03 Nov 2017

Buy

Price
RM1.05

Target Price
RM1.26

Bloomberg code
MRC MK

Equity | Malaysia | Property

Flashnote

MRCB

To be compensated for EDL?

Financial Highlights

FYE Dec	2015	2016	2017F	2018F	2019F
Revenue (RMm)	1,696.7	2,408.1	2,449.5	2,333.6	2,556.1
Core net profit (RMm)	1.0	75.0	61.1	131.6	185.2
Core EPS (Sen)	1.7	4.2	2.2	3.5	4.2
EPS growth (%)	9.8	>100	(47.7)	58.2	19.8
DPS (Sen)	2.5	2.8	2.0	3.0	3.0
Core PE (x)	58.3	24.9	47.6	30.1	25.1
Div yield (%)	2.5	2.6	1.9	2.9	2.9
ROE (%)	15.6	10.3	1.7	2.8	3.9
Net Gearing (%)	127.2	75.7	9.9	18.5	24.8
PBV(x)	0.8	0.8	1.0	1.0	1.0

Source: Company, KAF

- We maintain our BUY recommendation on MRCB with an unchanged TP of RM1.26 (15% discount to NAV). The local press reported that the Federal Govenrment would compensate both PLUS and MRCB for the abolishment of toll collection, which was announced under Budget 2018.
- The four locations are Batu Tiga, Sg. Rasau in Selangor, Bukit Kayu Hitam in Kedah (along the Malaysia-Thai border) and the Eastern Dispersal Link (EDL). The first three are under PLUS, while MRCB owns and operates EDL.
- To compensate for this, we understand that the government is looking to cough up RM102m annually to compensate PLUS for scrapping the Batu Tiga and Sg.Rasau tolls, which are located in Selangor. For Bukit Kayu Hitam, the compensation amount is RM8m a year.
- As for EDL, MRCB would be compensated for the loss of toll revenue once tolling is scrapped from 1 January 2018. To recap, the EDL has been a drag to MRCB's earnings, and constitutes ~30% of its total debt as of 30 June, per our estimates. The toll charge is RM6.80 per trip. The EDL concession runs for a period of 34 years.
- Even before this latest development, the average daily traffic (ADT) for EDL has dropped 6.6% to ~39,264 for ytd-April 2017 following an increase in road charges on both sides of the Malaysia-Singapore causeway. For the whole of 2017, total traffic is projected to fall 10%.
- Due to the cash flow mismatch between its toll collection and debt obligations, a July report by RAM Ratings indicated that MRCB has injected RM58m into EDL for the past two years. On 21 June, it pumped in another RM67m to repay its concession unit's term loans.
- Apart from cash compensation, the government had on previous occasions, lengthened the concession period of other toll concessionaires in return for stopping scheduled toll hikes.
- We are however, unsure how EDL would be restructured, given that it is a one-way toll for motorists entering Singapore through the Customs, Immigration and Quarantine (CIQ) centre at the Malaysia-Singapore causeway from the Pandan Interchange along the North South Expressway in Johor.
- In any case, we believe the impact on MRCB will at the very least be NPV-neutral, given the need to uphold the sanctity of the existing EDL concession. In fact, this may reignite MRCB's divestment plans for EDL, in our view. The EDL concession (net of debt) contributes c.RM0.01 or less than 1% of group NAV. We retain our earnings forecast pending more updates on EDL.

Analyst

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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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