



AmInvestment Bank

Company report

MRCB

(MRC MK EQUITY, MYRS.KL)

26 Feb 2021

LRT3 JV project is 46% completed

HOLD

(Maintained)

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03-2036 2025

Rationale for report: Company results/update

Price RM0.42
Fair Value RM0.41
52-week High/Low RM0.81/RM0.28

Key Changes

Fair value
EPS

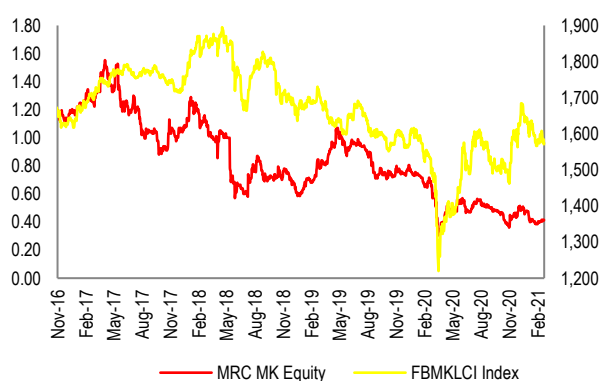
YE to Dec (RM mil)	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	1,199.5	1,533.4	1,585.7	1,752.3
Core net profit (RM mil)	(0.8)	31.3	41.0	46.1
FD Core EPS (sen)	(0.0)	0.7	0.9	1.0
FD Core EPS growth (%)	(103.6)	(3,812.7)	31.1	12.2
Consensus Net Profit (RM mil)	-	42.4	62.9	-
DPS (sen)	0.0	0.4	0.5	0.5
PE (x)	(2,189.7)	59.0	45.0	40.1
EV/EBITDA (x)	22.2	20.6	18.6	17.4
Div yield (%)	0.0	1.0	1.2	1.2
ROE (%)	(0.0)	0.7	0.9	1.0
Net Gearing (%)	17.2%	35.1%	33.5%	35.5%

Stock and Financial Data

Shares Outstanding (million)	4,412.0
Market Cap (RM mil)	1,831.0
Book Value (RM/share)	1.03
P/BV (x)	0.4
ROE (%)	(4.2)
Net Gearing (%)	27.4%

Major Shareholders	EPF	35.9%
	Gapurna Sdn Bhd	15.5%
	LTH	5.9%
Free Float	42.7%	
Avg Daily Value (RM mil)	2.40	

Price performance	3mth	6mth	12mth
Absolute (%)	(10.8)	(21.0)	(38.6)
Relative (%)	3.8	(9.5)	(41.6)



Investment Highlights

- We maintain HOLD on MRCB with a lower fair value of RM0.41 (from RM0.47) based on SOP valuation (Exhibit 2). We cut our FY21–22 net earnings by 41% and 43% respectively to reflect the timing of revenue recognition in: (i) property development; and (ii) engineering, construction & environment divisions. We introduce our FY23 net profit forecast at RM46.1mil.
- MRCB registered an FY20 net loss of RM176.1mil. Excluding the exceptional items of impairment of contract assets, trade and other receivables totalling RM175.3mil, MRCB posted an FY20 core net loss of RM0.8mil vs. a net profit of RM23.7mil YoY. Revenue fell by 9.1% YoY mainly due to lower recognition in the engineering, construction & environment division as a result of the various movement control orders (MCO) and Covid-19 pandemic while FY20 RM0.8mil core net loss was due to higher operating costs.
- The property development & investment division's FY20 revenue climbed 12% YoY to RM489.4mil but core EBIT was 34% lower at RM51mil. The higher revenue was mainly contributed by 1060 Carnegie in Melbourne, Sentral Suites in KL Sentral, 9 Seputeh in Jalan Klang Lama, and the office towers in PJ Sentral Garden City. The MyIPO Office Tower in PJ Sentral Garden City was completed and handed over on 13 November 2020. The lower core EBIT was due to minimal construction progress during the movement restriction orders and lockdown in the Victoria state, Australia in 3Q FY2020. MRCB bagged new sales of RM187.3mil in FY20 while unbilled sales of RM1.1bil provide better earnings visibility in the medium term.
- The engineering, construction & environment division reported its FY20 revenue and core operating loss of RM515mil and RM4.1mil respectively. The division has open tenders worth RM2.7bil while its remaining order book stands at RM20.45bil.
- MRCB George Kent Sdn Bhd's LRT3 project contributed a PAT of RM8.1mil for FY20 as compared to RM0.6mil YoY. The LRT3 project, which is currently 46% completed, should see a stronger profit recognition pick-up in 2021, albeit at a slower pace of work due to stricter standard operating procedures to curb the spread of Covid-19.
- Management noted that the key priority for FY20 is to enhance cash flow by monetising its inventory of unsold completed stock and focusing on its projects in hand. We believe the long-term outlook for MRCB remains stable premised on its strong property unbilled sales of RM1.1bil and a robust outstanding order book of RM20.45bil. As there is little upside potential, we maintain our HOLD recommendation on MRCB.

EXHIBIT 1: EARNINGS SUMMARY

YE to Dec (RM mil)	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ %	YoY %	FY19	FY20	YTD %
Revenue	472.6	425.8	167.2	297.6	308.9	3.8%	-34.6%	1,319.4	1,199.5	-9.1%
Operating costs	(449.3)	(375.5)	(162.3)	(466.6)	(76.7)	-83.6%	-82.9%	(1,185.3)	(1,081.2)	-8.8%
EBIT	7.1	35.9	(7.7)	(186.6)	217.4	-216.5%	2947.0%	72.4	58.0	-19.8%
Net finance expenses	12.6	(12.6)	(13.1)	(11.7)	(17.7)	51.2%	-240.6%	(26.0)	(55.2)	112.2%
Associate contributions	0.7	3.6	2.2	3.5	10.3	196.2%	1374.9%	6.6	19.5	197.2%
Profit before tax	20.4	26.9	(222.0)	7.6	34.6	354.0%	69.4%	53.0	(152.9)	-388.8%
Taxation	(13.1)	(11.2)	2.6	(6.8)	(7.5)	9.2%	-43.2%	(34.3)	(23.0)	-33.0%
PATMI	6.0	15.7	(219.7)	0.9	26.9	2823.7%	346.1%	23.7	(176.1)	-842.0%
Adjustments	0.5	(0.9)	203.4	0.0	(27.2)	NM	-5924.4%	0.0	175.3	#DIV/0!
Core PATMI	6.5	14.8	(16.3)	0.9	(0.3)	-132.8%	-104.6%	23.7	(0.8)	-103.6%
EPS (sen)	0.1	0.3	(0.4)	0.0	(0.0)	-132.8%	-104.6%	0.5	(0.0)	-103.6%
EBIT margin (%)	1.5%	8.4%	-4.6%	-62.7%	70.4%			5.5%	4.8%	
Effective tax rate (%)	64.2%	41.8%	1.2%	89.6%	21.5%			64.7%	-15.0%	
Core PATMI margin (%)	1.4%	3.5%	-9.7%	0.3%	-0.1%			1.8%	-0.1%	

Source: Company/ AmlInvestment Bank Bhd

EXHIBIT 2: SOP VALUATION

	Outstanding GDV (RMmil)	NPV @12% (RMmil)	Stake	% of SOP
DEVELOPMENT PROPERTIES				
KL Sentral: Lot F	2,993.0	63.3	74.0%	
PJ Sentral Garden City	2,619.0	74.8	100.0%	
Penang Sentral	2,865.0	81.8	100.0%	
Cyberjaya City Centre	5,350.0	107.0	70.0%	
Kwasa Sentral	10,555.0	211.1	70.0%	
Pulai Land, Johor	770.0	22.0	100.0%	
9 Seputeh	2,680.0	76.6	100.0%	
Lot 349, Sentral Suites	1,529.0	43.7	100.0%	
Carnegie, Melbourne	305.0	8.7	100.0%	
Bukit Rahman Putra	547.0	15.6	100.0%	
Bandar Sri Iskandar (Phase 2C, 2D & 3)	766.0	15.3	70.0%	
Unbilled sales		0.0	100.0%	
Bukit Jalil Sentral	20,700.0	101.0	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		937.7	-	
Property (50% discount to NPV)		468.8		18.1%
Investment properties @ 20% discount		1,156.0	100.0%	44.6%
Construction (9x FY21 earnings -excluding LRT3)		160.1	100.0%	6.2%
LRT 3 (NPV, WACC 13%)		203.2	50.0%	7.8%
MRCB Quill REIT (market value)		266.1	27.9%	10.3%
Investments in JV		335.8	-	13.0%
Total SOP		2,590.0		
Net cash/(debt)		(785.4)		
Fair value		1,804.6		
Share base (mil shares)		4,399.9		
Fair value per share		0.41		

Source: AmlInvestment Bank Bhd

EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	1,319.4	1,199.5	1,533.4	1,585.7	1,752.3
EBITDA	134.1	118.3	168.2	182.0	200.8
Depreciation/Amortisation	(65.6)	(60.2)	(68.9)	(70.2)	(74.5)
Operating income (EBIT)	68.6	58.0	99.3	111.8	126.3
Other income & associates	6.6	19.5	19.9	20.3	20.7
Net interest	(26.0)	(55.2)	(70.5)	(73.0)	(80.6)
Exceptional items	0.0	(175.3)	0.0	0.0	0.0
Pretax profit	53.0	(152.9)	48.7	59.2	66.4
Taxation	(34.3)	(23.0)	(17.0)	(17.7)	(19.9)
Minority interests	5.0	(0.3)	(0.4)	(0.4)	(0.4)
Net profit	23.7	(176.1)	31.3	41.0	46.1
Core net profit	23.7	(0.8)	31.3	41.0	46.1
Balance Sheet (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
PPE	600.4	683.6	717.8	753.6	791.3
Intangible assets	224.3	219.4	219.4	219.4	219.4
Other long-term assets	4,109.2	4,223.1	4,295.4	4,371.2	4,450.9
Total non-current assets	4,933.9	5,126.1	5,232.5	5,344.3	5,461.6
Cash & equivalent	516.9	540.4	505.1	507.2	509.8
Inventories	963.2	852.3	803.9	832.9	916.7
Trade receivables	873.1	601.3	891.7	858.5	983.9
Other current assets	975.2	1,008.3	1,089.1	1,088.7	1,072.3
Total current assets	3,328.4	3,002.3	3,289.8	3,287.3	3,482.7
Trade payables	947.9	960.8	1,119.6	1,196.2	1,296.5
Short-term borrowings	824.8	638.6	688.8	691.6	695.2
Other current liabilities	98.6	75.5	79.4	80.0	81.9
Total current liabilities	1,871.3	1,675.0	1,887.7	1,967.8	2,073.6
Long-term borrowings	1,003.3	687.1	1,430.0	1,360.7	1,460.9
Other long-term liabilities	806.9	1,401.8	823.5	902.5	983.6
Total long-term liabilities	1,810.2	2,089.0	2,253.5	2,263.2	2,444.5
Shareholders' funds	4,791.6	4,578.0	4,591.8	4,610.8	4,635.0
Minority interests	31.9	10.7	13.7	14.2	15.7
BV/share (RM)	1.09	1.04	1.04	1.05	1.05
Cash Flow (RMmil, YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	53.0	(152.9)	48.7	59.2	66.4
Depreciation/Amortisation	65.6	60.2	68.9	70.2	74.5
Net change in working capital	(208.8)	215.5	(79.5)	81.4	(106.9)
Others	(251.3)	(82.6)	(639.6)	(8.5)	4.1
Cash flow from operations	(341.6)	40.3	(601.5)	202.2	38.2
Capital expenditure	0.0	0.0	(34.2)	(35.9)	(37.7)
Net investments & sale of fixed assets	0.0	0.0	(72.3)	(75.9)	(79.7)
Others	158.0	(133.6)	0.0	0.0	0.0
Cash flow from investing	158.0	(133.6)	(106.4)	(111.8)	(117.4)
Debt raised/(repaid)	1,139.9	79.2	793.0	(66.4)	103.8
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(108.5)	(65.7)	(17.6)	(22.0)	(22.0)
Others	(1,013.0)	41.3	0.0	0.0	0.0
Cash flow from financing	18.5	54.8	775.4	(88.4)	81.8
Net cash flow	(165.1)	(38.6)	67.5	2.1	2.7
Adjustments	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) b/f	469.8	300.9	437.6	505.1	507.2
Net cash/(debt) c/f	304.7	262.3	505.1	507.2	509.8
Key Ratios (YE 31 Dec)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	(29.5)	(9.1)	27.8	3.4	10.5
EBITDA growth (%)	(24.5)	(11.8)	42.2	8.2	10.3
Pretax margin (%)	4.0	(12.7)	3.2	3.7	3.8
Net profit margin (%)	1.8	(14.7)	2.0	2.6	2.6
Interest cover (x)	2.6	1.1	1.4	1.5	1.6
Effective tax rate (%)	64.7	15.0	35.0	30.0	30.0
Dividend payout (%)	323.6	NM	56.1	53.5	47.7
Receivable turnover (days)	241.5	183.0	212.3	197.6	204.9
Inventory turnover (days)	277.6	276.2	197.1	188.4	182.2
Payable turnover (days)	319.8	290.4	247.6	266.5	259.6

Source: AmlInvestment Bank Bhd estimates

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