



AmInvestment Bank

Company report

MRCB

(MRC MK EQUITY, MYRS.KL)

8 Nov 2018

Gets RM1.3bil EDL compensation, RM11.86bil LRT3 job

HOLD

(Maintained)

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03-2036 2025

Rationale for report: Company update

Price RM0.78
 Fair Value RM0.82
 52-week High/Low RM1.31/RM0.55

Key Changes

Fair value

EPS

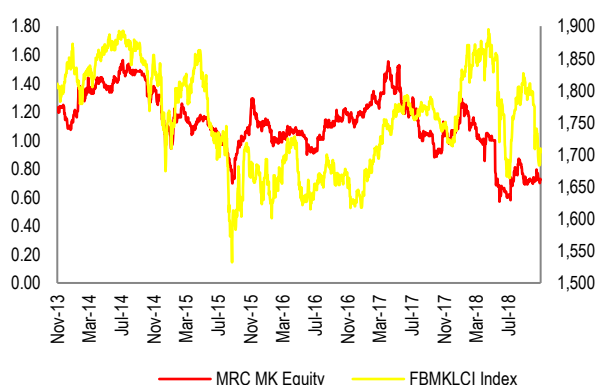
YE to Dec	FY17	FY18F	FY19F	FY20F
Revenue (RM mil)	2,823.7	1,601.7	2,136.4	2,292.0
Core net profit (RM mil)	164.3	88.9	146.3	163.9
FD Core EPS (sen)	3.7	2.0	3.3	3.7
FD Core EPS growth (%)	(38.3)	(45.9)	64.5	12.1
Consensus Net Profit (RM mil)	-	123.9	158.2	188.3
DPS (sen)	1.7	1.0	1.5	1.7
PE (x)	20.9	38.6	23.4	20.9
EV/EBITDA (x)	15.1	23.9	21.7	20.5
Div yield (%)	2.2	1.3	1.9	2.2
ROE (%)	4.8	1.8	3.0	3.3
Net Gearing (%)	55.2%	50.4%	53.6%	54.4%

Stock and Financial Data

Shares Outstanding (million)	4,395.0
Market Cap (RM mil)	3,428.1
Book Value (RM/share)	1.11
P/BV (x)	0.6
ROE (%)	4.8
Net Gearing (%)	55.2

Major Shareholders	EPF	35.5%
	Gapurna Sdn Bhd	16.6%
	LTH	7.0%
Free Float	40.9%	
Avg Daily Value (RM mil)	20.39	

Price performance	3mth	6mth	12mth
Absolute (%)	(7.1)	(27.8)	(29.8)
Relative (%)	8.2	(2.4)	(30.0)



Investment Highlights

- We maintain our HOLD call on MRCB with a revised FV of RM0.82 per share (from RM0.80), based on SOP valuations (Exhibit 1). We maintained our FY18-FY20 earnings forecasts. The FV upgrade is to reflect a higher valuation for the Eastern Dispersal Link (EDL).
- MRCB's long overdue concerns over the LRT3 continuation and EDL compensation have now been resolved with a clearer picture. MRCB-George Kent Sdn Bhd (MRCB-GK) has accepted the LRT3 contract award for a revised sum while the government has allocated RM1.3bil in Budget 2019 as full compensation to MRCB for the abolishment of toll collection on MRCB's EDL.
- MRCB-GK received a letter of award from Prasarana to build the LRT3 for RM11.86bil that includes a contingency/provisional sum of RM400mil, which, if not utilised, will reduce the contract sum. To recap, the MRCB-George Kent JV in Oct 2018 announced it was notified by the government that the LRT3 project will continue at RM16.6 billion.
- We understand that the RM11.86bil amount is consistent with the RM16.6bil figure announced by the government previously, as the latest number is purely for civil works and it excludes land acquisition, interest during construction etc., amounting to RM4.8bil. Therefore, we made no changes to our estimates.
- Meanwhile, as mentioned in Budget 2019, the government will provide a compensation of RM1.3bil for the acquisition of EDL in Johor.
- So far, no notice has been given regarding the date of payment and the management is still negotiating with the government.
- We have previously factored in about RM1.2bil into our SOP valuations, but now with clearer information, we raise our valuations by RM100mil to RM1.3bil and our fair value revised to RM0.82 from RM0.80 previously.
- The government's decision to continue the LRT3 and compensate for the EDL has cleared the uncertainties in MRCB; and thus provide better visibility for the future. We believe the outlook for MRCB remain stable premised on its strong property unbilled sales of RM1.6bil, a robust outstanding construction order book of RM4.8bil and outstanding LRT jobs of RM11.86bil.

EXHIBIT 1: SOP VALUATIONS

DEVELOPMENT PROPERTIES	Outstanding GDV (RMmil)	NPV @11% (RMmil)	Stake	% of SOP
KL Sentral: Lot F	2,993.0	119.3	74.0%	
PJ Sentral Garden City	2,619.0	175.0	100.0%	
Penang Sentral	2,865.0	154.3	100.0%	
Cyberjaya City Centre	5,350.0	201.7	70.0%	
Kwasa Sentral	10,555.0	397.9	70.0%	
Pulai Land, Johor	770.0	51.4	100.0%	
9 Seputeh	2,680.0	144.3	100.0%	
Lot 349, Sentral Suites	1,529.0	102.1	100.0%	
Carnegie, Melbourne	305.0	20.4	100.0%	
Bukit Rahman Putra	547.0	36.5	100.0%	
Bandar Sri Iskandar (Phase 2C, 2D & 3)	766.0	35.8	70.0%	
Unbilled sales		143.9	100.0%	
Bukit Jalil Sentral	20,700.0	167.4	20.0%	
Landbank surplus				
Suria Subang		20.9	100.0%	
Selbourne 2 Shah Alam		15.5	100.0%	
Metro Spectacular Land, Jalan Putra		80.5	51.0%	
Total NPV		1,866.9	-	
Property (40% discount to NPV, WACC 11%)		1,120.1		16.9%
Investment properties (book value)		1,211.3	100.0%	18.3%
Construction (10x FY19 earnings -excluding LRT3)		499.9	100.0%	7.5%
LRT 3 (NPV, WACC 11%)		209.1	50.0%	3.2%
MRCB Quill REIT (market value)		323.0	27.9%	4.9%
Investments in JV (book value)		278.9	-	4.2%
Proceeds from disposal of EDL		1,300.0		19.6%
Proceeds from sale of Bukit Jalil Sentral land		1,140.8	80.0%	17.2%
Proceeds from Warrants B		548.1	-	8.3%
Total SOP		6,631.2		
Net cash/(debt) ex EDL debt		(2,657.6)		
Fair value		3,973.6		
Enlarged share base (mil shares)		4,823.1		
Fair value per share		0.82		

Source: AmlInvestment Bank Bhd

EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue	2,408.1	2,823.7	1,601.7	2,136.4	2,292.0
EBITDA	577.8	403.4	245.7	280.5	300.7
Depreciation/Amortisation	(75.2)	(68.2)	(59.3)	(63.2)	(64.4)
Operating income (EBIT)	502.6	335.2	186.4	217.2	236.3
Other income & associates	32.7	25.0	25.5	92.7	92.9
Net interest	(152.5)	(90.6)	(84.3)	(86.1)	(81.1)
Exceptional items	1.0	3.3	0.0	0.0	0.0
Pretax profit	382.8	269.7	127.6	223.9	248.1
Taxation	(75.5)	(65.5)	(30.6)	(53.7)	(59.6)
Minority interests	(51.7)	(14.2)	(8.1)	(10.8)	(11.6)
Net profit	255.5	189.9	88.9	159.4	177.0
Core net profit	254.5	186.6	88.9	159.4	177.0
Balance Sheet (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
PPE	437.8	614.2	645.0	677.2	711.1
Intangible assets	252.9	225.6	225.6	225.6	225.6
Other long-term assets	3,862.2	3,378.7	5,155.9	5,219.5	5,286.3
Total non-current assets	4,552.9	4,218.6	6,026.5	6,122.3	6,223.0
Cash & equivalent	722.2	724.2	486.2	494.7	504.1
Inventories	816.2	885.1	689.3	804.0	873.2
Trade receivables	1,334.9	3,020.6	1,404.2	1,638.8	1,569.9
Other current assets	45.0	1,342.0	1,235.9	1,260.0	1,276.2
Total current assets	2,918.2	5,971.9	3,815.6	4,197.5	4,223.3
Trade payables	1,314.6	1,296.2	1,059.4	1,238.5	1,325.0
Short-term borrowings	806.3	2,490.6	2,431.1	2,473.5	2,520.3
Other current liabilities	68.7	217.9	201.0	208.4	210.6
Total current liabilities	2,189.6	4,004.8	3,691.4	3,920.4	4,055.9
Long-term borrowings	2,130.8	891.2	505.6	674.3	723.4
Other long-term liabilities	161.4	493.3	727.6	703.1	545.5
Total long-term liabilities	2,292.2	1,384.6	1,233.1	1,377.4	1,268.9
Shareholders' funds	2,924.6	4,817.2	4,862.2	4,946.9	5,040.6
Minority interests	99.3	104.5	59.3	79.1	84.8
BV/share (RM)	0.67	1.10	1.11	1.13	1.15
Cash Flow (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Pretax profit	382.8	269.7	127.6	223.9	248.1
Depreciation/Amortisation	75.2	68.2	59.3	63.2	64.4
Net change in working capital	(56.5)	(1,155.2)	1,558.4	(162.8)	88.5
Others	(246.7)	(287.6)	457.2	(156.5)	(303.5)
Cash flow from operations	154.8	(1,104.9)	2,202.6	(32.2)	97.5
Capital expenditure	(130.7)	(176.0)	(30.7)	(32.2)	(33.9)
Net investments & sale of fixed assets	(288.4)	(23.0)	(60.6)	(63.6)	(66.8)
Others	78.0	(843.3)	(1,600.0)	0.0	0.0
Cash flow from investing	(341.1)	(1,042.3)	(1,691.3)	(95.8)	(100.6)
Debt raised/(repaid)	39.8	452.0	(445.2)	211.1	96.0
Equity raised/(repaid)	401.7	1,789.8	0.0	0.0	0.0
Dividends paid	(49.8)	(70.1)	(43.9)	(74.6)	(83.4)
Others	46.1	(130.8)	0.0	0.0	0.0
Cash flow from financing	437.8	2,040.9	(489.1)	136.5	12.5
Net cash flow	251.5	(106.4)	22.2	8.5	9.4
Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	339.2	592.8	464.0	486.2	494.7
Net cash/(debt) c/f	590.8	486.4	486.2	494.7	504.1
Key Ratios (YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue growth (%)	41.9	17.3	(43.3)	33.4	7.3
EBITDA growth (%)	0.7	(30.2)	(39.1)	14.1	7.2
Pretax margin (%)	15.9	9.5	8.0	10.5	10.8
Net profit margin (%)	10.6	6.7	5.6	7.5	7.7
Interest cover (x)	3.3	3.7	2.2	2.5	2.9
Effective tax rate (%)	19.7	24.3	24.0	24.0	24.0
Dividend payout (%)	23.6	40.5	49.4	46.8	47.1
Receivable turnover (days)	202.3	390.5	320.0	280.0	250.0
Inventory turnover (days)	66.6	110.0	179.4	127.6	133.5
Payable turnover (days)	188.9	168.7	268.4	196.3	204.1

Source: AmlInvestment Bank Bhd estimates

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