



Company report

MRCB

(MRC MK EQUITY, MYRS.KL)

29 Jan 2019

Bags RM323mil contract

BUY

(Upgraded)

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Rationale for report: Company update

Price	RM0.70
Fair Value	RM0.84
52-week High/Low	RM1.28/RM0.55

Key Changes

Fair value	↑
EPS	↑

YE to Dec (RM mil)	FY17	FY18F	FY19F	FY20F
Revenue (RM mil)	2,823.7	1,851.7	2,297.9	2,453.5
Core net profit (RM mil)	164.3	97.8	152.9	170.3
FD Core EPS (sen)	3.7	2.2	3.5	3.9
FD Core EPS growth (%)	(38.3)	(40.5)	56.4	11.4
Consensus Net Profit (RM mil)	-	109.0	143.0	170.1
DPS (sen)	1.7	1.1	1.6	1.8
PE (x)	19.5	32.8	21.0	18.8
EV/EBITDA (x)	14.5	20.3	17.5	16.1
Div yield (%)	2.4	1.5	2.2	2.5
ROE (%)	4.8	2.0	3.1	3.4
Net Gearing (%)	55.2%	22.9%	23.7%	25.4%

Stock and Financial Data

Shares Outstanding (million)	4,395.1
Market Cap (RM mil)	3,070.6
Book Value (RM/share)	1.09
P/BV (x)	0.6
ROE (%)	4.6
Net Gearing (%)	55.2

Major Shareholders	EPF	35.5%
	Gapurma Sdn Bhd	16.6%
	LTH	7.0%

Free Float	40.9%
Avg Daily Value (RM mil)	8.26

Price performance	3mth	6mth	12mth
Absolute (%)	(4.9)	1.8	(44.2)
Relative (%)	10.9	(2.2)	(41.1)

Investment Highlights

- We upgrade MRCB to BUY from HOLD with a revised FV of RM0.84 from RM0.83 per share, based on SOP valuation (Exhibit 1). We revised our FY19 and FY20 earnings upwards by 4.5% and 3.9% to reflect revenue recognition of the newly-awarded SUKE project.
- MRCB announced that it has been awarded a project for the construction and completion of mainline and other associated works from CH.2400 to CH.4200 for the Sungai Besi-Ulu Kelang Elevated Expressway (SUKE) privatisation package CA2.
- The project is worth RM323mil with the completion date of 3 April 2020, 14 months from the date of site possession on 4 Feb 2019.
- We are positive on this announcement as this project is expected to contribute positively to the earnings of MRCB for the financial years 2019 and 2020. Hence we revised our FY19 and FY20 earnings forecasts by 4.5% and 3.9% to RM152.9mil and RM170.3mil respectively.
- To recap, the government had in October 2018 agreed for the LRT3 project to continue at a total cost of RM16.6bil under a fixed price contract regime. With the addition of this new RM323mil SUKE project, a robust outstanding construction order book of RM4.8bil, a strong property unbilled sales of RM1.62bil and EDL compensation that have now been resolved, we believe the outlook for MRCB remains stable in short to mid-term.
- We raised our FV to RM0.84 (Exhibit 1) from RM0.83 based on SOP valuation; implying forward PERs of 23.6x and 21.2x for FY19–20 respectively.
- As the stock offers a potential upside of 20%, we upgrade MRCB to BUY.

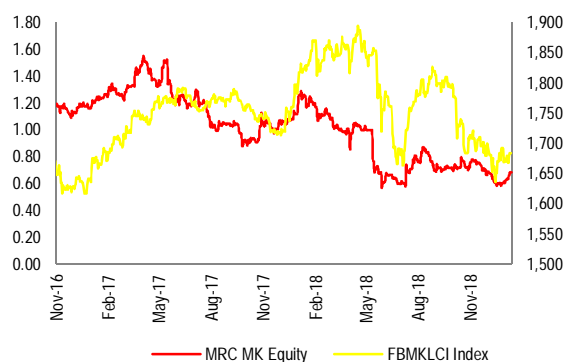


EXHIBIT 1: SOP VALUATIONS

	Outstanding GDV (RMmil)	NPV @11% (RMmil)	Stake	% of SOP
DEVELOPMENT PROPERTIES				
KL Sentral: Lot F	2,993.0	113.5	74.0%	
PJ Sentral Garden City	2,619.0	159.2	100.0%	
Penang Sentral	2,865.0	146.9	100.0%	
Cyberjaya City Centre	5,350.0	192.0	70.0%	
Kwasa Sentral	10,555.0	378.8	70.0%	
Pulai Land, Johor	770.0	46.8	100.0%	
9 Sepuleh	2,680.0	137.4	100.0%	
Lot 349, Sentral Suites	1,529.0	93.0	100.0%	
Carnegie, Melbourne	305.0	18.5	100.0%	
Bukit Rahman Putra	547.0	33.3	100.0%	
Bandar Sri Iskandar (Phase 2C, 2D & 3)	766.0	32.6	70.0%	
Unbilled sales		117.3	100.0%	
Bukit Jalil Sentral	20,700.0	149.5	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%	
Development properties total NPV		1,735.6	-	
Property (40% discount to NPV)		1,041.4		15.6%
Investment properties (book value)		1,267.8	100.0%	18.9%
Construction (10x FY19 earnings -excluding LRT3)		497.6	100.0%	7.4%
LRT 3 (NPV, WACC 11%)		212.1	50.0%	3.2%
Infrastructure exclude LRT 3		30.0	100.0%	
MRCB Quill REIT (market value)		323.0	27.9%	4.8%
Investments in JV (book value)		308.2	-	4.6%
Proceeds from termination of EDL		1,325.8		19.8%
Proceeds from sale of Bukit Jalil Sentral land		1,140.8	80.0%	17.0%
Proceeds from Warrants B		548.1	-	8.2%
Total SOP		6,694.9		
Net cash/(debt)		(2,657.6)		
Fair value		4,037.3		
Enlarged share base (mil shares)		4,823.1		
Fair value per share		0.84		

Source: AmInvestment Bank Bhd

EXHIBIT 2: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue	2,408.1	2,823.7	1,851.7	2,297.9	2,453.5
EBITDA	577.8	403.4	213.1	250.7	278.6
Depreciation/Amortisation	(75.2)	(68.2)	(61.2)	(64.4)	(65.5)
Operating income (EBIT)	502.6	335.2	152.0	186.3	213.1
Other income & associates	32.7	25.0	25.5	75.5	75.6
Net interest	(152.5)	(90.6)	(36.5)	(45.4)	(48.4)
Exceptional items	1.0	3.3	0.0	0.0	0.0
Pretax profit	382.8	269.7	140.9	216.4	240.3
Taxation	(75.5)	(65.5)	(33.8)	(51.9)	(57.7)
Minority interests	(51.7)	(14.2)	(9.3)	(11.6)	(12.4)
Net profit	255.5	189.9	97.8	152.9	170.3
Core net profit	254.5	186.6	97.8	152.9	170.3
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	730.0	742.4	756.1
Inventories	816.2	885.1	498.7	648.8	649.1
Trade receivables	1,334.9	3,020.6	1,040.0	1,322.1	1,394.8
Other current assets	45.0	1,342.0	105.3	128.9	146.0
Total current assets	2,918.2	5,971.9	2,374.0	2,842.2	2,946.0
Trade payables	1,314.6	1,296.2	1,213.5	1,567.9	1,519.6
Short-term borrowings	806.3	2,490.6	1,133.3	989.9	756.1
Other current liabilities	68.7	217.9	204.4	210.6	212.8
Total current liabilities	2,189.6	4,004.8	2,551.3	2,768.5	2,488.5
Long-term borrowings	2,130.8	891.2	711.0	926.7	1,282.5
Other long-term liabilities	161.4	493.3	206.9	239.0	270.6
Total long-term liabilities	2,292.2	1,384.6	917.9	1,165.6	1,553.1
Shareholders' funds	2,924.6	4,817.2	4,866.7	4,949.3	5,040.6
Minority interests	99.3	104.5	68.5	85.0	90.8
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	140.9	216.4	240.3
Depreciation/Amortisation	75.2	68.2	61.2	64.4	65.5
Net change in working capital	(56.5)	(1,155.2)	3,405.9	(71.6)	(119.3)
Others	(246.7)	(287.6)	(64.9)	(103.0)	(115.2)
Cash flow from operations	154.8	(1,104.9)	3,543.1	106.2	71.3
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	(1,537.5)	72.2	122.0
Equity raised/(repaid)	401.7	1,789.8	0.0	0.0	0.0
Dividends paid	(49.8)	(70.1)	(48.3)	(70.2)	(79.0)
Others	46.1	(130.8)	0.0	0.0	0.0
Cash flow from financing	437.8	2,040.9	(1,585.8)	2.0	43.0
Net cash flow	251.5	(106.4)	266.0	12.4	13.7
Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	339.2	592.8	464.0	730.0	742.4
Net cash/(debt) c/f	590.8	486.4	730.0	742.4	756.1
Key Ratios (YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue growth (%)	41.9	17.3	(34.4)	24.1	6.8
EBITDA growth (%)	0.7	(30.2)	(47.2)	17.6	11.1
Pretax margin (%)	15.9	9.5	7.6	9.4	9.8
Net profit margin (%)	10.6	6.7	5.3	6.7	6.9
Interest cover (x)	3.3	3.7	4.2	4.1	4.4
Effective tax rate (%)	19.7	24.3	24.0	24.0	24.0
Dividend payout (%)	23.6	40.5	49.4	45.9	46.4
Receivable turnover (days)	202.3	390.5	205.0	210.0	207.5
Inventory turnover (days)	66.6	110.0	136.4	91.1	96.5
Payable turnover (days)	188.9	168.7	247.4	220.9	229.7

Source: AmInvestment Bank Bhd estimates

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