



## Company report

# MRCB

(MRC MK EQUITY, MYRS.KL)

5 July 2019

*New building system to improve efficiency*

## UNDERWEIGHT

(Maintained)

### Thong Pak Leng

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03-2036 2025

*Rationale for report: Company update*

Price **RM0.97**  
 Fair Value **RM0.77**  
 52-week High/Low RM1.15/RM0.57

#### Key Changes

Fair value ⇄  
 EPS ⇄

YE to Dec (RM mil)	FY18	FY19F	FY20F	FY21F
Revenue (RM mil)	1,870.7	1,844.3	1,999.9	2,148.9
Core net profit (RM mil)	99.8	91.9	100.5	119.4
FD Core EPS (sen)	2.3	2.1	2.3	2.7
FD Core EPS growth (%)	(37.1)	(7.8)	9.3	18.8
Consensus Net Profit (RM mil)	-	94.3	127.0	169.6
DPS (sen)	1.7	1.0	1.1	1.3
PE (x)	42.7	46.4	42.4	35.7
EV/EBITDA (x)	27.0	28.7	27.6	23.9
Div yield (%)	1.8	1.0	1.1	1.3
ROE (%)	2.1	1.9	2.0	2.4
Net Gearing (%)	19.6%	11.1%	16.5%	17.8%

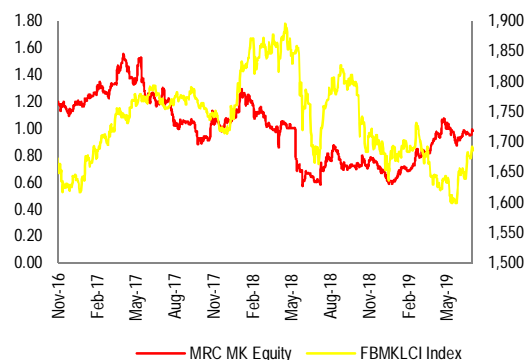
#### Stock and Financial Data

Shares Outstanding (million)	4,404.6
Market Cap (RM mil)	4,272.4
Book Value (RM/share)	1.10
P/BV (x)	0.9
ROE (%)	1.7
Net Gearing (%)	19.6%

Major Shareholders	EPF	35.9%
	Gapurma Sdn Bhd	15.6%
	LTH	6.4%

Free Float	42.2%
Avg Daily Value (RM mil)	6.33

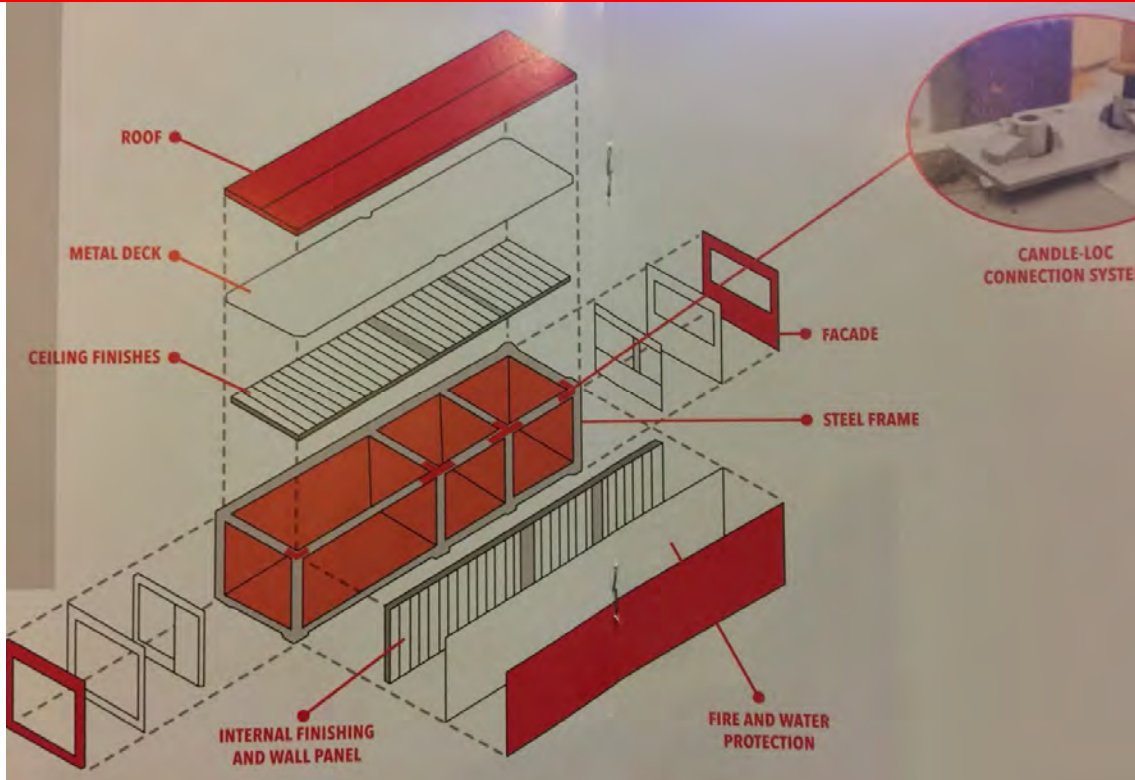
Price performance	3mth	6mth	12mth
Absolute (%)	6.5	59.3	67.5
Relative (%)	5.8	3.9	62.9



#### Investment Highlights

- We maintain our UNDERWEIGHT recommendation on MRCB with an unchanged fair value of RM0.77 based on SOP valuation (Exhibit 4). We made no changes to our FY19–FY21 earnings forecasts.
- MRCB hosted a site visit yesterday to showcase its new building system MRCB Building System (MBS) at Kwasa Sentral. MBS is developed to reduce the dependency on manpower and lower material wastage.
- MBS is a combination of prefabricated prefinished volumetric construction (PPVC) system, coupled with a jointing system called the candle-loc connection system. MRCB plans to implement MBS in all residential buildings for its Kwasa Sentral project.
- The building components are fabricated completely off-site and delivered to the site to be installed using the candle-loc connection system, a fastening process, to form a unit. These units will then be stacked on one another and locked into positions to form a building. The units can be used for lower, medium and high-end developments for single-storey, low-rise and high-rise buildings such as schools, hospitals, hotels and offices.
- Upon the fabrication of the components, the modules are assembled and installed into position on site. MBS will also fabricate the architectural fittings and interior finishes, allowing for total customisation of the units. MBS' floor cycle is approximately 4 days in comparison with conventional methods whereby floor cycles can take up to 21 days.
- According to MRCB, under MBS, 95% of the building works are done off-site compared with the IBS system where only about 30% of works are off-site.
- MBS will bring long-term benefits to MRCB such as cost savings and better project management control. However, it is still early to quantify the impact on earnings; hence we are not making any changes to our earnings forecasts.

**EXHIBIT 1: MBS COMPONENTS**



Source: AmInvestment Bank Bhd

**EXHIBIT 2: MBS ASSEMBLY ON SITE**



Source: AmInvestment Bank Bhd

## EXHIBIT 3: MBS ASSEMBLY ON SITE



Source: AmInvestment Bank Bhd

## EXHIBIT 4: SOP VALUATIONS

	Outstanding GDV (RMmil)	NPV @13% (RMmil)	Stake	% of SOP
<b>DEVELOPMENT PROPERTIES</b>				
KL Sentral: Lot F	2,993.0	50.9	74.0%	
PJ Sentral Garden City	2,619.0	60.2	100.0%	
Penang Sentral	2,865.0	65.8	100.0%	
Cyberjaya City Centre	5,350.0	86.1	70.0%	
Kwasa Sentral	10,555.0	169.8	70.0%	
Pulai Land, Johor	770.0	17.7	100.0%	
9 Seputeh	2,680.0	61.6	100.0%	
Lot 349, Sentral Suites	1,529.0	35.1	100.0%	
Carnegie, Melbourne	305.0	7.0	100.0%	
Bukit Rahman Putra	547.0	12.6	100.0%	
Bandar Sri Iskandar (Phase 2C, 2D & 3)	766.0	12.3	70.0%	
Unbilled sales		40.7	100.0%	
Bukit Jalil Sentral	20,700.0	90.4	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%	
<b>Development properties total NPV</b>		<b>827.1</b>	-	
Property (40% discount to NPV)		496.3		11.5%
Investment properties (book value)		1,311.6	100.0%	30.4%
Construction (10x FY19 earnings -excluding LRT3)		291.2	100.0%	6.7%
LRT 3 (NPV, WACC 11%)		200.6	50.0%	4.6%
MRCB Quill REIT (market value)		329.1	27.9%	7.6%
Investments in JV (book value)		547.7	-	12.7%
Proceeds from sale of Bukit Jalil Sentral land		1,140.8	80.0%	26.4%
<b>Total SOP</b>		<b>4,317.3</b>		
Net cash/(debt)		(947.7)		
<b>Fair value</b>		<b>3,369.6</b>		
Share base (mil shares)		4,399.9		
<b>Fair value per share</b>		<b>0.77</b>		

Source: AmInvestment Bank Bhd

## EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY17	FY18	FY19F	FY20F	FY21F
Revenue	2,640.6	1,870.7	1,844.3	1,999.9	2,148.9
EBITDA	267.2	192.8	167.3	184.2	215.7
Depreciation/Amortisation	(25.4)	(25.5)	(25.2)	(27.3)	(29.3)
Operating income (EBIT)	241.7	167.2	142.1	156.9	186.4
Other income & associates	25.0	25.5	26.0	26.5	27.0
Net interest	(28.4)	(44.0)	(34.7)	(37.6)	(40.4)
Exceptional items	3.2	1.4	0.0	0.0	0.0
<b>Pretax profit</b>	<b>243.9</b>	<b>148.7</b>	<b>133.4</b>	<b>145.8</b>	<b>173.0</b>
Taxation	(67.8)	(46.1)	(40.0)	(43.7)	(51.9)
Minority interests	(14.2)	(1.5)	(1.5)	(1.6)	(1.7)
<b>Net profit</b>	<b>161.8</b>	<b>101.2</b>	<b>91.9</b>	<b>100.5</b>	<b>119.4</b>
Core net profit	158.6	99.8	91.9	100.5	119.4
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>	<b>FY21F</b>
PPE	614.2	665.4	698.6	733.6	770.2
Intangible assets	225.6	226.7	226.7	226.7	226.7
Other long-term assets	3,378.7	3,977.4	4,042.9	4,111.8	4,184.1
<b>Total non-current assets</b>	<b>4,218.6</b>	<b>4,869.4</b>	<b>4,968.3</b>	<b>5,072.1</b>	<b>5,181.0</b>
Cash & equivalent	724.2	551.6	732.1	739.9	749.3
Inventories	885.1	1,043.7	509.9	549.5	585.9
Trade receivables	3,020.6	1,733.8	1,364.3	1,666.4	1,790.6
Other current assets	1,342.0	149.5	98.1	128.0	138.8
<b>Total current assets</b>	<b>5,971.9</b>	<b>3,478.7</b>	<b>2,704.3</b>	<b>3,083.9</b>	<b>3,264.6</b>
Trade payables	1,296.2	1,364.2	1,104.7	1,190.7	1,269.5
Short-term borrowings	2,490.6	729.4	976.1	739.9	749.3
Other current liabilities	217.9	15.4	15.2	16.5	17.7
<b>Total current liabilities</b>	<b>4,004.8</b>	<b>2,109.0</b>	<b>2,096.0</b>	<b>1,947.0</b>	<b>2,036.5</b>
Long-term borrowings	891.2	769.9	295.5	816.0	888.8
Other long-term liabilities	493.3	570.9	335.8	389.7	449.4
<b>Total long-term liabilities</b>	<b>1,384.6</b>	<b>1,340.8</b>	<b>631.3</b>	<b>1,205.7</b>	<b>1,338.2</b>
<b>Shareholders' funds</b>	<b>4,817.2</b>	<b>4,832.4</b>	<b>4,880.5</b>	<b>4,932.7</b>	<b>4,995.0</b>
Minority interests	104.5	68.0	67.0	72.7	78.1
BV/share (RM)	1.10	1.10	1.11	1.12	1.14
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>	<b>FY21F</b>
Pretax profit	243.9	148.7	133.4	145.8	173.0
Depreciation/Amortisation	25.4	25.5	25.2	27.3	29.3
Net change in working capital	(2,806.3)	2,182.4	643.7	(254.6)	(80.5)
Others	1,653.8	(1,196.2)	(169.6)	(42.9)	(28.7)
<b>Cash flow from operations</b>	<b>(883.2)</b>	<b>1,160.5</b>	<b>632.7</b>	<b>(124.4)</b>	<b>93.2</b>
Capital expenditure	(176.0)	0.0	(33.3)	(34.9)	(36.7)
Net investments & sale of fixed assets	(23.0)	0.0	(65.6)	(68.9)	(72.3)
Others	(858.0)	1,040.7	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>(1,057.0)</b>	<b>1,040.7</b>	<b>(98.8)</b>	<b>(103.8)</b>	<b>(109.0)</b>
Debt raised/(repaid)	452.0	(835.8)	(227.7)	284.3	82.2
Equity raised/(repaid)	1,789.8	0.0	0.0	0.0	0.0
Dividends paid	(70.1)	(106.2)	(43.9)	(48.3)	(57.1)
Others	(354.7)	(1,253.5)	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>1,816.9</b>	<b>(2,195.5)</b>	<b>(271.6)</b>	<b>236.0</b>	<b>25.1</b>
<b>Net cash flow</b>	<b>(123.2)</b>	<b>5.8</b>	<b>262.3</b>	<b>7.8</b>	<b>9.4</b>
<b>Adjustments</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net cash/(debt) bf</b>	<b>592.8</b>	<b>464.0</b>	<b>469.8</b>	<b>732.1</b>	<b>739.9</b>
<b>Net cash/(debt) cf</b>	<b>469.5</b>	<b>469.8</b>	<b>732.1</b>	<b>739.9</b>	<b>749.3</b>
<b>Key Ratios (YE 31 Dec)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19F</b>	<b>FY20F</b>	<b>FY21F</b>
Revenue growth (%)	9.7	(29.2)	(1.4)	8.4	7.5
EBITDA growth (%)	(53.9)	(27.8)	(13.2)	10.1	17.1
Pretax margin (%)	9.2	8.0	7.2	7.3	8.1
Net profit margin (%)	6.1	5.4	5.0	5.0	5.6
Interest cover (x)	8.5	3.8	4.1	4.2	4.6
Effective tax rate (%)	27.8	31.0	30.0	30.0	30.0
Dividend payout (%)	47.5	75.9	47.7	48.1	47.8
Receivable turnover (days)	417.5	338.3	270.0	304.1	304.1
Inventory turnover (days)	117.6	188.2	153.7	96.7	96.4
Payable turnover (days)	180.4	259.5	244.3	209.5	208.9

Source: AmlInvestment Bank Bhd estimates

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