

MRCB (BUY ↔; EPS ↔)
**INDUSTRY: OVERWEIGHT
NEWSBREAK**
20 March 2018
Price Target: RM1.31 (↔)
Share price: RM1.01
Sells Kia Peng land
News

- MRCB announced that it has entered into a Sale and Purchase agreement with PERKESO for the former to dispose a parcel of land (1.866 acres) to the latter for RM323m.

Comments

- Gain on disposal.** To recap, the said land was previously acquired by MRCB in April 2015 for RM267m. The audited net book value of the land (as at end FY16) stood at RM269m. As such, the disposal is expected to net a gain of RM54m for MRCB.
- Further reduction to net gearing.** Following the completion of its 1-for-1 rights issue, MRCB's net gearing was reduced from 114% in 3Q17 to 54% in 4Q17. With the completion of the Kia Peng land sale, we estimate proforma net gearing to be further lowered to 47%.
- Potential to turn net cash.** Management previously shared several other de-gearing initiatives such as (i) subscription of EPF to the Bukit Jalil project; (ii) disposal of EDL; (iii) disposal of Ascott; and (iv) disposal of Menara Celcom. Should all of these measures come to fruition, MRCB's balance sheet will move into a net cash position.

Risks

- Volatile core earnings delivery from quarter to quarter.

Forecasts

- Unchanged as the gain on disposal would be treated as a non-core item.

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.

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KLCI	1,847.9
Expected share price return	29.7%
Expected dividend return	0.8%
Expected total return	30.5%

Share Price

Information

Bloomberg Ticker	MRC MK
Bursa Code	1651
Issued Shares (m)	4,391
Market cap (RM m)	4,435
3-mth avg. volume ('000)	12,517
SC Shariah Compliant	Yes

Price Performance

	1M	3M	12M
Absolute	-11.4	-5.6	-23.8
Relative	-11.0	-10.8	-27.9

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)	56.8	43.8	38.5	34.0
Net DPS (sen)	1.4	1.8	0.8	0.9
Net DY (%)	1.4	1.7	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 Jaill 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

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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.

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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.