

02 Sep 2018

## Hold

**Price**  
 RM0.70

**Target Price**  
 RM0.76 (from RM0.64)

### Market Data

Bloomberg Code	MRC MK
No. of shares (m)	4,390.8
Market cap (RMm)	3,073.5
52-week high/low (RM)	1.31 / 0.55
Avg daily turnover (RMm)	25.3
KLCI (pts)	1,820.6

Source: Bloomberg, KAF

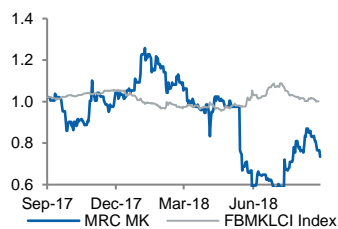
### Major Shareholder (%)

EPF	(34.7%)
Gapurna	(16.8%)
Lembaga Tabung Haji	(8.1%)
Free Float	40.3

Source: Bloomberg, KAF

### Performance

	3M	6M	12M
Absolute (%)	8.0	(31.5)	(28.7)
Rel Market (%)	5.4	(30.1)	(31.1)



Source: Bloomberg, KAF

### Analyst

**Mak Hoy Ken**  
 (603) 2171 0508  
 mak.hoyken@kaf.com.my

# MRCB

## Still awaiting key project lift-offs

We maintain our Hold rating on MRCB with a higher TP of RM0.76 based on a lower discount to NAV (from 50% to 35%). This reflects renewed prospects for the LRT 3 project and divestment of EDL. Nevertheless, the timeline to commercialize its cornerstone developments (e.g., KL Sports City, Kwasa Sentral) is still uncertain. Management has lowered its new FY18F property sales guidance from RM1b to RM700m. Similarly, while LRT 3 and the RM11b management contract for KL Sports City could prod a significant accretion to MRCB's outstanding orderbook (i.e., from RM5.1b to RM21.7b), the impact from these two jobs is not immediate; the former's completion date has been extended to 2024, while the latter will be developed over 20 years. The planned injection of Menara Celcom into its REIT vehicle will likely be pushed back to next year.

### Financial Highlights

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue (RMm)	2,408.1	2,823.7	1,779.5	2,145.9	2,403.5
Core net profit (RMm)	75.0	101.3	54.9	91.0	142.0
Core EPS (Sen)	4.2	2.9	2.1	2.3	3.3
EPS growth (%)	>100	(30.4)	(28.7)	8.1	45.9
DPS (Sen)	2.8	1.8	1.5	1.8	2.5
Core PE (x)	24.9	39.7	33.4	30.9	21.2
Div yield (%)	2.6	1.5	2.1	2.5	3.6
ROE (%)	10.3	4.3	1.8	1.9	2.9
Net Gearing (%)	75.7	55.1	41.2	44.7	41.6
PBV(x)	0.8	1.1	0.6	0.6	0.6

Source: Company, KAF

### Two key re-rating events taking shape in 2H18

During a conference call post its 2Q18 results last Friday, management updated that the MRCB-George Kent [GK] (GKENT MK, RM1.26, NC) JV is still finalizing the terms for the LRT 3 project, which will revert from a Project Delivery Partner (PDP) model to a turnkey contract. We believe that the final contract value will fall between the original LRT construction cost of RM9b and the government's budgeted cost of RM16.6b.

Apart from construction costs, the latest estimates for LRT 3 includes allocations for land acquisition, reimbursements, etc. For this, MRCB-GK is in negotiations with the existing works package contractors (WPC's) to co-ordinate the project's work scope. The group is also looking to extract better margins from value engineering and re-design works, although it would likely be lower than the 6% PDP fee under the original arrangement, in our view.

On the Eastern Dispersal Link (EDL), MRCB has resumed negotiations with the new administration, and should conclude it by year-end. We understand that MRCB is entitled to compensation following the ceasing of toll collections at EDL since 1 January 2018. To-date, the group has pumped in ~RM72m in equity into EDL, and close to another RM200m in shareholder advances.

### More de-gearing initiatives

The proposed acquisition by EPF of an 80% stake in Bukit Jalil Sentral (BJS) for RM1.1b is pending the fulfillment of a condition precedent. BJS is the JV vehicle that has been earmarked to develop the RM21b GDV KL Sports City, for which MRCB will hold the remaining 20% stake.

MRCB is also expected to book in a net gain of ~RM28m in 3Q18, following its disposal of the ex-German Embassy land along Jln. Kia Peng to Socso for RM323m (~RM3,974psf). However, the proposed injection of Menara Celcom into MRCB Quill REIT (MQREIT MK, RM1.12, Buy) will likely only take place next year. The project loans that are tied with it total around RM400m. The building is undergoing fit-out works at the moment.

As for Ascott Sentral, management not in a hurry to monetize its prime asset in KL Sentral, unless the valuation meets its asking price.

Overall, MRCB's net gearing has risen to 69% as of 30 June 2018 (31 March 2018: 58%) following the drawdown of a new term loan, which we believe, was used to fund the acquisition of a 10-acre-plot of land along Jln.Putra in KL worth RM336m. Nevertheless, management expects its net gearing to fall again to 46%, once the BJS transaction is consummated.

### **Orderbook could rise to RM22b**

MRCB's outstanding orderbook stands at RM5.1b currently. Nevertheless, management guided that its orderbook could potentially expand to RM22b via LRT 3 and the RM11b management contract for KL Sports City.

Nevertheless, we opine that the impact from these two jobs is not immediate; the former's completion date has been extended to 2024, while the latter will be developed over 20 years.

## **Results update**

### **1H results below expectations; core earnings down 16%**

For the quarter ended 30 June 2018, MRCB only managed to register a core net profit of RM2m, down by a significant 91% QoQ. This brought its core 1H18 earnings to RM24m (-16% YoY), accounting for only 16% of our previous full-year forecast, and 14% of consensus. During the quarter, the group booked in a RM31m gain from the disposal of its Batu Feringghi land in Penang.

The negative YoY variance was largely due to: (i) higher construction revenue that was recognized last year from KL Sports City; (ii) full recognition of its completed Easton Burwood development (Melbourne) in 1H17; and (iii) a small core operating loss of RM0.4m for its property division in 2Q18, for which its new launches are only at the early stages of construction (1Q18: operating profit of RM24m).

The erosion in bottomline was partly mitigated by the absence of any operating losses from EDL and a higher share of LRT 3 profits (RM15m vs RM4m in 1H17).

Despite a 45% YoY contraction in billings, MRCB's 1H18 construction profits rose 168% YoY, thanks to a better management of project costs.

Following the disposal of a 40% stake in the Semarak City development, MRCB has also toned down its FY18F new property sales guidance from RM1b to RM700m. For 1H18, the group sold RM261m worth of new properties.

Taken together, we have cut our FY18F-20F core net profit forecast for MRCB by 32%-60% to RM55m, RM91m and RM142m, respectively. The stock is currently trading at a 40% discount to NAV.

## Exhibit 1: Financial results

YE 31 Dec (RM m)	1H17	1H18	% YoY	1Q18	2Q18	% QoQ
<b>Turnover</b>	<b>1,245.1</b>	<b>832.8</b>	<b>(33.1)</b>	<b>427.6</b>	<b>405.2</b>	<b>(5.2)</b>
<b>EBIT</b>	<b>112.8</b>	<b>32.4</b>	<b>(71.3)</b>	<b>16.0</b>	<b>16.4</b>	<b>2.4</b>
Interest Expense	(72.6)	(21.0)		(4.3)	(16.8)	
Interest Income	12.1	14.5		8.3	6.2	
Pre-Exceptionals Profit	52.3	25.8		20.0	5.8	
Exceptionals	5.5	31.3		0.0	31.3	
Pre-Associates/JV Profit	57.8	57.1		20.0	37.1	
Associates/JVs	5.7	16.5		10.7	5.8	
<b>Pretax Profit</b>	<b>63.4</b>	<b>73.6</b>	<b>16.0</b>	<b>30.7</b>	<b>42.9</b>	<b>40.0</b>
Taxation	(17.0)	(15.7)		(4.9)	(10.8)	
Minority Interest/disc. ops	(12.6)	(2.9)		(4.1)	1.2	
<b>Net Profit</b>	<b>33.8</b>	<b>55.0</b>	<b>62.5</b>	<b>21.6</b>	<b>33.3</b>	<b>54.1</b>
<b>Core Net Profit</b>	<b>28.3</b>	<b>23.7</b>	<b>(16.4)</b>	<b>21.6</b>	<b>2.0</b>	<b>(90.6)</b>
Core EPS (sen)	1.3	0.5		0.5	0.0	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	1.38	1.11		1.10	1.11	
EBIT Margin (%)	9.1	3.9		3.7	4.0	
Pretax Margin (%)	5.1	8.8		7.2	10.6	
Effective Tax (%)	26.8	21.3		16.1	25.1	
<b>Segmental Breakdown (RM m)</b>						
<b>Turnover</b>						
Construction	698.9	383.9	(45.1)	191.1	192.8	0.9
Property development & investment	450.2	413.9	(8.1)	220.4	193.4	(12.3)
Infrastructure & concession	57.1	1.4	(97.5)	0.7	0.7	(2.8)
Facilities management & parking	29.6	26.1	(11.9)	13.0	13.1	0.4
Investment holding & Others	9.4	7.6	(18.8)	2.3	5.3	123.8
<b>Total</b>	<b>1,245.1</b>	<b>832.8</b>	<b>(33.1)</b>	<b>427.6</b>	<b>405.2</b>	<b>(5.2)</b>
<b>EBIT</b>						
Construction	15.3	41.0	168.1	16.0	25.0	56.1
Property development & investment	77.9	55.1	(29.4)	24.1	30.9	28.0
Infrastructure & environmental	29.0	(3.0)	n/m	(1.3)	(1.7)	n/m
Facilities management & parking	10.8	0.9	(92.1)	0.2	0.7	n/m
Investment holding & Others	(5.0)	(20.5)	n/m	(7.0)	(13.5)	n/m
<b>Total</b>	<b>112.8</b>	<b>32.4</b>	<b>(71.3)</b>	<b>16.0</b>	<b>16.4</b>	<b>2.4</b>
<b>EBIT margin (%)</b>						
Construction	2.2	10.7		8.4	13.0	
Property development & investment	17.3	13.3		11.0	16.0	
Infrastructure & environmental	50.8	n/m		n/m	n/m	
Facilities management & parking	36.6	3.3		1.3	5.3	
Investment holding & Others	n/m	n/m		n/m	n/m	
<b>Total</b>	<b>9.1</b>	<b>3.9</b>		<b>3.7</b>	<b>4.0</b>	

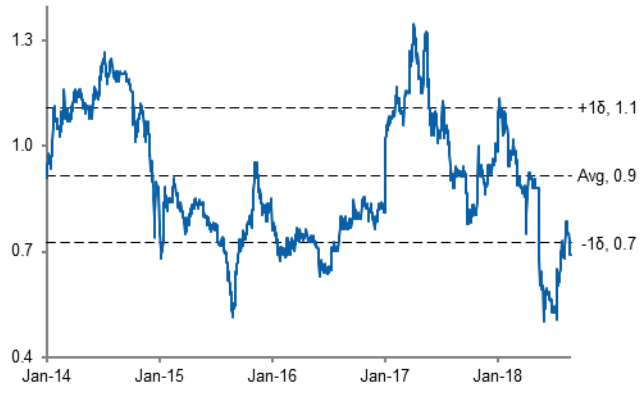
Source: Company, KAF

## Exhibit 2: NAV table

Divisions/Operations	Size		Value (RM)		Method	% of NAV	Effective stake (%)
	(acres)	psf	mil	/share			
<b>Landbank</b>							
Suria Subang	3.3	250	36.4	0.01			
Selbourne 2, Shah Alam	2.4	150	15.5	0.00			
Metro Spectacular, Jln. Putra (51%)	10.1	390	171.1	0.03			
<b>Sub-total</b>	<b>15.8</b>		<b>223.0</b>	<b>0.04</b>		<b>3.5</b>	
<b>Development properties</b>							
Sentral Residences (Lot D)			7.8	0.00	NPV @ 9%		51.0
Lot F - Office Towers			371.8	0.07	NPV @ 9%		100.0
9 Seputeh, Old Klang Road			218.6	0.04	NPV @ 9%		100.0
Sentral Suites, Brickfields			181.8	0.03	NPV @ 9%		100.0
Semarak City, Setapak			61.3	0.01	NPV @ 9%		30.0
MRCB Putra, Putrajaya			9.1	0.00	NPV @ 9%		100.0
PJ Sentral Phase 1 (PJ Garden City)			174.2	0.03	NPV @ 9%		100.0
Kwasa Sentral, Sg.Buloh			601.5	0.11	NPV @ 9%		70.0
Rahman Putra, Sg.Buloh			55.8	0.01	NPV @ 9%		100.0
Cyberjaya City Centre Phase 1, Cyberjaya			328.1	0.06	NPV @ 9%		70.0
KL Sports City			407.7	0.07	NPV @ 9%		20.0
Penang Sentral			342.1	0.06	NPV @ 9%		100.0
Pulai Land			82.6	0.02	NPV @ 9%		100.0
The Easton, Burwood			0.6	0.00	NPV @ 9%		100.0
1060 Carnagie, Melbourne			20.0	0.00	NPV @ 9%		100.0
Unbilled sales			357.6	0.07	NPV @ 9%		100.0
<b>Sub-total</b>			<b>3,220.6</b>	<b>0.59</b>		<b>50.4</b>	
		<b>NLA/room bays</b>	<b>Value (RM)</b>	<b>Method</b>			<b>Effective stake (%)</b>
<b>Investment properties</b>							
Menara Celcom (Lot 8)		450,908	419.3	0.08	NPI@6%		100.0
Menara MRCB, Shah Alam		216,000	25.9	0.00	NPI@7%		100.0
Plaza Alam Sentral, Shah Alam		433,349	105.7	0.02	NPI@6.5%		100.0
Kompleks Sentral, Segambut Industrial Park		484,689	45.0	0.01	NPI@6.75%		100.0
Nu Tower 2, KL Sentral		498,309	59.8	0.01	NPI@6%		100.0
Ascott Sentral (Lot 348), KL Sentral		143 rooms	121.6	0.02	RM0.85mil/room		100.0
St. Regis Hotel (Lot C), KL Sentral		208 rooms	62.4	0.01	RM1mil/room		30.0
<b>Sub-total</b>			<b>839.7</b>	<b>0.15</b>		<b>13.1</b>	
<b>Cark parks</b>							
Plaza Alam Sentral, Shah Alam		1,400 bays	70.0	0.01	RM50k/bay		100.0
St. Regis Hotel (Lot C), KL Sentral		797 bays	16.7	0.00	RM80k/bay		30.0
<b>Sub-total</b>			<b>86.7</b>	<b>0.02</b>		<b>1.4</b>	
<b>Property management</b>							
Quill Capita Management (QCM)			97.8	0.02	NPI@8%		41.0
<b>Sub-total</b>			<b>97.8</b>	<b>0.02</b>		<b>1.5</b>	
<b>Expressways</b>							
Eastern Dispersal Link (EDL)			51.8	0.01	DCF @ 7%		100.0
<b>Sub-total</b>			<b>51.8</b>	<b>0.01</b>		<b>0.8</b>	
<b>Construction &amp; Facilities Management</b>							
Construction			452.3	0.08	8x FY18F net profit		
Facilities management			15.3	0.00	6x FY18F net profit		
<b>Sub-total</b>			<b>467.6</b>	<b>0.09</b>		<b>7.3</b>	
<b>Listed-investments</b>							
MRCB-Quill REIT			334.7	0.06	Market Value		27.9
<b>Sub-total</b>			<b>334.7</b>	<b>0.06</b>		<b>5.2</b>	
<b>Gross NAV</b>							
Net cash (excluding EDL debt)			(932.3)	(0.17)	FY18F		(14.6)
Proceeds from ESOS/warrant conversions			2,000.6	0.36	Warrants A exercise price: RM2.30 Rights Warrants exercise price: RM1.25		31.3
<b>Total NAV</b>			<b>6,390.3</b>	<b>1.16</b>		<b>100.0</b>	
FD no of shares			5,487.4				
<b>NAV/share</b>			<b>1.16</b>				
<b>TP (less: 35% discount)</b>			<b>0.76</b>				
Capital gain (%)			8.1				
Yield (%)			2.1				
<b>Discount to NAV (%)</b>			<b>(39.9)</b>				

Source: Company, KAF

**Exhibit 3: PB Band chart**



Source: Company, KAF, Bloomberg

**Exhibit 4: PE Band chart**



Source: Company, KAF, Bloomberg

**Income Statement**

<b>FYE Dec (RMm)</b>	<b>2016</b>	<b>2017</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
<b>Revenue</b>	<b>2,408.1</b>	<b>2,823.7</b>	<b>2,248.1</b>	<b>2,447.2</b>	<b>2,377.9</b>
<b>EBITDA</b>	<b>411.1</b>	<b>367.1</b>	<b>195.5</b>	<b>262.0</b>	<b>350.9</b>
Depreciation/Amortisation	(94.2)	(120.5)	(45.2)	(60.0)	(63.8)
Operating income (EBIT)	316.9	246.6	150.3	202.0	287.1
Other income & associates	32.7	25.0	31.3	35.9	41.8
Net interest	(149.3)	(90.6)	(36.8)	(33.0)	(32.7)
Exceptional items	192.4	66.3	31.3	0.0	0.0
<b>Pretax profit</b>	<b>392.6</b>	<b>247.3</b>	<b>176.1</b>	<b>205.0</b>	<b>296.2</b>
Taxation	(73.5)	(65.5)	(55.7)	(83.0)	(108.8)
Minorities/pref dividends	(51.7)	(14.2)	(34.1)	(31.0)	(45.4)
<b>Net profit</b>	<b>267.4</b>	<b>167.6</b>	<b>86.2</b>	<b>91.0</b>	<b>142.0</b>
<b>Core net profit</b>	<b>75.0</b>	<b>101.3</b>	<b>54.9</b>	<b>91.0</b>	<b>142.0</b>

**Balance Sheet**

<b>FYE Dec (RMm)</b>	<b>2016</b>	<b>2017</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
<b>Fixed assets</b>	<b>1,614.2</b>	<b>614.2</b>	<b>675.1</b>	<b>729.7</b>	<b>782.0</b>
Intangible assets	252.9	225.6	220.5	215.4	210.2
Other long-term assets	2,719.6	4,688.2	5,594.8	5,986.9	6,361.5
<b>Total non-current assets</b>	<b>4,586.6</b>	<b>5,528.0</b>	<b>6,490.5</b>	<b>6,932.0</b>	<b>7,353.8</b>
Cash & equivalent	722.2	724.2	691.3	562.8	591.7
Stock	57.5	154.5	52.7	62.7	68.3
Trade debtors	1,600.5	3,179.7	1,218.9	1,440.4	1,185.3
Other current assets	785.4	714.6	966.7	895.5	837.5
<b>Total current assets</b>	<b>3,165.6</b>	<b>4,772.9</b>	<b>2,929.7</b>	<b>2,961.4</b>	<b>2,682.8</b>
Trade creditors	1,586.4	1,279.2	1,054.6	1,421.4	1,548.7
Short-term borrowings	806.3	2,490.6	662.2	754.7	839.8
Other current liabilities	42.6	217.9	217.9	217.9	217.9
<b>Total current liabilities</b>	<b>2,435.2</b>	<b>3,987.8</b>	<b>1,934.7</b>	<b>2,394.0</b>	<b>2,606.4</b>
Long-term borrowings	2,130.8	891.2	2,019.9	1,977.6	1,797.8
Other long-term liabilities	161.2	493.3	493.3	493.3	493.3
<b>Total long-term liabilities</b>	<b>2,292.0</b>	<b>1,384.6</b>	<b>2,513.3</b>	<b>2,471.0</b>	<b>2,291.2</b>
<b>Shareholders' funds</b>	<b>2,925.8</b>	<b>4,824.1</b>	<b>4,833.5</b>	<b>4,858.7</b>	<b>4,924.0</b>
Minority interests	99.2	104.5	138.6	169.6	215.0

**Cash flow Statement**

<b>FYE Dec (RMm)</b>	<b>2016</b>	<b>2017</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
Pretax profit	392.6	247.3	176.1	205.0	296.2
Depreciation/Amortisation	94.2	120.5	45.2	60.0	63.8
Net change in working capital	(366.5)	(1,919.2)	1,585.7	206.5	434.8
Others	(261.6)	662.6	(203.3)	(224.5)	(254.4)
<b>Cash flow from operations</b>	<b>(141.3)</b>	<b>(888.7)</b>	<b>1,603.7</b>	<b>246.9</b>	<b>540.4</b>
Capital expenditure	(540.4)	(672.7)	(860.0)	(360.0)	(340.0)
Net investments & sale of fixed assets	300.0	0.0	0.0	0.0	0.0
Others	883.3	(384.3)	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>642.9</b>	<b>(1,057.0)</b>	<b>(860.0)</b>	<b>(360.0)</b>	<b>(340.0)</b>
Debt raised/(repaid)	(458.2)	444.7	(699.8)	50.3	(94.8)
Equity raised/(repaid)	401.9	1,798.1	0.0	0.0	0.0
Dividends paid	(76.6)	(70.1)	(76.8)	(65.8)	(76.7)
Others	(115.2)	(355.7)	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>(248.1)</b>	<b>1,816.9</b>	<b>(776.6)</b>	<b>(15.5)</b>	<b>(171.5)</b>
<b>Net cash flow</b>	<b>253.5</b>	<b>(128.7)</b>	<b>(32.9)</b>	<b>(128.6)</b>	<b>28.9</b>
<b>Cash b/f</b>	<b>339.2</b>	<b>592.8</b>	<b>464.0</b>	<b>431.1</b>	<b>302.6</b>
<b>Cash c/f</b>	<b>592.8</b>	<b>464.0</b>	<b>431.1</b>	<b>302.6</b>	<b>331.5</b>

**Key Ratios**

<b>FYE Dec</b>	<b>2016</b>	<b>2017</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
Revenue growth (%)	41.9	17.3	(37.0)	20.6	12.0
EBITDA growth (%)	69.5	(10.7)	(46.7)	34.0	33.9
Pretax margins (%)	16.3	8.8	9.9	9.6	12.3
Net profit margins (%)	11.1	5.9	4.8	4.2	5.9
Interest cover (x)	2.1	2.7	4.1	6.1	8.8
Effective tax rate (%)	18.7	26.5	31.6	40.5	36.7
Net dividend payout (%)	22.6	45.8	76.3	84.4	77.2
Debtors turnover (days)	243	215	250	245	180
Stock turnover (days)	13	15	15	15	15
Creditors turnover (days)	358	340	300	340	340

Source: Bloomberg, KAF

# Disclosure Appendix

## Recommendation structure

**Absolute performance, long term (fundamental) recommendation:** The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

**Performance parameters and horizon:** Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

**Market or sector view:** This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

**Target price:** The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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Dato' Ahmad Bin Kadis  
Managing Director  
KAF-Seagroatt & Campbell Securities Sdn Bhd (134631-U)