

27 Feb 2019

## Buy

**Price**  
 RM0.80

**Target Price**  
 RM0.92

### Market Data

Bloomberg Code	MRC MK
No. of shares (m)	4,399.9
Market cap (RMm)	3,519.9
52-week high/low (RM)	1.15 / 0.55
Avg daily turnover (RMm)	8.6
KLCI (pts)	1,719.0

Source: Bloomberg, KAF

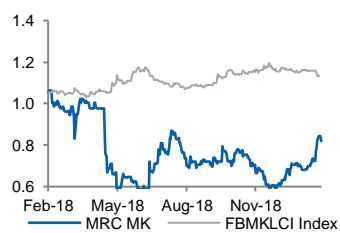
### Major Shareholder (%)

EPF	(35.9%)
Gapurna	(16.1%)
Lembaga Tabung Haji	(7.0%)
Free Float	41.0

Source: Bloomberg, KAF

### Performance

	3M	6M	12M
Absolute (%)	11.9	4.6	(27.9)
Rel Market (%)	10.8	10.0	(22.0)



Source: Bloomberg, KAF

# MRCB

## Extending its rail expertise

We maintain our Buy rating on MRCB with an unchanged TP of RM0.92 (20% discount to NAV) post its FY18 results. During the year, MRCB's net gearing strengthened further to 20% in FY18 (FY17: 55%) with the receipt of RM1.3b in proceeds from the disposal of EDL in November. Its construction prospects remain robust, with a sizeable orderbook of RM22b that provides clear earnings visibility extending up to 20 years. Further out, MRCB is keen to expand its track record in rail-related works on the back of renewed job flow prospects (e.g. ECRL and Klang Valley Double Track Upgrade Phase 2). Aside from this, we opine that there could be three other re-rating catalysts unfolding this year that could lift the stock further; (i) resumption of LRT 3; (ii) value-unlocking of Penang Sentral (transport hub completed); and (iii) maiden residential launch of Kwasa Sentral.

### Financial Highlights

FYE Dec	2017	2018	2019F	2020F	2021F
Revenue (RMm)	2,640.6	1,870.7	2,275.0	2,986.1	3,452.2
Core net profit (RMm)	95.6	101.2	72.6	102.8	156.1
Core EPS (Sen)	2.7	3.1	1.9	2.5	3.6
EPS growth (%)	(35.4)	12.5	(39.6)	33.6	44.5
DPS (Sen)	1.8	1.5	1.0	1.5	2.0
Core PE (x)	41.7	27.0	43.2	32.3	22.4
Div yield (%)	1.5	1.8	1.3	1.9	2.5
ROE (%)	4.2	2.1	1.5	2.1	3.2
Net Gearing (%)	55.2	19.6	26.4	28.0	27.4
PBV(x)	1.0	0.8	0.7	0.7	0.7

Source: Company, KAF

### Land sale buffer for FY18 – core profits up 6%

For the quarter ending 31 December 2018, MRCB delivered core net profits of RM26m, bringing FY18 earnings to RM101m (+6% YoY). Its results were 9% ahead of our full-year estimates, and 12% of consensus. This was mainly attributable to

- (i) Land sale gains at the ex-German Embassy site at Jln. Kia Peng (RM38m) in 3Q18, and another plot of development land in Batu Ferringhi (RM31m) in the preceding quarter; and
- (ii) A sharp 63% YoY drop in interest cost (due to certain project cost being capitalized).

This more than offset the slower work momentum on LRT 3 (via the MRCB-George Kent Holdings [GK] (GKEN MK, RM1.09, NC) JV following the government's review of the project. Notably, LRT 3's profits came off in 2H18, with a marginally lower contribution of RM14.6m against RM15.2m in FY17.

The property and investment division's earnings fell by 67% YoY largely on timing issues; i.e. a lower billings cycle for its newer launches (e.g. Sentral Suites), which are still at the early phases of construction. In comparison, last year saw the full-recognition of the completed Easton Burwood project in Australia, which resulted in lumpy bookings. The division's earnings could have been lower if not for the gains from the ex-German Embassy and Batu Feringghi lands.

At the same time, MRCB also recorded new property sales of ~RM470m that was still lower than its revised target of RM700m for FY18 (excluding the Semarak City Land), given the soft property landscape. Unbilled property sales stood at RM1.6b as of 31 December 2018.

### Analyst

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## Finalises LRT 3 contract

Last Friday, MRCB-GK and Prasarana Malaysia signed a novation agreement with nine works package contractors (WPC's) for LRT 3, which will now be completed in February 2024.

The agreement will see MRCB emerge as the turnkey contractor, replacing the previous project delivery partner (PDP) scheme, and work together with the WPC's under a fixed-price contract of RM11.5b (excluding reimbursables worth ~RM400m).

LRT 3 is presently about 10% completed. More importantly, we expect contributions from LRT 3 to resume in earnest from FY20F, once MRCB-GK finalizes the re-design work and revised work scopes with its WPC's by end-1H19.

We have conservatively imputed project margins of ~4% for MRCB's 50% share of the remaining LRT 3 contract vs a fee of 6% under the original PDP structure. Yet, we think that MRCB can extract better margins from LRT 3 through cost savings from the redesign initiatives and re-negotiating of contract rates with its WPC's.

## Keen on more railway jobs

MRCB started the current FY on a solid footing by clinching a RM323m award for Package CA2 of the Sg.Besi-Ulu Kelang (SUKE) elevated highway.

The group's ongoing tenderbook is approximately RM2.7b on a healthy outstanding job backlog of RM22b. Infrastructure projects accounts for 10% of this total, while the balance mostly consists of value-added or engineering based projects.

Further out, management indicated that it is keen to expand its track record in rail-related works, if the government approves projects such as the East Coast Rail Line (ECRL) and Phase 2 of the Klang Valley Double Track Upgrade (KVDT). It is also actively scouting for more work within the power transmission and environmental engineering segments, areas in which the group has existing expertise.

## RM850m launch pipeline

For this year, MRCB is looking to launch RM850m worth of new properties. Out of this, we understand that the maiden residential launch of Kwasa Sentral (70:30 JV with EPF) will account for RM350m-RM400m. The balance will comprise of the Docklands project in Australia as well as Alstonia @ Bukit Rahman Putra.

In terms of its new sales targets, MRCB is projecting a higher value of RM800m in FY19F against the RM470m achieved in FY18. Apart from the upcoming pipeline project of launches, MRCB is looking to liquidate some of its existing inventories, including the second Tower of Sentral Suites and Tria @ 9 Seputeh (Parcel C).

## Value unlocking at Penang Sentral?

In a company note on 20 November 2018 (*Penang Sentral mall to be ready by 2020*), we wrote that MRCB expects to introduce a retail shopping mall at Penang Sentral by next year.

The shopping mall forms part of Phase 2 of the RM2.9b GDV Penang Sentral. Given its strategic location within the transport hub, we believe that the shopping mall should attract strong tenancy interests when it is completed. For this, MRCB is still fine tuning its development plans.

Penang Sentral accounts for RM207m (RM0.04) or 4% of MRCB's NAV. We see more scope for NAV upside, if management successfully unlocks more value from the project's future phases, including the shopping mall and hotels.

**...but not so soon for Menara Celcom, Ascott Sentral**

The planned injection of Menara Celcom into MRCB Quill REIT will likely be deferred at least until FY21F, taking into consideration potential taxation issues, in our view. There are similarly no further updates on the sale of Ascott Sentral. Collectively, both of these assets accounts for RM541m (RM0.11) or 10% of MRCB's NAV.

## Valuation and recommendation

**In stronger financial shape**

Following the receipt of ~RM1.3b in proceeds from the EDL sale in November, MRCB's net gearing position has strengthened further to 20% vs 55% in FY17. Apart from targeting more construction wins, management is looking to drive better project margins through digitization (it is introducing Enterprise Resource Planning or ERP across the group) and in-house modular building systems.

**Maintain Buy – our top infrastructure pick**

We anticipate MRCB to chart a stronger turnaround in its FY20F core earnings at RM103m (+42% YoY) vs an estimated RM73m in FY19F. This is predicated upon the: (i) anticipated revival in LRT 3 work momentum; (ii) step-up in property billings from Sentral Suites and Carnegie, Australia; and (iii) expected contributions from the maiden residential launch at Kwasa Sentral; and (iv) interest savings of c.RM80m p.a. post-disposal of EDL.

In terms of dividends, we project a FY19F-21F of 1 to 2 sen, translating into yields of 1.3%-2.5%. This assumes a payout of 56%-64% (FY18: 65%).

## Exhibit 1: NAV table

Divisions/Operations	Size		Value (RM)		Method	% of NAV	Effective stake (%)
	(acres)	psf	m	/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	0.04			
<b>Sub-total</b>	<b>15.8</b>		<b>223.0</b>	<b>0.05</b>		<b>4.3</b>	
<b>Development properties</b>							
Sentral Residences (Lot D)			2.3	0.00	NPV @ 9%		51.0
Lot F - Office Towers			269.9	0.06	NPV @ 9%		100.0
9 Seputeh, Old Klang Road			209.0	0.04	NPV @ 9%		100.0
Sentral Suites, Brickfields			156.9	0.03	NPV @ 9%		100.0
Semarak City, Setapak			61.7	0.01	NPV @ 9%		30.0
PJ Sentral Phase 1 (PJ Garden City)			163.9	0.03	NPV @ 9%		100.0
Kwasa Sentral, Sg.Buloh			579.8	0.12	NPV @ 9%		70.0
Rahman Putra, Sg.Buloh			48.2	0.01	NPV @ 9%		100.0
Cyberjaya City Centre Phase 1, Cyberjaya			321.0	0.07	NPV @ 9%		70.0
Bukit Jalil Sentral			441.5	0.09	NPV @ 9%		20.0
Penang Sentral			207.2	0.04	NPV @ 9%		100.0
Pulai Land			83.4	0.02	NPV @ 9%		100.0
1060 Carnagie, Melbourne			23.5	0.00	NPV @ 9%		100.0
Unbilled sales			80.5	0.02	NPV @ 9%		100.0
<b>Sub-total</b>			<b>2,648.7</b>	<b>0.55</b>		<b>50.7</b>	
		<b>NLA/room</b>	<b>Value (RM)</b>		<b>Method</b>		<b>Effective</b>
		<b>bays</b>	<b>m</b>	<b>/share</b>			<b>stake (%)</b>
<b>Investment properties</b>							
Menara Celcom (Lot 8)		450,908	419.3	0.09	NPI@6%		100.0
Menara MRCB, Shah Alam		216,000	25.9	0.01	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
Ascott Sentral (Lot 348), KL Sentral		143 rooms	121.6	0.03	RM0.85m/room		100.0
St. Regis Hotel (Lot C), KL Sentral		208 rooms	62.4	0.01	RM1m/room		30.0
<b>Sub-total</b>			<b>779.9</b>	<b>0.16</b>		<b>14.9</b>	
<b>Car 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>1.7</b>	
<b>Property management</b>							
Quill Capita Management (QCM)			79.3	0.02	NPI@7.5%		41.0
<b>Sub-total</b>			<b>79.3</b>	<b>0.02</b>		<b>1.5</b>	
<b>Construction &amp; Facilities Management</b>							
Construction			889.4	0.18	12x FY19F net profit		
Facilities management			61.0	0.01	Net book value		
Bukit Jalil Sentral Management Contract			31.7	0.01	NPV@9%		
<b>Sub-total</b>			<b>982.1</b>	<b>0.20</b>		<b>18.8</b>	
<b>Listed-investments</b>							
MRCB-Quill REIT			328.1	0.07	Market Value		27.8
<b>Sub-total</b>			<b>328.1</b>	<b>0.07</b>		<b>6.3</b>	
Others			473.4	0.10	Net book value as of FY17		
<b>Sub-total</b>			<b>473.4</b>	<b>0.10</b>		<b>9.1</b>	
<b>Gross NAV</b>							
			<b>5,601.2</b>	<b>1.16</b>			
Net cash (excluding EDL debt)			(947.7)	(0.20)	FY18F	(18.2)	
Proceeds from ESOS/warrant conversions			567.8	0.12	Warrants B exercise price: RM1.25	10.9	
<b>Total NAV</b>			<b>5,221.3</b>	<b>1.08</b>		<b>100.0</b>	
FD no of shares			4,837.7				
<b>NAV/share</b>			<b>1.08</b>				
<b>TP (less: 15% discount)</b>			<b>0.92</b>				
Capital gain (%)			14.7				
<b>Discount to NAV (%)</b>			<b>(25.9)</b>				

Source: Company, KAF

## Exhibit 2: Financial results

YE 31 Dec (RM m)	FY17	FY18	% YoY	3Q18	4Q18	% QoQ
<b>Turnover</b>	<b>2,752.7</b>	<b>1,870.7</b>	<b>(32.0)</b>	<b>663.8</b>	<b>374.1</b>	<b>(43.6)</b>
<b>EBIT</b>	<b>268.4</b>	<b>119.8</b>	<b>(55.4)</b>	<b>43.0</b>	<b>13.1</b>	<b>(69.4)</b>
Interest Expense	(116.1)	(43.3)		(15.1)	(7.2)	
Interest Income	25.5	21.1		3.4	3.2	
Pre-Exceptionals Profit	177.9	97.5		31.3	9.1	
Exceptionals	66.3	0.0		0.0	0.0	
Pre-Associates/JV Profit	244.2	97.5		31.3	9.1	
Associates/JVs	25.0	25.5		9.2	(0.2)	
<b>Pretax Profit</b>	<b>269.2</b>	<b>123.0</b>	<b>(54.3)</b>	<b>40.5</b>	<b>8.9</b>	<b>(78.0)</b>
Taxation	(68.8)	(46.1)		(22.0)	(8.4)	
Minority Interest/disc. ops	(38.5)	24.3		1.3	25.8	
<b>Net Profit</b>	<b>161.9</b>	<b>101.2</b>	<b>(37.5)</b>	<b>19.8</b>	<b>26.4</b>	<b>33.4</b>
<b>Core Net Profit</b>	<b>95.6</b>	<b>101.2</b>	<b>5.8</b>	<b>19.8</b>	<b>26.4</b>	<b>33.4</b>
Core EPS (sen)	3.7	2.3		0.5	0.6	
Gross DPS (sen)	1.8	1.8		0.0	1.8	
BV/share (RM)	1.10	1.10		1.09	1.10	
EBIT Margin (%)	9.8	6.4		6.5	3.5	
Pretax Margin (%)	9.8	6.6		6.1	2.4	
Effective Tax (%)	25.5	37.5		54.4	93.7	
<b>Segmental Breakdown (RM m)</b>						
<b>Turnover</b>						
Construction	1,773.9	1,042.7	(41.2)	177.3	481.4	171.5
Property development & investment	787.7	758.6	(3.7)	469.1	(124.4)	(126.5)
Infrastructure & concession	112.1	0.0	n/m	0.8	(2.2)	n/m
Facilities management & parking	55.8	53.3	(4.4)	13.7	13.6	(0.4)
Investment holding & Others	23.3	16.1	(30.6)	2.9	5.6	91.8
<b>Total</b>	<b>2,752.7</b>	<b>1,870.7</b>	<b>(32.0)</b>	<b>663.8</b>	<b>374.1</b>	<b>(43.6)</b>
<b>EBIT</b>						
Construction	92.7	97.8	5.6	3.8	53.0	n/m
Property development & investment	168.6	56.2	(66.7)	33.8	(32.6)	n/m
Infrastructure & concession	55.7	74.5	33.7	(4.8)	82.3	n/m
Facilities management & parking	11.4	6.4	(44.1)	4.8	0.8	n/m
Investment holding & Others	32.7	(17.3)	n/m	9.2	(37.3)	n/m
<b>Total</b>	<b>268.4</b>	<b>119.8</b>	<b>(55.4)</b>	<b>43.0</b>	<b>13.1</b>	<b>(69.4)</b>
<b>EBIT margin (%)</b>						
Construction	5.2	9.4		2.2	11.0	
Property development & investment	21.4	7.4		7.2	26.2	
Infrastructure & concession	49.7	n/m		n/m	n/m	
Facilities management & parking	20.5	12.0		34.9	5.7	
Investment holding & Others	n/m	n/m		n/m	n/m	
<b>Total</b>	<b>9.8</b>	<b>6.4</b>		<b>6.5</b>	<b>3.5</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>2017</b>	<b>2018</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
<b>Revenue</b>	<b>2,640.6</b>	<b>1,870.7</b>	<b>2,275.0</b>	<b>2,986.1</b>	<b>3,452.2</b>
<b>EBITDA</b>	<b>211.8</b>	<b>151.4</b>	<b>205.5</b>	<b>248.5</b>	<b>310.3</b>
Depreciation/Amortisation	(31.1)	(31.0)	(38.0)	(39.8)	(41.7)
Operating income (EBIT)	180.7	120.4	167.5	208.7	268.6
Other income & associates	25.0	25.5	30.8	51.9	73.0
Net interest	(2.8)	(22.9)	(53.8)	(62.6)	(63.9)
Exceptional items	66.3	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>269.2</b>	<b>123.0</b>	<b>144.4</b>	<b>198.0</b>	<b>277.7</b>
Taxation	(68.8)	(46.1)	(63.6)	(83.5)	(104.8)
Minorities/pref dividends	(38.6)	24.3	(8.2)	(11.8)	(16.9)
<b>Net profit</b>	<b>161.9</b>	<b>101.2</b>	<b>72.6</b>	<b>102.8</b>	<b>156.1</b>
<b>Core net profit</b>	<b>95.6</b>	<b>101.2</b>	<b>72.6</b>	<b>102.8</b>	<b>156.1</b>

**Balance Sheet**

<b>FYE Dec (RMm)</b>	<b>2017</b>	<b>2018</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
Fixed assets	614.2	665.4	687.2	707.3	725.6
Intangible assets	225.6	226.7	220.5	214.3	208.1
Other long-term assets	3,499.3	3,979.6	4,036.7	4,114.9	4,214.1
<b>Total non-current assets</b>	<b>4,339.1</b>	<b>4,871.6</b>	<b>4,944.4</b>	<b>5,036.5</b>	<b>5,147.8</b>
Cash & equivalent	464.0	469.8	492.1	398.3	351.9
Stock	885.1	1,043.7	918.5	1,215.0	1,220.2
Trade debtors	3,155.0	1,864.5	2,181.5	2,372.5	2,506.4
Other current assets	1,467.8	100.6	100.6	100.6	100.6
<b>Total current assets</b>	<b>5,971.9</b>	<b>3,478.7</b>	<b>3,692.7</b>	<b>4,086.5</b>	<b>4,179.0</b>
Trade creditors	1,295.1	1,364.2	1,285.9	1,701.1	1,847.7
Short-term borrowings	2,491.7	729.4	502.6	587.6	665.1
Other current liabilities	217.9	15.4	15.4	15.4	15.4
<b>Total current liabilities</b>	<b>4,004.8</b>	<b>2,109.0</b>	<b>1,803.9</b>	<b>2,304.0</b>	<b>2,528.2</b>
Long-term borrowings	893.0	769.9	1,346.8	1,261.8	1,134.3
Other long-term liabilities	491.6	570.9	570.9	570.9	570.9
<b>Total long-term liabilities</b>	<b>1,384.6</b>	<b>1,340.8</b>	<b>1,917.7</b>	<b>1,832.7</b>	<b>1,705.2</b>
<b>Shareholders' funds</b>	<b>4,817.2</b>	<b>4,832.4</b>	<b>4,839.3</b>	<b>4,898.3</b>	<b>4,988.5</b>
Minority interests	104.5	68.0	76.2	88.0	104.9

**Cash flow Statement**

<b>FYE Dec (RMm)</b>	<b>2017</b>	<b>2018</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
Pretax profit	269.2	123.0	144.4	198.0	277.7
Depreciation/Amortisation	31.1	31.0	38.0	39.8	41.7
Net change in working capital	(1,886.9)	1,200.9	(270.0)	(72.4)	7.7
Others	697.9	(194.3)	(94.3)	(135.4)	(177.7)
<b>Cash flow from operations</b>	<b>(888.7)</b>	<b>1,160.5</b>	<b>(181.9)</b>	<b>30.1</b>	<b>149.3</b>
Capital expenditure	(989.0)	(17.3)	(80.0)	(80.0)	(80.0)
Net investments & sale of fixed assets	12.7	68.0	0.0	0.0	0.0
Others	(80.7)	990.0	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>(1,057.0)</b>	<b>1,040.7</b>	<b>(80.0)</b>	<b>(80.0)</b>	<b>(80.0)</b>
Debt raised/(repaid)	444.3	(1,885.3)	350.0	0.0	(50.0)
Equity raised/(repaid)	1,798.1	0.0	0.0	0.0	0.0
Dividends paid	(70.1)	(106.2)	(65.8)	(43.8)	(65.8)
Others	(355.4)	(203.9)	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>1,816.9</b>	<b>(2,195.5)</b>	<b>284.2</b>	<b>(43.8)</b>	<b>(115.8)</b>
<b>Net cash flow</b>	<b>(128.7)</b>	<b>5.8</b>	<b>22.3</b>	<b>(93.8)</b>	<b>(46.5)</b>
<b>Cash b/f</b>	<b>592.8</b>	<b>464.0</b>	<b>469.8</b>	<b>492.1</b>	<b>398.3</b>
<b>Cash c/f</b>	<b>464.0</b>	<b>469.8</b>	<b>492.1</b>	<b>398.3</b>	<b>351.9</b>

**Key Ratios**

<b>FYE Dec</b>	<b>2017</b>	<b>2018</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
Revenue growth (%)	9.7	(29.2)	21.6	31.3	15.6
EBITDA growth (%)	(44.6)	(28.5)	35.7	20.9	24.8
Pretax margins (%)	10.2	6.6	6.3	6.6	8.0
Net profit margins (%)	6.1	5.4	3.2	3.4	4.5
Interest cover (x)	63.5	5.3	3.1	3.3	4.2
Effective tax rate (%)	25.5	37.5	44.0	42.2	37.7
Net dividend payout (%)	47.5	65.0	60.4	64.0	56.2
Debtors turnover (days)	436	364	350	290	265
Stock turnover (days)	131	218	200	200	175
Creditors turnover (days)	192	285	280	280	265

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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