern Dispersal Link, Johor	638	453	29.0%
Jalan Tun Sambanthan Road Diversion	26	14	47.0%
Penang Sentral Station	300	300	
Road upgrading works around KL Sentral	110	101	8.0%
Condominium Construction, Gaya Bangsar	103	83	19.0%
	1,733	1,302	
Power Transmission Network			
Lenggeng (N.Sembilan) -Nuni (Bangi) Trans. Line	64	1	98.6%
275kV 50km line Gelang Patah to Bkt Batu	32	0	99.2%
Pantai-Salak South GIS Transmission Lines	282	75	73.4%
132kV, 33kV, 11kV Switchgears, substations-Renggit, Parit Raja, Kluang	26	1	96.8%
275kV Switchyard, Bakun, Sarawak	108	67	38.3%
	511	144	
Total	2,521	1,530	
KL Sentral Property Construction			
Lot A	232	205	12.0%
Lot 348	370	340	8.0%
Lot G Retail	692	657	5.0%
	1,294	1,202	
Grand Total	3,815	2,732	

MRCB: 4Q09 RESULTS SUMMARY

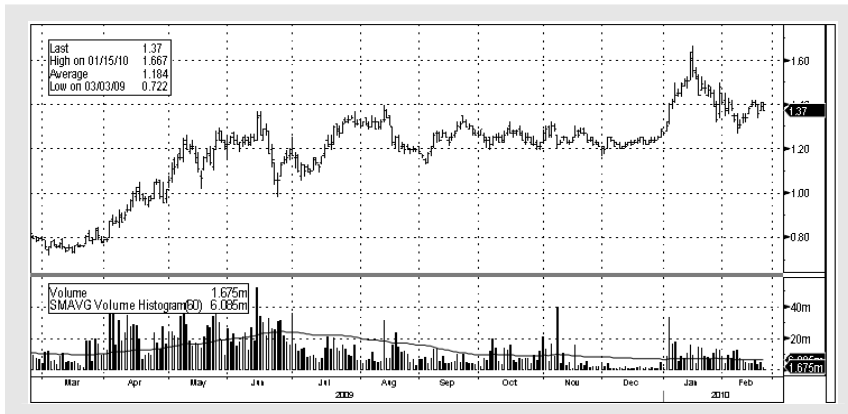
FYE Dec (RM'm)	Quarterly Results			Cumulative		Comments
	4Q09	%YoY	%QoQ	FY09	%YoY	
Revenue	281.7	38.4%	9.6%	921.6	16.9%	Revenue in 4Q09yoy, backed by increased activities of its ongoing works
Operating costs	-252.6	11.7%	-0.3%	-885.2	8.1%	Benefited from lower building material prices in 4Q, however, overall still higher than the previous year
EBIT	29.1	>100%	>100%	36.4	>100%	E&C recorded a reversal performance
Interest cost	-13.4	123.3%	61.4%	-38.6	-46.5%	Higher interest cost in FY08 mainly due to amortisation of premium on early redemption of KL Sentral Sukuk amounting to RM33.1m
Interest & invt income	18.8	54.1%	14.6%	65.1	-13.7%	
Associate profit	-11.1	20.7%	na	-16.5	9.3%	
Pretax profit	23.4	>100%	96.6%	46.4	>100%	Above expectations, a strong yoy and the highest qoq performances
Tax	-9.9			-9.0		Lower deferred tax yoy
Tax rate (%)	42.3%			19.4%		
Minority Int	1.0			2.9		
Net profit	14.9	>100%	49.7%	40.3	>100%	Improved E&C division contribution, above our full year forecast
		+/- ppts	+/- ppts		+/- ppts	
Pretax margin (%)	8.3%	-1.7	0.8	5.03%	-1.9	
Tax rate (%)	42.3%	-0.1	9.7	1.02%	-1.0	

Source: Company, MIDFR

MRCB: SUM OF PARTS

Asset	Details	Market Value (RMpsf)	RMm
KL Sentral (64.4%)	1.52m	1600	1,566.2
Alam Sentral Plaza	0.74m	255	188.7
Seri Iskandar Township (30% stake)	175m	3.5	612.5
Menara MRCB	0.27	245	66.2
Duta Ulu Klang Expressway (Duke)	34-yr concession	DCF at 10%	349.7
Eastern Dispersal Link (EDL)	34-yr concession	DCF at 10%	119.5
Market Value			
Construction Net Profit	NP of RM8.2m	PER of 10.5x	86.1
Net debt			-57.4
RNAV			2931.5
Enlarged no of shares (m)			1366.0
RNAV/share (RM)			2.15
Discount to RNAV @ 25%			0.5
Target Price			1.62

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.