

MRCB (BUY ↔; EPS ↔)
INDUSTRY: OVERWEIGHT
NEWSBREAK
27 March 2018
Price Target: RM1.31 (↔)
Share price: RM0.99
Management contract for Bukit Jalil
News

- MRCB announced that it has been appointed as the management contractor in connection with the development of 3 parcels of leasehold land totalling 76.1 acres in Bukit Jalil. The management contract is for a provisional sum of RM11bn which largely comprises of RM8.5bn for the EPCC works while the balance is made up of other items such as professional fees, consultancy, overheads and GST.

Comments

- Development background.** The said 3 parcels of lands are currently owned by MRCB's 85% subsidiary, Rukun Juang SB (RJSB). These lands were payment to MRCB for building the National Sports Complex in Bukit Jalil. In May 2017, an agreement was reached whereby the development of the said lands will be done via a JV in which EPF would hold 80% and RJSB 20%. Effectively, MRCB's stake in the JV undertaking the development would be 17% (via its 85% stake in RJSB).
- 2 bites from the same cherry.** The appointment of MRCB as management contractor of the development enables it to enjoy (i) consolidated construction profits during the construction stage and (ii) eventual development profits. However, we note that for the development profits, this is likely to be recognised only when dividends are paid by the JV. Given MRCB's effective stake of only 17% in the JV, it would be unable to equity account any of the profits.
- Ongoing stream of construction works.** Given that the development will span over 20 years, this would present MRCB with an ongoing flow of construction works over the period. This would also help reduce MRCB's orderbook replenishment susceptibility to the ebb and flow of the construction job flows. Assuming the EPCC sum is spread equally over 20 years, this would present MRCB with RM425m worth of construction works to undertake from the development annually.

Risks

- Volatile core earnings delivery from quarter to quarter.

Forecasts

- Unchanged as we believe any significant recognition from the management contract is unlikely to happen in the next 2 years.

Rating
Maintain BUY, TP: RM1.31

- Given its healthier balance sheet post rights issue, we reckon that MRCB is now in a much better position to execute its various catalytic projects. The disposal of EDL should serve as a near term catalyst.

Valuation

- Our SOP based TP of RM1.31 is unchanged.

Jeremy Goh, CFA
pwgoh@hlib.hongleong.com.my
(603) 2083 1716

KLCI	1,859.9
Expected share price return	32.3%
Expected dividend return	0.8%
Expected total return	33.1%

Share Price

Information

Bloomberg Ticker	MRCB MK
Bursa Code	1651
Issued Shares (m)	4,391
Market cap (RM m)	4,347
3-mth avg. volume ('000)	12,687
SC Shariah Compliant	Yes

Price Performance	1M	3M	12M
Absolute	-11.6	-12.4	-31.7
Relative	-11.1	-16.5	-35.9

Major shareholders

Employees Provident Fund	34.9%
Gapurna	16.6%
Lembaga Tabung Haji	7.1%

Summary Earnings Table

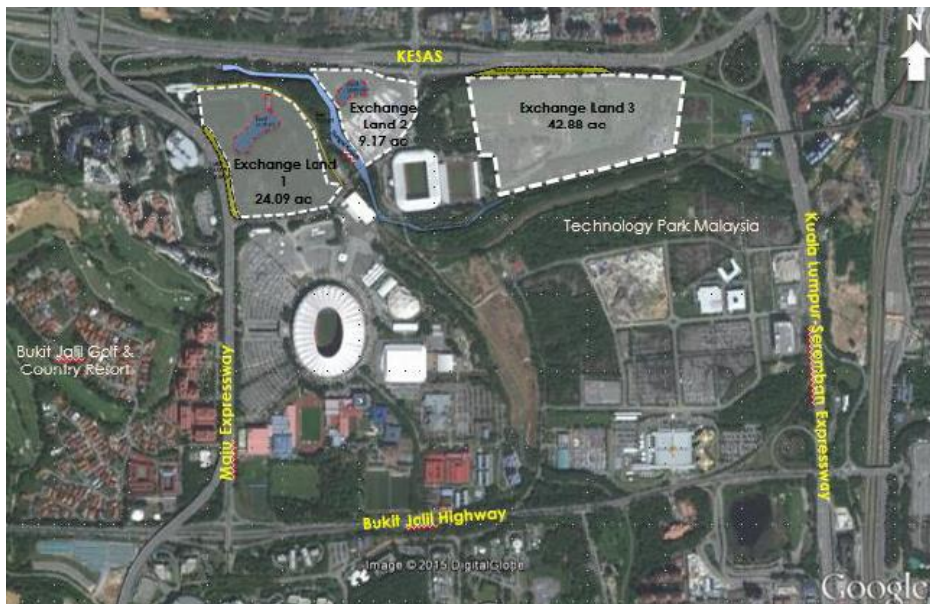
FYE Dec (RM m)	FY16	FY17	FY18F	FY19F
Revenue	2,408	2,824	2,257	2,290
EBITDA	348	304	269	278
EBIT	323	272	232	238
Profit Before Tax	203	181	198	218
Core PATAMI	78	101	115	130
vs Consensus (%)			(25)	(35)
Core EPS (sen)	1.8	2.3	2.6	3.0
P/E (x)	55.6	42.9	37.8	33.4
Net DPS (sen)	1.4	1.8	0.8	0.9
Net DY (%)	1.4	1.8	0.8	0.9
BV per share	0.67	1.10	1.20	1.22
P/B (x)	1.5	0.9	0.8	0.8
ROE (%)	3.0	2.6	2.3	2.5
Net Gearing (%)	75.7	54.0	16.0	20.1

HLIB

Figure #1 SOP valuation for MRCB

Sum of Parts (ex rights)	RM m	PE (x) / WACC	Value to MRCB	FD Per Share
Construction - FY18 earnings	72	16	1,150	0.21
LRT3 PDP fees - annual average	34	16	547	0.10
Property development - NPV of profits		10%	2,391	0.45
Property investment - cap rate		5%	1,008	0.19
Eastern Dispersal Link - DCF		10%	581	0.11
Stake in MRCB-Quill REIT at RM1.48 TP	1,581	28%	441	0.08
Firm value			6,117	1.14
Sale of Bkt Jalil development to EPF			960	0.18
Cash proceeds from Warrants A			951	0.18
Cash proceeds from Warrants B			543	0.10
Less: Net debt (ex Sukuk)			(1,545)	(0.29)
Equity value			7,027	1.31

HLIB estimates

Figure #2 Location of the Bukit Jalil lands

HLIB estimates

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 Level 28, Menara Hong Leong
 No. 6, Jalan Damanlela,
 Bukit Damansara
 50490 Kuala Lumpur
 Tel 603 2083 1800
 Fax 603 2083 1766

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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NOT RATED	No research coverage and report is intended purely for informational purposes.

Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.