



AmInvestment Bank

Company report

MRCB

(MRC MK EQUITY, MYRS.KL)

13 Nov 2018

Formal end to EDL contract, MRCB gets RM1,325.8mil

HOLD

(Maintained)

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03-2036 2025

Rationale for report: Company update

Price **RM0.78**
 Fair Value **RM0.83**
 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)	-	119.3	157.6	187.2
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	18.3	18.1	17.1
Div yield (%)	2.2	1.3	1.9	2.2
ROE (%)	4.8	1.8	3.0	3.3
Net Gearing (%)	55.2%	22.2%	23.6%	25.2%

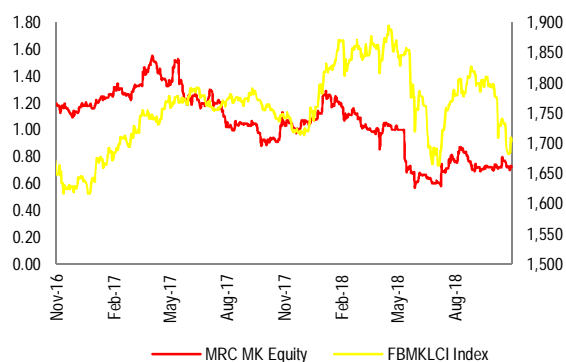
Stock and Financial Data

Shares Outstanding (million)	4,395.1
Market Cap (RM mil)	3,362.2
Book Value (RM/share)	1.11
P/BV (x)	0.7
ROE (%)	4.8
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)	20.39

Price performance	3mth	6mth	12mth
Absolute (%)	(12.1)	(21.5)	(25.3)
Relative (%)	8.1	(6.7)	(25.4)



Investment Highlights

- We maintain our HOLD call on MRCB with a revised FV of RM0.83 per share (from RM0.82), based on SOP valuation (Exhibit 2). We maintained our FY18-FY20 earnings forecasts. The FV revision is to reflect a higher valuation for the Eastern Dispersal Link (EDL).
- As part of Budget 2019, the government has allocated RM1.3bil as full compensation to MRCB for the abolishment of toll collection on MRCB's EDL.
- The EDL contract is formally terminated today with MRCB's announcement that it had entered into a termination and settlement agreement with the Government of Malaysia whereby MRCB will receive a compensation of RM1,325.8mil and the sum will be paid by via bank transfer within 14 days.
- As at 8 November 2018, the total cost and net book value of the EDL service concession asset is approximately RM1,326.57mil and RM1,135.28mil respectively.
- Proceeds will be mainly used for repayment of borrowings (Exhibit 1).
- The compensation receipts of RM1,325.8mil will result in interest savings of about RM65-78mil for FY19 (based on cost of financing of around 5%-6%) which we already included into our forecast earlier, and we leave our numbers unchanged.
- Meanwhile, MRCB's financial leverage will be improved with its net gearing reduced from 0.55x in FY17 to 0.22x after receiving the compensation of RM1,325.8mil.
- We have previously factored in about RM1.3bil into our SOP valuations. Now, with official numbers being announced, we raise our valuations by RM25.8mil to RM1,325.8mil and our fair value will be revised to RM0.83 from RM0.82 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 remains 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: UTILISATION OF PROCEEDS

Details of utilisation of the Settlement Sum	Estimated timeframe for utilisation from date of receipt of the Settlement Sum	Amount	
		RM '000	%
Repayment of the Senior Sukuk	within 1 month	835,710	63.03
Repayment of the Junior Sukuk	within 1 month	238,520	17.99
Repayment of shareholder's advances	within 12 months	226,580	17.09
General working capital	within 12 months	23,130	1.74
Estimated expenses	within 3 months	1,860	0.14
Total		1,325,800	100.00

Source: Company

EXHIBIT 2: SOP VALUATIONS

DEVELOPMENT PROPERTIES	Outstanding GDV (RMmil)	NPV @11% (RMmil)	Stake	% of SOP
KL Sentral: Lot F	2,993.0	118.2	74.0%	
PJ Sentral Garden City	2,619.0	173.7	100.0%	
Penang Sentral	2,865.0	153.0	100.0%	
Cyberjaya City Centre	5,350.0	199.9	70.0%	
Kwasa Sentral	10,555.0	394.5	70.0%	
Pulai Land, Johor	770.0	51.1	100.0%	
9 Seputeh	2,680.0	143.1	100.0%	
Lot 349, Sentral Suites	1,529.0	101.4	100.0%	
Carnegie, Melbourne	305.0	20.2	100.0%	
Bukit Rahman Putra	547.0	36.3	100.0%	
Bandar Sri Iskandar (Phase 2C, 2D & 3)	766.0	35.6	70.0%	
Unbilled sales		139.5	100.0%	
Bukit Jalil Sentral	20,700.0	164.9	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		1,848.3	-	
Property (40% discount to NPV, WACC 11%)		1,109.0		16.7%
Investment properties (book value)		1,211.3	100.0%	18.2%
Construction (10x FY 19 earnings -excluding LRT3)		500.0	100.0%	7.5%
LRT 3 (NPV, WACC 11%)		209.1	50.0%	3.1%
MRCB Quill REIT (market value)		323.0	27.9%	4.9%
Investments in JV (book value)		278.9	-	4.2%
Proceeds from termination of EDL		1,325.8		19.9%
Proceeds from sale of Bukit Jalil Sentral land		1,140.8	80.0%	17.2%
Proceeds from Warrants B		548.1	-	8.2%
Total SOP		6,645.9		
Net cash/(debt)		(2,657.6)		
Fair value		3,988.3		
Enlarged share base (mil shares)		4,823.1		
Fair value per share		0.83		

Source: AmInvestment Bank Bhd

EXHIBIT 3: 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	254.1	275.2
Depreciation/Amortisation	(75.2)	(68.2)	(59.3)	(63.2)	(64.4)
Operating income (EBIT)	502.6	335.2	186.4	190.9	210.8
Other income & associates	32.7	25.0	25.5	75.5	75.6
Net interest	(152.5)	(90.6)	(84.3)	(59.7)	(55.6)
Exceptional items	1.0	3.3	0.0	0.0	0.0
Pretax profit	382.8	269.7	127.6	206.6	230.9
Taxation	(75.5)	(65.5)	(30.6)	(49.6)	(55.4)
Minority interests	(51.7)	(14.2)	(8.1)	(10.8)	(11.6)
Net profit	255.5	189.9	88.9	146.3	163.9
Core net profit	254.5	186.6	88.9	146.3	163.9
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	729.3	741.4	754.8
Inventories	816.2	885.1	435.3	596.3	601.8
Trade receivables	1,334.9	3,020.6	899.6	1,229.1	1,303.0
Other current assets	45.0	1,342.0	100.9	125.0	141.2
Total current assets	2,918.2	5,971.9	2,165.1	2,691.8	2,800.8
Trade payables	1,314.6	1,296.2	1,059.4	1,441.0	1,408.8
Short-term borrowings	806.3	2,490.6	1,131.1	988.5	754.8
Other current liabilities	68.7	217.9	201.0	208.4	210.6
Total current liabilities	2,189.6	4,004.8	2,391.4	2,637.9	2,374.2
Long-term borrowings	2,130.8	891.2	675.7	919.5	1,266.1
Other long-term liabilities	161.4	493.3	206.9	239.0	270.6
Total long-term liabilities	2,292.2	1,384.6	882.6	1,158.4	1,536.8
Shareholders' funds	2,924.6	4,817.2	4,862.2	4,942.6	5,031.9
Minority interests	99.3	104.5	59.3	79.1	84.8
BV/share (RM)	0.67	1.10	1.11	1.12	1.14
Cash Flow (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Pretax profit	382.8	269.7	127.6	206.6	230.9
Depreciation/Amortisation	75.2	68.2	59.3	63.2	64.4
Net change in working capital	(56.5)	(1,155.2)	3,452.0	(101.4)	(109.4)
Others	(246.7)	(287.6)	(63.4)	(95.8)	(110.1)
Cash flow from operations	154.8	(1,104.9)	3,575.5	72.6	75.7
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	(1,575.0)	101.2	112.9
Equity raised/(repaid)	401.7	1,789.8	0.0	0.0	0.0
Dividends paid	(49.8)	(70.1)	(43.9)	(65.9)	(74.6)
Others	46.1	(130.8)	0.0	0.0	0.0
Cash flow from financing	437.8	2,040.9	(1,618.9)	35.3	38.3
Net cash flow	251.5	(106.4)	265.3	12.1	13.4
Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	339.2	592.8	464.0	729.3	741.4
Net cash/(debt) c/f	590.8	486.4	729.3	741.4	754.8
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)	3.4	8.3
Pretax margin (%)	15.9	9.5	8.0	9.7	10.1
Net profit margin (%)	10.6	6.7	5.6	6.8	7.2
Interest cover (x)	3.3	3.7	2.2	3.2	3.8
Effective tax rate (%)	19.7	24.3	24.0	24.0	24.0
Dividend payout (%)	23.6	40.5	49.4	45.0	45.5
Receivable turnover (days)	202.3	390.5	205.0	210.0	207.5
Inventory turnover (days)	66.6	110.0	150.5	88.1	95.4
Payable turnover (days)	188.9	168.7	268.4	213.6	226.9

Source: AmlInvestment Bank Bhd estimates

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