



AmInvestment Bank

Company report

MRCB

(MRC MK EQUITY, MYRS.KL)

20 Sep 2017

Rights issue price fixed

HOLD

(Downgraded)

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03-2036 2025

Rationale for report: Company update

Price	RM1.19
Fair Value	RM1.26
52-week High/Low	RM1.80/RM1.13

Key Changes

Fair value	⬇️
EPS	⬇️

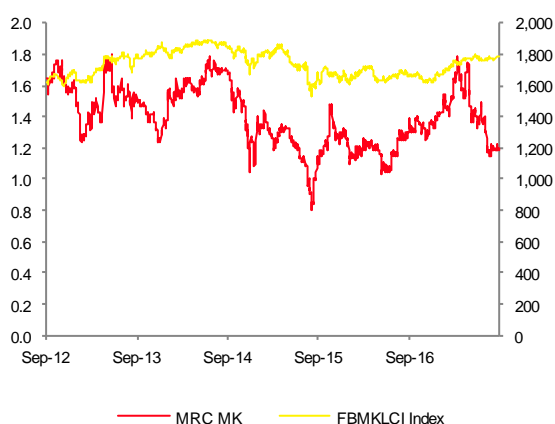
YE to Dec	FY16	FY17F	FY18F	FY19F
Revenue (RM mil)	2,408.1	1,933.5	2,275.6	2,734.6
Core net profit (RM mil)	267.4	115.2	150.1	198.9
FD Core EPS (sen)	6.1	2.5	3.0	3.8
FD Core EPS growth (%)	254.0	(59.6)	22.5	25.7
Consensus Net Profit (RM mil)	-	119.4	140.8	184.8
DPS (sen)	2.0	2.0	2.0	2.0
PE (x)	19.4	48.1	39.2	31.2
EV/EBITDA (x)	7.7	15.3	12.8	10.1
Div yield (%)	1.7	1.7	1.7	1.7
ROE (%)	10.3	4.3	6.1	7.7
Net Gearing (%)	69.5	131.0	126.7	117.3

Stock and Financial Data

Shares Outstanding (million)	1,760.1
Market Cap (RMmil)	2,094.5
Book Value (RM/share)	1.64
P/BV (x)	0.7
ROE (%)	10.3
Net Gearing (%)	69.5

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)	8.1

Price performance	3mth	6mth	12mth
Absolute (%)	(13.8)	(22.2)	(8.5)
Relative (%)	(13.2)	(23.6)	(14.9)



Investment Highlights

- We cut our fair value of MRCB to RM1.26 (from RM1.89), still based on a 10% discount to its RNAV, due to the dilutive effect of the rights issue and free warrants.
- MRCB has announced that it has fixed the issue price of its rights shares at RM0.79 per rights share, and the exercise price for its rights warrants at RM1.25 per rights warrant. To recall, MRCB had on 17 May 2017 proposed a renounceable rights issue of up to 2.85bil new ordinary shares together with up to 570.76mil free detachable warrants, on the basis of one rights share for every one existing MRCB share (1-for-1) and one free rights warrant for every five rights shares subscribed (1-for-5). The rights issue goes ex on 5 Oct 2017.
- The issue price represents a 20.2% discount to the theoretical ex-rights price (TERP) of MRCB shares of RM0.99 based on the 5-day VWAMP of RM1.1999 up to and including 18 Sep 2017. The exercise price represents a premium of 26.3% to the TERP of MRCB shares based on the 5-day VWAMP of RM1.1999 up to and including 18 Sep 2017, being the market day immediately preceding the price fixing date on 19 Sep 2017.
- MRCB also entered into an underwriting agreement with RHB Investment Bank, CIMB Investment Bank and CIMB Islamic Bank (joint underwriters) to underwrite up to 1.73bil rights shares together with 345.55mil rights warrants, representing approximately 60.5% of the total rights shares with rights warrants to be issued under the maximum scenario. The remaining 39.5% represents the entitlements of the EPD and Gapurna Sdn Bhd, the major shareholders of MRCB, for which they have provided written undertakings to subscribe in full for their respective entitlements.
- Under the maximum scenario, the enlarged share capital will increase to 6.82bil upon the completion of the rights issue and full exercise of the rights warrants. MRCB would be able to raise in total RM2.97bil from the rights issue and exercise of warrants under the maximum scenario.
- MRCB also announced that it had acknowledged receipt of letters of acceptance in relation to its tender bids for two projects: 1) construction and completion of elevated stations and other associated works at Cyberjaya City Centre and Putrajaya Sentral (Package S210) for Mass Rapid Transit Corporation Sdn Bhd for a contract sum of RM145.8mil; and 2) construction of Larkin Indoor Stadium, Johor Baru for Johor Land Bhd for a contract sum of RM58.9mil, with a contract duration of 18 months from the date of site possession. We expect both projects to contribute positively to future earnings.

RIGHTS ISSUE TO FUND LONG-TERM GROWTH

We understand that the major objective of the capital raising is to strengthen MRCB's balance sheet and secure funding for its future growth. The majority of the proceeds (RM975mil) will be utilized to finance the refurbishing, renovating, and upgrading of the National Sports Complex in Bukit Jalil, while RM826.3mil will be utilized to repay the group's borrowings. We believe the much stronger balance sheet will allow MRCB to undertake more projects that it has in its pipeline. However, due to the large number of new shares to be issued and the deep discount of the rights price issue, we expect the rights issue to be dilutive on the EPS and RNAV per share of MRCB. Hence, we are downgrading our call to HOLD from BUY on the stock.

EXHIBIT 1: RNAV CALCULATION

Divisions/Operations	Size (acres)	Value (RM)		Method	Effective stake (%)
		psf	mil		
Landbank					
Kota Kinabalu, Sabah	3	32	3.8	MV	100
Bandar Seri Iskandar	4,000	3	365.9	MV	70
Development properties					
Senawang Sentral			5.8	NPV @ 11%	100.0
St.Regis Service Residences (Lot C)			1.1	NPV @ 11%	30.0
Q Sentral (Lot B)			6.5	NPV @ 11%	66.0
Sentral Residences (Lot D)			12.9	NPV @ 11%	51.0
Lot F - Office Towers			278.4	NPV @ 11%	100.0
9 Seputeh, Old Klang Road			130.5	NPV @ 11%	100.0
Suria Subang, Subang Jaya			37.5	NPV @ 11%	100.0
Selborn 2, Shah Alam			17.0	NPV @ 11%	100.0
Lot 349, privatization agreement, Brickfields			154.7	NPV @ 11%	100.0
The Grid, Kia Peng			35.0	NPV @ 11%	100.0
Semarak City, Setapak			214.7	NPV @ 11%	100.0
3 Residences, Kajang			15.8	NPV @ 11%	100.0
Lot 2C4, Putrajaya			21.6	NPV @ 11%	70.0
PJ Sentral Phase 1			170.4	NPV @ 11%	100.0
MX-1, KWASA Damansara, Sg.Buloh			495.4	NPV @ 11%	70.0
Rahman Putra, Sg.Buloh			47.9	NPV @ 11%	100.0
German Embassy land, Jln Kia Peng			114.5	NPV @ 11%	100.0
Cyberjaya City Centre Phase 1, Cyberjaya			289.1	NPV @ 11%	70.0
KL Sports City land swap			563.4	NPV @ 11%	85.0
Batu Ferringghi land			33.2	NPV @ 11%	100.0
Penang Sentral			259.2	NPV @ 11%	100.0
Pulai Land			130.4	NPV @ 11%	100.0
Burwood			6.8	NPV @ 11%	100.0
Unbilled sales			100.8	NPV @ 11%	100.0
Investment properties					
Celcom-Axiata (Lot 8)		450,908	402.6	NOI@6.25%	100.0
Plaza Alam Sentral, Shah Alam		433,349	105.7	NOI@6.5%	100.0
Kompleks Sentral, Segambut Industrial Park		484,689	45.0	NOI@6.75%	100.0
Ascott Residences (Lot 348)		143 rooms	114.4	RM0.8mil/room	100.0
St. Regis Hotel (Lot C)		208 rooms	62.4	RM1mil/room	30.0
Expressways					
Eastern Dispersal Link (EDL)			472.6	DCF @ 7%	100.0
Construction & Infrastructure					
Construction			739.5	8x ave.FY18F net profit	
Facilities management			26.3	6x FY17F net profit	
Listed investments					
MRCB-Quill REIT			224.8	Market Value	31.2
Gross RNAV			6,136.8		
Net debt			(1,815.4)	As at 31 December 2016	
Proceeds from ESOS/warrant conversions			1,509.2	Warrants exercise price: RM2.30	
Proceeds from rights issue			2,254.5		
Proceeds from free warrants			713.4		
Total RNAV			8,798.6		
FD no of shares (pre-rights)			2,853.8		
No of shares from rights issue			2,853.8		
No of shares from exercise of warrants			570.8		
FD no of shares (post rights and warrants)			6,278.3		
RNAV/share			1.40		
Fair Value (less: 10% discount)			1.26		

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART

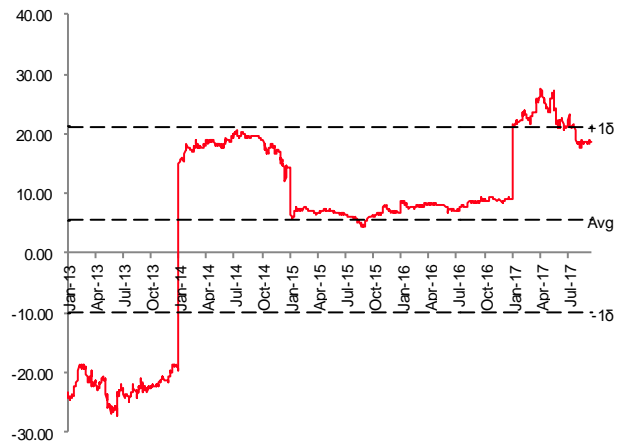


EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	1,696.7	2,408.1	1,933.5	2,275.6	2,734.6
EBITDA	242.3	535.9	341.6	411.9	520.7
Depreciation/Amortisation	(64.2)	-	(36.3)	(67.2)	(125.5)
Operating income (EBIT)	178.2	535.9	305.4	344.7	395.2
Other income & associates	7.9	32.7	68.1	51.1	83.6
Net interest	(145.5)	(175.9)	(156.7)	(165.8)	(162.3)
Exceptional items	329.6	-	-	-	-
Pretax profit	370.1	392.6	216.7	229.9	316.4
Taxation	(6.1)	(73.5)	(63.6)	(62.5)	(85.8)
Minorities/pref dividends	(33.6)	(51.7)	(38.0)	(17.4)	(31.7)
Net profit	330.4	267.4	115.2	150.1	198.9
Core net profit	0.8	267.4	115.2	150.1	198.9
Balance Sheet (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Fixed assets	337.5	437.8	321.0	297.1	272.5
Intangible assets	317.1	252.9	303.2	296.3	289.3
Other long-term assets	3,741.0	3,895.9	3,854.9	3,839.5	3,799.2
Total non-current assets	4,395.5	4,586.6	4,479.0	4,432.9	4,361.0
Cash & equivalent	339.2	722.2	199.3	178.6	239.3
Stock	63.1	57.5	57.6	67.4	80.1
Trade debtors	1,113.8	1,580.6	1,430.2	1,683.3	2,022.9
Other current assets	1,178.1	805.4	1,457.1	1,633.1	1,810.4
Total current assets	2,694.3	3,165.6	3,144.3	3,562.4	4,152.7
Trade creditors	1,199.3	1,586.4	1,420.0	1,640.1	1,948.3
Short-term borrowings	1,049.5	806.3	683.4	698.4	713.5
Other current liabilities	47.1	42.6	25.3	25.3	25.3
Total current liabilities	2,295.9	2,435.2	2,128.7	2,363.8	2,687.0
Long-term borrowings	2,345.9	2,130.8	2,847.0	2,852.2	2,852.4
Other long-term liabilities	135.2	161.2	135.2	135.2	135.2
Total long-term liabilities	2,481.2	2,292.0	2,982.2	2,987.4	2,987.6
Shareholders' funds	2,260.1	2,925.8	2,404.1	2,518.4	2,681.6
Minority interests	52.6	99.2	108.3	125.6	157.3
BV/share (RM)	1.27	1.64	1.35	1.41	1.50
Cash Flow (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Pretax profit	370.1	392.6	216.7	229.9	316.4
Depreciation/Amortisation	64.2	-	36.3	67.2	125.5
Net change in working capital	606.2	-	(211.8)	(218.9)	(221.4)
Others	(900.1)	(533.9)	(131.7)	(113.5)	(169.4)
Cash flow from operations	140.4	(141.3)	(90.5)	(35.3)	51.2
Capital expenditure	(1,135.6)	-	10.0	30.0	30.0
Net investments & sale of fixed assets	696.6	626.5	-	-	-
Others	29.8	16.4	-	-	-
Cash flow from investing	(409.3)	642.9	10.0	30.0	30.0
Debt raised/(repaid)	(295.9)	(461.2)	100.3	20.3	15.3
Equity raised/(repaid)	0.8	401.9	-	-	-
Dividends paid	(82.4)	(76.6)	(35.7)	(35.7)	(35.7)
Others	677.5	(112.2)	-	-	-
Cash flow from financing	299.9	(248.1)	64.5	(15.5)	(20.5)
Net cash flow	31.0	253.5	(15.9)	(20.8)	60.7
Net cash/(debt) b/f	308.2	339.2	215.3	199.3	178.6
Net cash/(debt) c/f	339.2	592.8	199.3	178.6	239.3
Key Ratios (YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue growth (%)	12.0	41.9	(19.7)	17.7	20.2
EBITDA growth (%)	(17.6)	121.1	(36.3)	20.6	26.4
Pretax margin (%)	21.8	16.3	11.2	10.1	11.6
Net profit margin (%)	19.5	11.1	6.0	6.6	7.3
Interest cover (x)	1.2	3.0	1.9	2.1	2.4
Effective tax rate (%)	1.6	18.7	29.3	27.2	27.1
Dividend payout (%)	13.5	13.4	31.0	23.8	18.0
Debtors turnover (days)	240	240	270	270	270
Stock turnover (days)	20	17	15	15	15
Creditors turnover (days)	371	466	370	365	365

Source: Company, AmlInvestment Bank Bhd estimates

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