MGB Bhd

Main Market
Construction Sector
BUY (↔)
TP: RM 0.56 (↓)
Last Closing Price: RM 0.415

Improved Margins Cushions 1H Billings

MGB's 6MFY26 core net profit of RM27.5m accounted for 43% of our FY26E estimate, below the halfway mark but deemed within expectations given the Group's back-end-loaded recognition profile and anticipated acceleration in 2HFY26 billings. Despite a 7.3% decline in revenue, continued cost optimisation lifted gross profit, PBT and PATAMI by 16.3%, 20.6% and 15.0% YoY, respectively. We retain our FY26E/FY27E earnings forecasts but lower our SOP-derived TP to RM0.56 from RM0.87, valuing the construction business at 6.7x FY27E P/E—a 20% discount to the selected peers' best forward average of 8.34x—and the precast business at 3.3x to reflect its early-stage operations and limited earnings visibility. Maintain our BUY call.

Results deemed within expectations as 6MFY26 PATAMI of RM27.5m represented 43%/52% of our/consensus full-year estimates. No dividend was declared for the quarter as historically dividends are declared in the final quarter.

YoY, 6MFY26 revenue declined 7.3% to RM411.8m as lower contributions from property development and selected local construction projects offset stronger overseas activity. Gross profit rose 16.3% to RM86.8m and gross margin expanded by 4.3 ppts to 21.1%, supported by cost optimisation and a 12.0% reduction in cost of sales. PBT and PATAMI increased 20.6% and 15.0%, respectively, while operating expenses fell 28.8%. The effective tax rate rose by 4.1 ppts to 33.8%; management attributed the above-statutory rate mainly to losses at certain subsidiaries that could not be offset against taxable profits at other subsidiaries, as well as non-tax-deductible expenses.

QoQ, revenue eased 4.0% as several projects reached completion or recorded minimal progress. Gross profit slipped 1.2%, although gross margin improved by 0.6 ppt to 21.4%. PBT was broadly stable at RM20.5m, while PATAMI declined 5.6% to RM13.3m, mainly due to the effective tax rate rising by 3.7 ppts to 35.7% from 32.0% in 1QFY26

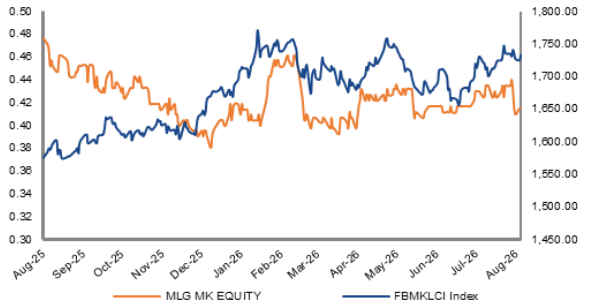
Construction earnings remained resilient; property billings were softer. For 6MFY26, local construction and trading revenue fell 5.9% to RM348.4m, but PBT rose 20.3% to RM24.6m on better cost discipline. Overseas revenue increased to RM51.8m from RM5.5m and the segment's LBT narrowed to RM1.0m from RM5.1m as Saudi operations scaled up. Property development revenue declined 28.3% to RM151.9m, while PBT eased 4.9% to RM19.5m, mainly because certain projects were nearing completion with minimal progress recognised. Encouragingly, quarterly property revenue recovered 19.1% QoQ to RM82.6m.

Earnings unchanged. We retain our FY26E/FY27E core net profit forecasts of RM64.3m/RM78.7m.

Valuation. We lower our SOP-derived TP to RM0.56 from RM0.87. We value MGB's construction business at 6.7x FY27E P/E (previously 11x), representing a 20% discount to the selected local construction peers' best forward P/E of 8.34x. The discount reflects MGB's relatively small market capitalisation, We value the precast concrete business at 3.3x FY27E P/E, (previously 7) reflecting its early-stage operations and comparatively limited earnings visibility.

Key risks include: i) delays in converting the construction order book, ii) weaker-than-expected property sales, iii) escalation of Middle East geopolitical risks, and iv) construction cost volatility.

Share Price Performance



Business Overview

MGB Berhad provides construction and engineering services, including design and build, project management, civil engineering, value engineering, geotechnical specialization, and manufacturing of IBS precast concrete products.

Return Information			
KLCI (pts)			1,733.36
YTD KLCI chg.			3.2%
YTD Stock Price chg.			-3.5%
Price Performance	**1M**	**3M**	**12M**
Absolute (%)	-1.1%	-7.6%	-22.9%
Relative to KLCI (%)	-4.6%	-7.3%	-35.7%

Stock Information	
Market Cap (RM m)	245.1
Issued Shares (m)	590.7
52-week High (RM)	0.51
52-week Low (RM)	0.40
Est. Free Float (%)	20%
Beta vs FBM KLCI	0.7
3-month Avg Vol. (m)	234,811
Shariah Compliant	Yes
Bloomberg Ticker	MLG MK EQUITY

Top 3 Shareholders	%
LBS Bina Group Bhd	58.0%
Chek Lim Lit	13.3%
Kenanga Unit Trust B	2.4%

FY DEC (RM m)	FY25A	FY26E	FY27E
Revenue	917.1	1,362.2	1,591.2
Gross Profit	148.3	199.5	235.1
EBITDA	101.4	120.5	138.2
PBT	76.9	97.9	117.9
Net Profit	71.4	89.3	109.3
Core Net Profit	**51.5**	**64.3**	**78.7**
Consensus Net Profit		57.4	66.8
Earnings Revision (%)	*-*	*0.0*	*0.0*
Core EPS (sen)	8.7	10.9	13.3
Core EPS Growth (%)	-16.4%	24.7%	22.5%
Net DPS (sen)	3.1	3.3	4.0
Net Div. Yield (%)	6.9%	7.3%	9.0%
BV Per Share (sen)	107.5	115.1	124.4
P/E (x)	5.1	4.1	3.3
ROE (%)	8.1%	9.4%	10.7%

Results Highlights

Y/E: Dec (RMm)	2QFY26	1QFY26	QoQ Chg	2QFY25	YoY Chg	6M26	6M25	YoY Chg
Turnover	**201.7**	**210.1**	***-4.0%***	**216.4**	***-6.8%***	**411.8**	**444.1**	*-7.3%*
Gross Profit	43.1	43.7	*-1.22%*	36.9	*16.7%*	86.8	74.6	*16.3%*
OPEX	(16.3)	(15.6)	*4.5%*	(21.4)	*-23.5%*	(32.0)	(44.9)	*-28.8%*
EBITDA	**28.3**	**28.3**	***0.1%***	**24.7**	***14.7%***	**56.5**	**43.1**	***31.0%***
EBIT	22.4	22.4	*-0.3%*	18.5	*20.6%*	44.8	37.0	*21.0%*
PBT/(LBT)	**20.5**	**20.6**	***-0.7%***	**17.1**	***20.1%***	**41.1**	**34.1**	*20.6%*
Taxation	(7.3)	(6.6)	*10.9%*	(5.1)	*43.5%*	(13.9)	(10.1)	*37.6%*
Net Profit	13.2	14.0	*-6.2%*	12.0	*10.1%*	27.2	24.0	*13.4%*
PATAMI	**13.3**	**14.1**	*-5.6%*	**11.9**	*12.0%*	**27.5**	**23.9**	*15.0%*
Core EPS (sen)	2.3	2.4	*-5.5%*	2.0	*12.1%*	4.6	4.0	*15.0%*
DPS (sen)	0.0	0.0	*N.a*	0.0		0.0	0.0	
Gross Margin	21.4%	20.8%		17.1%		21.1%	16.8%	
OPEX	-8.1%	-7.4%		-9.9%		-7.8%	-10.1%	
EBITDA Margin	14.0%	13.4%		11.4%		13.7%	9.7%	
EBIT Margin	11.1%	10.7%		8.6%		10.9%	8.3%	
PBT Margin	10.2%	9.8%		7.9%		10.0%	7.7%	
PATAMI Margin	6.6%	6.7%		5.5%		6.7%	5.4%	
ETR	-35.7%	-32.0%		-29.9%		-33.8%	-29.7%	
Revenue Breakdown (RMm)								
Construction (Domestic)	173.9	174.5	*-0.3%*	118.6	*46.7%*	348.4	370.4	
Construction (overseas)	25.6	26.1	*-2.0%*	0.0	*#DIV/0!*	51.8	5.5	
Property	82.6	69.3	*19.1%*	97.8	*-15.6%*	151.9	212.0	
Construction order book (RMm)	**430.0**	**1,250.0**		**1,200.0**		**1,680.0**	**2,400.0**	
Unbilled(billed) property sales (RMm)	(110.0)	400.0		600.0		290.0	600.0	

Source: Company, Bursa Malaysia, Mercury Securities

SOP Valuation Table

	FY27E
Construction:	
PAT (RM m)	36.2
Target P/E (x)	6.7
Total value (RM m)	**241.5**
Precast concrete:	
PAT (RM m)	8.2
Target P/E (x)	3.33
Total value (RM m)	**27.4**
Property development:	
RNAV	82.5
Net Cash/ (Debt) (RM m)	(22.2)
Total SOP (RM m)	329.2
Share base (m)	591.7
Target Price (RM)	**0.56**

Source: Company, Mercury Securities

Disclaimer & Disclosure of Conflict of Interest

The information contained in this report is based on data obtained from data and sources believed to be reliable at the time of issue of this report. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the information or opinions in this report.

This report may contain forward-looking statements which are often but not always identified by the use of words such as “believe”, “estimate”, “intend” and “expect” and statements that an event or result “may”, “will” or “might” occur or be achieved and other similar expressions. Such forward-looking statements are based on assumptions made and information currently available to Mercury Securities Sdn Bhd. (“Mercury Securities”) and are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievement to be materially different from any future results, performance or achievement, expressed or implied by such forward-looking statements. Caution should be taken with respect to such statements and recipients of this report should not place undue reliance on any such forward-looking statements. Mercury Securities expressly disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

Accordingly, neither Mercury Securities nor any of its holding company, related companies, directors, employees, agents and/or associates nor person connected to it accept any liability whatsoever for any direct, indirect, or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the information or opinions in this publication. Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Mercury Securities has no obligation to update its opinion or the information in this report.

This report does not have regard to the specific investment objectives, financial situation and particular needs of any specific person. Accordingly, investors are advised to make their own independent evaluation of the information contained in this report and seek advice from, amongst others, tax, accounting, financial planner, legal or other business professionals regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represents a personal recommendation to you. This report is not intended, and should not under no circumstances be considered as an offer to sell or a solicitation of any offer or a solicitation or expression of views to influence any one to buy or sell the securities referred to herein or any related financial instruments.

Mercury Securities and its holding company, related companies, directors, employees, agents, associates and/or person connected with it may, from time to time, hold any positions in the securities and/or capital market products (including but not limited to shares, warrants and/or derivatives), trade or otherwise effect transactions for its own account or the account of its customers or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment, share margin facility or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests and should exercise their own judgement before making any investment decisions.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, are under copyright to Mercury Securities. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted, or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to websites. Mercury Securities takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Mercury Securities own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Mercury Securities’ website shall be at your own risk.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

The views expressed in this research report accurately reflect the analyst’s personal views about any and all of the subject securities or issuers; and no part of the research analyst’s compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

Recommendation Rating

Mercury Securities maintains a list of stock coverage. Stock can be added or dropped subject to needs with or without notice. Hence, the recommendation rating only applicable to stocks under the list. Stocks out of the coverage list will not carry recommendation rating as the analyst may not follow the stocks adequately.

Mercury Securities has the following recommendation rating:

BUY	Stock's total return is expected to be +10% or better over the next 12 months (including dividend yield)
HOLD	Stock's total return is expected to be within +10% or -10% over the next 12 months (including dividend yield)
SELL	Stock's total return is expected to be -10% or worse over the next 12 months (including dividend yield)

Published & Printed By:

MERCURY SECURITIES SDN BHD
Registration No. 198401000672 (113193-W)
L-7-2, No 2, Jalan Solaris, Solaris Mont' Kiara, 50480 Kuala Lumpur
Telephone: (603) - 6203 7227
Website: www.mercurysecurities.com.my
Email: mercurykl@mersec.com.my