

30 Aug 2023

Hold

Price
RM0.44

Target Price
RM0.42

Market Data

Bloomberg Code	MRC MK
No. of shares (m)	4,467.5
Market cap (RMm)	1,965.7
52-week high/low (RM)	0.46 / 0.28
Avg daily turnover (RMm)	10.8
KLCI (pts)	1,454.4

Source: Bloomberg, KAF

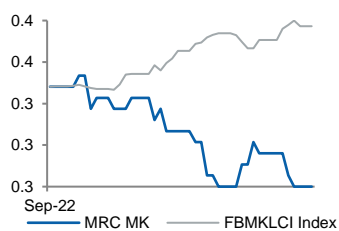
Major Shareholder (%)

EPF	(36.2%)
Gapurna	(15.5%)
Lembaga Tabung Haji	(5.6%)
Free Float	42.7

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	44.3	41.9	27.5
Rel Market (%)	39.4	41.9	31.7



Source: Bloomberg, KAF

Analyst

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MRCB

Getting increasingly busy again

We maintain our Hold rating on MRCB with TP raised to RM0.42 (from RM0.36), as its orderbook replenishment options have improved in recent months. It is also looking to revitalize its property pipeline – having just launched the RM1.2b VISTA apartments in Gold Coast, Australia. Yet, with LRT 3 contributions trailing off, it would need to quickly convert these new job prospects or launches to support earnings recovery.

Financial Highlights

FYE Dec	2021	2022	2023F	2024F	2025F
Revenue (RMm)	1,448.5	3,205.1	2,347.7	1,885.7	1,690.9
Core net profit (RMm)	(107.9)	64.8	44.0	65.3	79.1
Core EPS (Sen)	(1.9)	1.7	1.2	1.7	1.9
EPS growth (%)	nm	nm	(25.6)	35.2	17.0
DPS (Sen)	1.0	1.0	1.0	1.0	1.0
Core PE (x)	n/m	19.8	36.5	27.0	23.1
Div yield (%)	2.6	3.0	2.2	2.2	2.2
ROE (%)	0.3	1.4	2.1	1.4	1.7
Net Gearing (%)	30.0	33.6	25.3	0.0	0.0
PBV(x)	0.4	0.3	0.4	0.4	0.4

Source: Company, KAF

Sequential pick-up, but lower 1H earnings

MRCB delivered a stronger set of 2Q23 numbers, with sequential profits gaining 28% QoQ at RM19m. This brought 1H core profits to RM19m (-31% YoY), which we nevertheless, deem to be below expectations, given its large orderbook and unbilled sales on hand.

For the first six months of the current financial year, revenue and core net profit fell 11% and 31% YoY, respectively. This was mainly attributable to the completion of three major infrastructure jobs in FY22 (DASH Package CB2, Kwsa Utama C8 and MRT 2 Package V210), and another two major property developments (Sentral Suites – March 2023; TRIA 9 Seputeh – May 2023) in 1H23.

Timing issues

On another note, we expect the surge in construction EBIT margins (7.4% in 2Q23 vs 1.6% in 1Q23) to taper off in the subsequent quarters (possibly, normalizing at sub-5%), as LRT 3 reaches the tail-end of its project cycle.

For the record, LRT 3 accounts for c.60% to 65% of group revenue (physical progress: 86%), and is fast-approaching the end of its civil works portion. For the balance of work, the systems component is milestone-driven, and as such, may induce more volatility for its construction margins going forward.

On the other hand, the smallish negative EBIT margin of ~0.4% for the property division was largely down to non-recognition of progress billings for two of its recently-completed key property developments – Sentral Suites (March 2023) and TRIA 9 Seputeh (May 2023) – which will only be recognized upon the crystallization of SPA's going forward.

Starting to get increasingly busy again

Looking ahead, MRCB is sitting on an active tenderbook of RM30b, excluding a number of projects that are outside it. This should keep the group busy for the next few years – starting from end-2023.

Among others, its new job prospects would cover the additional VO's for LRT 3 stations; redevelopment works for the Shah Alam Sports Complex (KSSA) and KL Sentral; flood mitigation works and further out, green energy proposals (e.g. WTE).

As for ongoing bids, the MRT 3 (tender validity extended until September) would represent the lowest-hanging fruit in terms of big infrastructure projects.

On the contrary, the KL-Singapore HSR proposal still has a long to go – with its RFI exercise being extended until mid-November.

On the property front, MRCB is back to launch mode after staying by the side lines during the pandemic.

To be sure, the group recently launched the RM1.7b VISTA apartment project in Gold Coast, Australia. For FY24F, it has lined up RM1.7b worth of new launches in Auckland (New Zealand), and another RM2.3b back home.

Despite the potentially heavy pipeline, management would adopt a pragmatic approach in terms of management its balance sheet – e.g. phasing out the KSSA development works, without overburdening its finances.

Actively looking at releasing capital from its landbank – potential announcements within the next six months.

With this in mind, management projects its net gearing to dip below 30% with the imminent disposal of Menara CelcomDigi (by 4Q23). By extension, such a move would help balance out future capital requirements from new construction or property projects (e.g. VISTA).

Maintain Hold; TP upped to RM0.42

Our higher TP is based on a reduced discount to NAV (from 45% to 35%), reflecting an improvement in its orderbook replenishment options in recent months. It is also looking to revitalize its property pipeline – having just launched the VISTA apartments back in April. Yet, with LRT 3 contributions trailing off, it would need to quickly convert these new job prospects or launches to support earnings recovery.

Exhibit 1: NAV calculation

Divisions/Operations	Size		Value (RM)		Method	% of NAV	Effective stake (%)
	(acres)	psf	m	/share			
Landbank							
Suria Subang	3.3	300	43.6	0.01			
Selbourne 2, Shah Alam	2.4	200	20.6	0.00			
Metro Spectacular, Jln. Putra (51%)	10.1	300	67.0	0.01			
Bukit Beruntung	1.4	180	10.8	0.00			
Simpang Pulau	22.0	33	31.5	0.01			
Sub-total	39.2		173.7	0.04		5.5	
Development properties							
St.Regis Service Residences (Lot C)			5.5	0.00	NPV @ 9%		100.0
Lot J			19.9	0.00	NPV @ 9%		100.0
Lot F - Office Towers			259.7	0.05	NPV @ 9%		100.0
9 Seputeh, Old Klang Road			130.1	0.03	NPV @ 9%		100.0
Sentral Suites, KL Sentral			21.8	0.00	NPV @ 9%		100.0
Kota Semarak, Setapak			50.0	0.01	NPV @ 9%		30.0
PJ Sentral Phase 1 (PJ Garden City)			99.2	0.02	NPV @ 9%		100.0
Kwasa Sentral, Sg.Buloh			444.2	0.09	NPV @ 9%		70.0
Bukit Rahman Putra, Sg.Buloh			39.5	0.01	NPV @ 9%		100.0
Bukit Jalil Sentral, KL			259.2	0.05	NPV @ 9%		20.0
Cyberjaya City Centre Phase 1, Cyberjaya			169.9	0.03	NPV @ 9%		70.0
SIDEC (Bandar Seri Iskandar Phase 2C, 2D & 3)			12.7	0.00	NPV @ 9%		70.0
Penang Sentral			195.2	0.04	NPV @ 9%		100.0
Pulai Land			47.1	0.01	NPV @ 9%		100.0
1060 Carnagie, Melbourne			5.7	0.00	NPV @ 9%		100.0
Vista, Surfers Paradise, Gold Coast			84.1	0.02	NPV @ 9%		100.0
The Symphony Centre, Auckland			83.8	0.02	NPV @ 9%		100.0
Unbilled sales			49.5	0.01	NPV @ 9%		100.0
Sub-total			1,977.0	0.40		63.0	
Investment properties							
		NLA/room bays	Value (RM) m	/share	Method		Effective stake (%)
Menara MRCB, Shah Alam		216,000	25.0	0.01	NPI@7.25%		100.0
Plaza Alam Sentral, Shah Alam		433,349	93.7	0.02	NPI@7.25%		100.0
Kompleks Sentral, Segambut Industrial Park		484,689	43.4	0.01	NPI@7%		100.0
Ascott Sentral (Lot 348), KL Sentral		143 rooms	78.7	0.02	RM0.6m/room		100.0
Sub-total			240.8	0.05		7.7	
Cark parks							
Plaza Alam Sentral, Shah Alam		1,400 bays	70.0	0.01	RM50k/bay		100.0
Sub-total			70.0	0.01		2.2	
Property management							
Quill Capita Management (QCM)			91.3	0.02	NPI@7%		41.0
Sub-total			91.3	0.02		2.9	
Construction & Facilities Management							
Construction			1,099.1	0.22	10x FY23F net profit		
Facilities management			213.0	0.04	Net book value as of FY22		
Bukit Jalil Sentral Management Contract			48.2	0.01	NPV@7.5%		
Sub-total			1,360.4	0.28		43.3	
Listed-investments							
Sentral REIT			246.0	0.05	Market Value		27.8
Sub-total			246.0	0.05		7.8	
Others			(45.8)	(0.01)	Net book value as of FY21		
Sub-total			(45.8)	(0.01)		(1.5)	
Gross NAV							
Net cash			(1,523.1)	(0.31)	As at FY22		(48.5)
Proceeds from ESOS/warrant conversions			548.1	0.11	Warrants B exercise price: RM1.25		17.5
Total NAV			3,138.4	0.64		100.0	
FD no of shares			4,906.0				
NAV/share			0.64				
TP (less: 35% discount)			0.42				
Upside (%)			(7.6)				
Discount to NAV (%)			(29.7)				

Source: Company, Bloomberg, KAF

Exhibit 2: Financial results

YE 31 Dec (RM m)	1H22	1H23	% YoY	1Q23	2Q23	% QoQ
Turnover	1,511.9	1,341.6	(11.3)	742.2	599.3	(19.3)
EBIT	98.8	76.5	(22.6)	42.5	34.0	(20.0)
Interest Expense	(47.7)	(56.7)		(27.9)	(28.9)	
Interest Income	7.2	11.4		5.5	5.9	
Pre-Exceptionals Profit	58.3	31.1		20.1	11.0	
Exceptionals	0.0	0.0		0.0	0.0	
Pre-Associates/JV Profit	58.3	31.1		20.1	11.0	
Associates/JVs	1.5	4.7		0.5	4.3	
Pretax Profit	59.9	35.8	(40.1)	20.6	15.3	(25.6)
Taxation	(34.9)	(16.3)		(12.0)	(4.4)	
Minority Interest/disct.ops	3.2	(0.2)		(0.1)	(0.1)	
Net Profit	28.1	19.3	(31.3)	8.5	10.9	28.3
Core Net Profit	28.1	19.3	(31.3)	8.5	10.9	28.3
Core EPS (sen)	0.6	0.4		0.2	0.2	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	1.01	1.01		1.02	1.01	
EBIT Margin (%)	6.5	5.7		5.7	5.7	
Pretax Margin (%)	4.0	2.7		2.8	2.6	
Effective Tax (%)	58.4	45.6		58.2	28.6	
Segmental Breakdown (RM m)						
Turnover						
Construction	1,152.3	940.5	(18.4)	458.5	482.0	5.1
Property development & investment	331.9	369.5	11.3	268.0	101.5	(62.1)
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	20.8	24.6	18.5	12.3	12.3	0.3
Investment holding & Others	6.9	7.0	1.7	3.5	3.5	0.7
Total	1,511.9	1,341.6	(11.3)	742.2	599.3	(19.3)
EBIT						
Construction	55.7	43.1	(22.8)	7.2	35.8	n/m
Property development & investment	43.2	32.9	(23.7)	33.3	(0.4)	(101.1)
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	1.8	(1.8)	n/m	(0.1)	(1.7)	n/m
Investment holding & Others	53.8	45.3	(15.7)	9.3	36.1	289.5
Total	98.8	76.5	(22.6)	42.5	34.0	(20.0)
EBIT margin (%)						
Construction	4.8	4.6		1.6	7.4	
Property development & investment	13.0	8.9		12.4	(0.4)	
Infrastructure & concession	n/m	n/m		n/m	n/m	
Facilities management & parking	8.8	(7.5)		(0.9)	(14.0)	
Investment holding & Others	n/m	n/m		n/m	n/m	
Total	6.5	5.7		5.7	5.7	

Source: Company, KAF

Income Statement

FYE Dec (RMm)	2021	2022	2023F	2024F	2025F
Revenue	1,448.5	3,205.1	2,347.7	1,885.7	1,690.9
EBITDA	48.7	297.5	246.9	219.6	221.2
Depreciation/Amortisation	(63.8)	(68.0)	(69.8)	(70.6)	(73.3)
Operating income (EBIT)	(15.1)	229.6	177.1	149.0	147.9
Other income & associates	31.3	5.6	35.6	44.5	56.9
Net interest	(78.7)	(80.8)	(75.9)	(69.2)	(63.1)
Exceptional items	123.7	0.0	49.7	0.0	0.0
Pretax profit	61.3	154.3	186.4	124.3	141.7
Taxation	(54.6)	(100.8)	(78.0)	(49.0)	(51.9)
Minorities/pref dividends	9.1	11.3	(14.7)	(10.0)	(10.7)
Net profit	15.8	64.8	93.7	65.3	79.1
Core net profit	(107.9)	64.8	44.0	65.3	79.1

Balance Sheet

FYE Dec (RMm)	2021	2022	2023F	2024F	2025F
Fixed assets	742.5	776.0	783.2	788.3	791.4
Intangible assets	215.7	194.8	187.1	0.0	0.0
Other long-term assets	4,595.8	4,687.4	4,291.0	3,168.8	3,207.8
Total non-current assets	5,554.0	5,658.2	5,261.3	3,957.1	3,999.3
Cash & equivalent	479.9	465.6	1,081.9	1,274.4	1,167.9
Stock	857.7	785.2	1,098.7	833.5	735.3
Trade debtors	2,089.7	2,184.9	1,736.7	1,394.9	1,250.8
Other current assets	224.2	140.9	132.7	56.2	47.4
Total current assets	3,651.4	3,576.6	4,050.1	3,559.0	3,201.4
Trade creditors	1,901.1	1,812.7	1,576.5	1,250.2	1,102.9
Short-term borrowings	478.6	840.8	672.9	652.4	631.9
Other current liabilities	71.7	48.6	48.6	48.6	48.6
Total current liabilities	2,451.3	2,702.1	2,297.9	1,951.2	1,783.4
Long-term borrowings	1,453.6	1,215.9	1,633.9	1,541.4	1,398.9
Other long-term liabilities	760.1	781.0	780.1	779.1	778.1
Total long-term liabilities	2,213.7	1,997.0	2,414.0	2,320.5	2,177.0
Shareholders' funds	4,512.7	4,530.2	4,579.2	4,599.8	4,634.3
Minority interests	27.8	5.5	20.3	30.3	40.9

Cash flow Statement

FYE Dec (RMm)	2021	2022	2023F	2024F	2025F
Pretax profit	61.3	154.3	186.4	124.3	141.7
Depreciation/Amortisation	63.8	68.0	69.8	70.6	73.3
Net change in working capital	90.8	(111.1)	(101.6)	280.8	94.9
Others	(408.9)	(192.2)	(113.7)	(93.6)	(108.8)
Cash flow from operations	(193.1)	(80.9)	41.0	382.1	201.1
Capital expenditure	(171.1)	(34.7)	(80.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	0.4	6.9	450.0	0.0	0.0
Others	479.4	81.2	0.0	0.0	0.0
Cash flow from investing	308.7	53.4	370.0	(100.0)	(100.0)
Debt raised/(repaid)	(802.4)	122.2	250.0	(113.0)	(163.0)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(44.1)	(44.7)	(44.7)	(44.7)	(44.7)
Others	779.9	(63.6)	0.0	0.0	0.0
Cash flow from financing	(66.6)	14.0	205.3	(157.7)	(207.7)
Net cash flow	49.0	(13.5)	616.3	124.5	(106.6)
Cash b/f	431.3	479.9	465.6	1,081.9	1,206.4
Cash c/f	479.9	465.6	1,081.9	1,206.4	1,099.8

Key Ratios

FYE Dec	2021	2022	2023F	2024F	2025F
Revenue growth (%)	20.8	>100	(26.8)	(19.7)	(10.3)
EBITDA growth (%)	(63.5)	>100	(17.0)	(11.1)	0.7
Pretax margins (%)	4.2	4.8	7.9	6.6	8.4
Net profit margins (%)	1.1	2.0	4.0	3.5	4.7
Interest cover (x)	nm	2.8	2.3	2.2	2.3
Effective tax rate (%)	89.0	65.3	41.9	39.4	36.6
Net dividend payout (%)	282.1	68.9	47.7	68.4	56.4
Debtors turnover (days)	527	249	270	270	270
Stock turnover (days)	260	119	230	220	220
Creditors turnover (days)	576	274	330	330	330

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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