

23 Nov 2020

Hold

Price
 RM0.47

Target Price
 RM0.50

Market Data

Bloomberg Code	MRC MK
No. of shares (m)	4,412.1
Market cap (RMm)	2,051.6
52-week high/low (RM)	0.81 / 0.28
Avg daily turnover (RMm)	2.6
KLCI (pts)	1,597.5

Source: Bloomberg, KAF

Major Shareholder (%)

EPF	(35.9%)
Gapurna	(15.5%)
Lembaga Tabung Haji	(5.9%)
Free Float	42.6

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	(11.4)	(12.3)	(38.4)
Rel Market (%)	(12.4)	(20.9)	(38.3)



Source: Bloomberg, KAF

Analyst

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MRCB

Still hampered by lockdowns, LRT 3

We maintain our Hold rating on MRCB with lower TP of RM0.50 as 9M20 earnings disappointed. While 9M20 topline grew 5% YoY, it reported a small core loss of RM1m as lockdowns and LRT 3 continues to stifle efforts to boost bottomline. Similarly, its pre-sales trajectory is still fluid although the maiden residential launch at Kwasa Sentral is targeted by 1Q21, with continued emphasis on affordable homes.

Financial Highlights

FYE Dec	2018	2019	2020F	2021F	2022F
Revenue (RMm)	1,870.7	1,319.4	1,470.5	1,998.0	2,036.9
Core net profit (RMm)	101.2	31.7	2.8	25.2	61.0
Core EPS (Sen)	2.4	1.0	0.4	0.9	1.6
EPS growth (%)	(10.1)	(59.0)	(59.6)	114.4	85.2
DPS (Sen)	1.8	1.0	0.2	0.3	1.0
Core PE (x)	34.0	81.9	115.5	53.9	29.1
Div yield (%)	2.1	1.2	0.3	0.6	2.2
ROE (%)	2.1	0.5	(4.3)	0.6	1.3
Net Gearing (%)	19.5	27.4	27.2	29.6	30.4
PBV(x)	0.8	0.7	0.5	0.4	0.4

Source: Company, KAF

9M20 results disappointed

Excluding RM203m in provisions and impairments booked in the previous quarter, MRCB managed to eke out a small core profit of RM1m vs RM17m cores losses in 2Q20. 9M20 topline expanded 5%, aided by a higher settlement rate for the completed 1,060 Carnegie development in Melbourne.

However, the anticipated pick-up in overall 2H20 performance failed to materialize thus far with 9M20 results slipping into core losses of RM1m vs our previous forecast of +RM14m (consensus:RM32m). The main negative variances largely stemmed from slower-than-expected billings from Sentral Suites and smallish contributions from LRT 3.

Curtailed by lockdowns, LRT 3

According to management, productivity levels for ongoing projects were at best – 80%, as operations were still hampered by lockdown measures. Notably, progress on three key projects – Sentral Suites, Kwasa Damansara and most recently, 9 Seputeh have all been disrupted by isolated cases of Covid-19 involving workers from their sub-contractors, resulting in one-week site closure for each development.

On the LRT 3 front, we do not expect meaningful progress until revised contracts are signed with a few more sub-contractors to firm up price discovery. Despite being on track to meet its year-end target of 40% physical progress, LRT 3 profits remained largely insignificant (RM1.6m in 9M20 vs RM1.2m a year earlier).

Property pipeline still muted

Management revealed that it is still difficult to close out new property sales under the current environment, with a fair amount of initial bookings dropping out. In the near-term, the group remains focused on inventory liquidation with a total unsold property stock of RM867m as of 30 September (work-in progress – RM369m; completed units – RM498m).

The group sold RM126m worth of new properties in 9M20, with the sales rate for 9 Seputeh and Sentral Suites hitting bottlenecks pending release of Bumiputera units.

In terms of unsold property stock, bulk of it came from three projects: Vivo @ 9 Seputeh - RM249m (50%), 1,060 Carnegie – RM109m (222%) and St.Regis Residences – RM98m (20%).

As such, MRCB's pre-sales pipeline is still fluid for FY21F although it reaffirmed its commitment to have the maiden residential launch at Kwasa Sentral taking off by 1Q21 after several delays. It also has plans to accelerate several portions of the township project, with a specific focus on affordable homes - a sellable segment that is well-suited for its patented IBS system (MBS).

Tenderbook at RM2.6b

Management updated that it lost out several bids for infrastructure works worth ~RM300m-RM400m to Chinese contractors. This was for Section 6 of the East Coast Rail Link (ECRL). Ongoing bids are estimated at RM2.6b although active bids are only worth about RM500m-RM600m (the remaining portion also includes older bids since last year).

Exhibit 1: Financial results

YE 31 Dec (RM m)	9M19	9M20	% YoY	2Q20	3Q20	% QoQ
Turnover	847.8	890.6	5.0	167.2	297.6	78.0
EBIT	59.4	29.1	<i>n/m</i>	(11.9)	8.6	<i>n/m</i>
Interest Expense	(38.6)	(37.5)		(13.1)	(11.7)	
Interest Income	13.8	14.1		3.3	7.3	
Pre-Exceptionals Profit	34.6	5.7		(21.7)	4.2	
Exceptionals	(8.0)	(202.5)		(202.5)	0.0	
Pre-Associates/JV Profit	26.6	(196.8)		(224.2)	4.2	
Associates/JVs	5.9	9.3		2.2	3.5	
Pretax Profit	32.5	(187.5)	<i>n/m</i>	(222.0)	7.6	<i>n/m</i>
Taxation	(21.1)	(15.5)		2.6	(6.8)	
Minority Interest/disct. ops	6.3	(0.0)		(0.1)	0.1	
Net Profit	17.7	(203.0)	<i>n/m</i>	(219.6)	0.9	<i>n/m</i>
Core Net Profit	25.7	(0.5)	<i>n/m</i>	(17.1)	0.9	<i>n/m</i>
Core EPS (sen)	0.6	(0.0)		(0.4)	0.0	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	1.08	1.03		1.03	1.03	
EBIT Margin (%)	7.0	3.3		(7.1)	2.9	
Pretax Margin (%)	3.8	(21.1)		n/m	2.6	
Effective Tax (%)	65.0	(8.3)		1.2	89.6	
Segmental Breakdown (RM m)						
Turnover						
Construction	420.9	363.2	(13.7)	56.7	131.7	132.5
Property development & investment	371.4	489.4	31.8	100.0	153.0	53.1
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	39.4	33.7	(14.5)	9.6	11.5	20.0
Investment holding & Others	16.1	4.2	(73.7)	1.0	1.4	41.3
Total	847.8	890.6	5.0	167.2	297.6	78.0
EBIT						
Construction	3.3	(198.7)	n/m	(208.2)	(3.0)	n/m
Property development & investment	69.8	34.3	(50.8)	2.0	11.8	n/m
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	3.6	5.7	55.7	0.9	2.4	183.9
Investment holding & Others	(14.1)	(11.0)	n/m	(14.8)	(5.6)	n/m
Total	59.4	29.1	<i>n/m</i>	(11.9)	8.6	<i>n/m</i>
EBIT margin (%)						
Construction	0.8	(54.7)		n/m	(2.3)	
Property development & investment	18.8	7.0		2.0	7.7	
Infrastructure & concession	n/m	n/m		n/m	n/m	
Facilities management & parking	9.3	16.9		9.0	21.3	
Investment holding & Others	n/m	n/m		n/m	n/m	
Total	7.0	3.3		(7.1)	2.9	

Source: Company, KAF

Exhibit 2: NAV calculations

Divisions/Operations	Size (acres)	Value (RM)			Method	% of NAV	Effective stake (%)
		psf	m	/share			
Landbank							
Suria Subang	3.3	500	72.7	0.01			
Selbourne 2, Shah Alam	2.4	350	36.1	0.01			
Metro Spectacular, Jln. Putra (51%)	10.1	600	171.1	0.04			
Sub-total	15.8		280.0	0.06		8.1	
Development properties							
Lot F - Office Towers			305.4	0.06	NPV @ 9%		100.0
9 Seputeh, Old Klang Road			136.3	0.03	NPV @ 9%		100.0
Sentral Suites, KL Sentral			62.7	0.01	NPV @ 9%		100.0
Semarak City, Setapak			35.0	0.01	NPV @ 9%		30.0
PJ Sentral Phase 1 (PJ Garden City)			99.5	0.02	NPV @ 9%		100.0
Kwasa Sentral, Sg.Buloh			566.0	0.12	NPV @ 9%		70.0
Rahman Putra, Sg.Buloh			36.4	0.01	NPV @ 9%		100.0
Cyberjaya City Centre Phase 1, Cyberjaya			137.9	0.03	NPV @ 9%		70.0
Bukit Jalil Sentral			320.0	0.07	NPV @ 9%		20.0
Penang Sentral			226.7	0.05	NPV @ 9%		100.0
Pulai Land			57.7	0.01	NPV @ 9%		100.0
1060 Carnagie, Melbourne			23.7	0.00	NPV @ 9%		100.0
Unbilled sales			203.7	0.04	NPV @ 9%		100.0
Sub-total			2,211.1	0.45		63.9	
Investment properties							
		NLA/room bays	Value (RM) m	/share	Method		Effective stake (%)
Menara Celcom (Lot 8)		450,908	402.6	0.08	NPI@6.25%		100.0
Menara MRCB, Shah Alam		216,000	25.9	0.01	NPI@7%		100.0
Plaza Alam Sentral, Shah Alam		433,349	98.1	0.02	NPI@7%		100.0
Kompleks Sentral, Segambut Industrial Park		484,689	45.0	0.01	NPI@6.75%		100.0
Ascott Sentral (Lot 348), KL Sentral		143 rooms	121.6	0.02	RM0.85m/room		100.0
Sub-total			693.2	0.14		20.0	
Car park parks							
Plaza Alam Sentral, Shah Alam		1,400 bays	70.0	0.01	RM50k/bay		100.0
Menara Celcom (Lot 8)		1000 bay	70.0	0.01	RM70k/bay		100.0
Sub-total			140.0	0.03		4.0	
Property management							
Quill Capita Management (QCM)			91.5	0.02	NPI@6.5%		41.0
Sub-total			91.5	0.02		2.6	
Construction & Facilities Management							
Construction			202.5	0.04	12x FY20F net profit		
Facilities management			147.0	0.03	Net book value as of FY19		
Bukit Jalil Sentral Management Contract			40.5	0.01	NPV@7.5%		
Sub-total			390.0	0.08		11.3	
Listed-investments							
MRCB-Quill REIT			216.2	0.04	Market Value		27.8
Sub-total			216.2	0.04		6.3	
Others			189.1	0.04	Net book value as of FY19		
Sub-total			189.1	0.04		5.5	
Gross NAV			4,211.1	0.86			
Net cash			(1,314.2)	(0.27)	FY19	(38.0)	
Proceeds from ESOS/warrant conversions			560.9	0.12	Warrants B exercise price: RM1.25	16.2	
Total NAV			3,457.7	0.71		100.0	
FD no of shares			4,868.5				
NAV/share			0.71				
TP (less: 30% discount)			0.50				
Upside (%)			6.9				
Implied PE (x)			123.4				
Discount to NAV (%)			(34.5)				

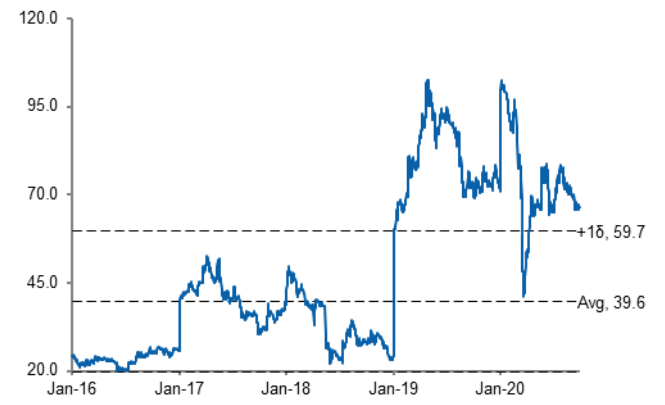
Source: Company, Bloomberg, KAF

Exhibit 3: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 4: PE Band chart



Source: Company, KAF, Bloomberg

Income Statement

FYE Dec (RMm)	2018	2019	2020F	2021F	2022F
Revenue	1,870.7	1,319.4	1,470.5	1,998.0	2,036.9
EBITDA	152.4	142.4	123.2	169.4	193.8
Depreciation/Amortisation	(31.5)	(62.0)	(74.5)	(77.0)	(79.5)
Operating income (EBIT)	120.9	80.4	48.7	92.3	114.2
Other income & associates	25.5	6.6	23.5	35.2	47.1
Net interest	(23.4)	(26.0)	(56.8)	(57.8)	(60.0)
Exceptional items	0.0	(8.0)	(202.5)	0.0	0.0
Pretax profit	123.0	53.0	(187.1)	69.7	101.3
Taxation	(46.1)	(34.3)	(21.3)	(40.5)	(33.5)
Minorities/pref dividends	24.3	5.0	8.8	(3.9)	(6.8)
Net profit	101.2	23.7	(199.7)	25.2	61.0
Core net profit	101.2	31.7	2.8	25.2	61.0

Balance Sheet

FYE Dec (RMm)	2018	2019	2020F	2021F	2022F
Fixed assets	665.4	600.4	623.8	645.4	665.2
Intangible assets	226.7	224.3	218.2	212.1	206.1
Other long-term assets	4,227.0	4,351.9	4,363.6	4,386.3	4,420.0
Total non-current assets	5,119.0	5,176.6	5,205.6	5,243.8	5,291.3
Cash & equivalent	551.6	516.9	594.6	429.0	327.6
Stock	1,043.7	963.2	926.8	1,055.1	1,063.5
Trade debtors	1,609.2	1,750.7	1,490.6	1,806.4	1,785.8
Other current assets	18.8	97.6	97.6	97.6	97.6
Total current assets	3,223.3	3,328.4	3,109.7	3,388.1	3,274.5
Trade creditors	1,188.7	1,013.6	1,076.3	1,420.3	1,349.8
Short-term borrowings	727.1	824.8	487.3	564.8	642.3
Other current liabilities	49.4	32.9	32.9	32.9	32.9
Total current liabilities	1,965.2	1,871.3	1,596.6	2,018.1	2,025.1
Long-term borrowings	767.4	1,006.4	1,343.8	1,216.3	1,088.8
Other long-term liabilities	709.3	803.9	803.9	803.9	803.9
Total long-term liabilities	1,476.7	1,810.2	2,147.7	2,020.2	1,892.7
Shareholders' funds	4,832.4	4,791.6	4,547.9	4,566.5	4,614.3
Minority interests	68.0	31.9	23.1	27.1	33.9

Cash flow Statement

FYE Dec (RMm)	2018	2019	2020F	2021F	2022F
Pretax profit	123.0	53.0	(187.1)	69.7	101.3
Depreciation/Amortisation	31.5	62.0	74.5	77.0	79.5
Net change in working capital	1,304.9	(236.0)	359.1	(100.0)	(58.3)
Others	(298.8)	(224.3)	(44.8)	(75.8)	(80.6)
Cash flow from operations	1,160.5	(345.4)	201.7	(29.1)	41.9
Capital expenditure	(509.8)	0.0	(80.0)	(80.0)	(80.0)
Net investments & sale of fixed assets	71.2	128.7	0.0	0.0	0.0
Others	1,479.4	29.3	0.0	0.0	0.0
Cash flow from investing	1,040.7	158.0	(80.0)	(80.0)	(80.0)
Debt raised/(repaid)	(1,891.0)	336.7	0.0	(50.0)	(50.0)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(106.2)	(106.2)	(44.0)	(6.6)	(13.2)
Others	(198.3)	(212.0)	0.0	0.0	0.0
Cash flow from financing	(2,195.5)	18.5	(44.0)	(56.6)	(63.2)
Net cash flow	5.8	(168.9)	77.7	(165.7)	(101.3)
Cash b/f	500.0	505.8	336.9	414.6	248.9
Cash c/f	505.8	336.9	414.6	248.9	147.6

Key Ratios

FYE Dec	2018	2019	2020F	2021F	2022F
Revenue growth (%)	(29.2)	(29.5)	11.5	35.9	2.0
EBITDA growth (%)	(40.6)	(6.6)	(13.5)	37.4	14.4
Pretax margins (%)	6.6	4.0	(12.7)	3.5	5.0
Net profit margins (%)	5.4	1.8	(13.6)	1.3	3.0
Interest cover (x)	5.2	3.1	0.9	1.6	1.9
Effective tax rate (%)	37.5	64.7	(11.4)	58.2	33.1
Net dividend payout (%)	76.3	185.1	n/m	52.5	72.3
Debtors turnover (days)	314	484	370	330	320
Stock turnover (days)	260	351	310	260	260
Creditors turnover (days)	296	370	360	350	330

Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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