

08 Jul 2019

Buy

Price  
RM0.94

Target Price  
RM0.92

Bloomberg code  
MRC MK

Equity | Malaysia | Property  
**Flashnote**

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# MRCB

## Key takeaways from MBS site visit

### Financial Highlights

FYE Dec	2017	2018	2019F	2020F	2021F
Revenue (RMm)	2,640.6	1,870.7	2,336.0	3,223.8	3,708.3
Core net profit (RMm)	95.6	38.7	68.8	106.7	165.0
Core EPS (Sen)	2.7	2.0	1.8	2.6	3.8
EPS growth (%)	(35.4)	(28.2)	(9.4)	44.1	47.1
DPS (Sen)	1.8	1.5	1.0	1.5	2.0
Core PE (x)	41.7	42.3	53.0	36.7	25.0
Div yield (%)	1.5	1.8	1.1	1.6	2.1
ROE (%)	4.2	2.1	1.4	2.2	3.3
Net Gearing (%)	55.2	19.6	27.4	31.1	30.0
PBV(x)	1.0	0.8	0.9	0.8	0.8

Source: Company, KAF

- We maintain our Buy rating on MRCB with an unchanged TP of RM1.08. This pegs the stock at a 10% discount to NAV. We participated in a site visit to MRCB's revolutionary Industrialized Building System (MBS) last Thursday.
- The visit showcased MRCB's execution strength in delivering a prototype building that was constructed using MBS. The building measures six floors, while the IBS components were supplied from an IBS facility in Senai, Johor that is owned by a Singaporean company.
- During the visit, we were briefed on MBS by MRCB group's Chief Corporate Officer, Amarjit Chhina.
- MBS is a highly-mechanized method of building construction that marries two cutting-edge technologies; i.e. the premier advance precast, prefabricated volumetric construction (PPVC) system with its proprietary fastening system known as Candel-Loc.
- Simply put, building components are fabricated off site before the modules are stacked and locked in position on site.
- The components in these modules include roofs, metal deck, ceiling finishes, façade, steel frames, internal finishing and wall panels, as well as fire and water protection systems.
- Each module is then placed onto plates and locked into position by lowering a pin to meet into each connection.
- Here, the solid stainless-steel pins and lateral tie plates are fitted in each unit to firmly secure the modules in place.
- The modules are subsequently installed through a repetitive fastening process to form a unit. They are subsequently lifted into position, connecting adjacent modules horizontally, and another is stacked on top to form a complete building.
- Before it is installed, the assembled modules already contain architectural fittings and interior finishes which are also constructed off site.
- The architectural fittings entails fire protection components, insulation walls, ceiling, floor tiles, electrical conduits, doors and windows.
- The interior finishes include cupboards, kitchen, TV cabinet, bed frames and other in-built items. The interior design works however, excludes loose furniture.
- As for the fabrication and installation process, the IBS building's foundation (on site) and prefabrication of modules (off site) are handled concurrently.

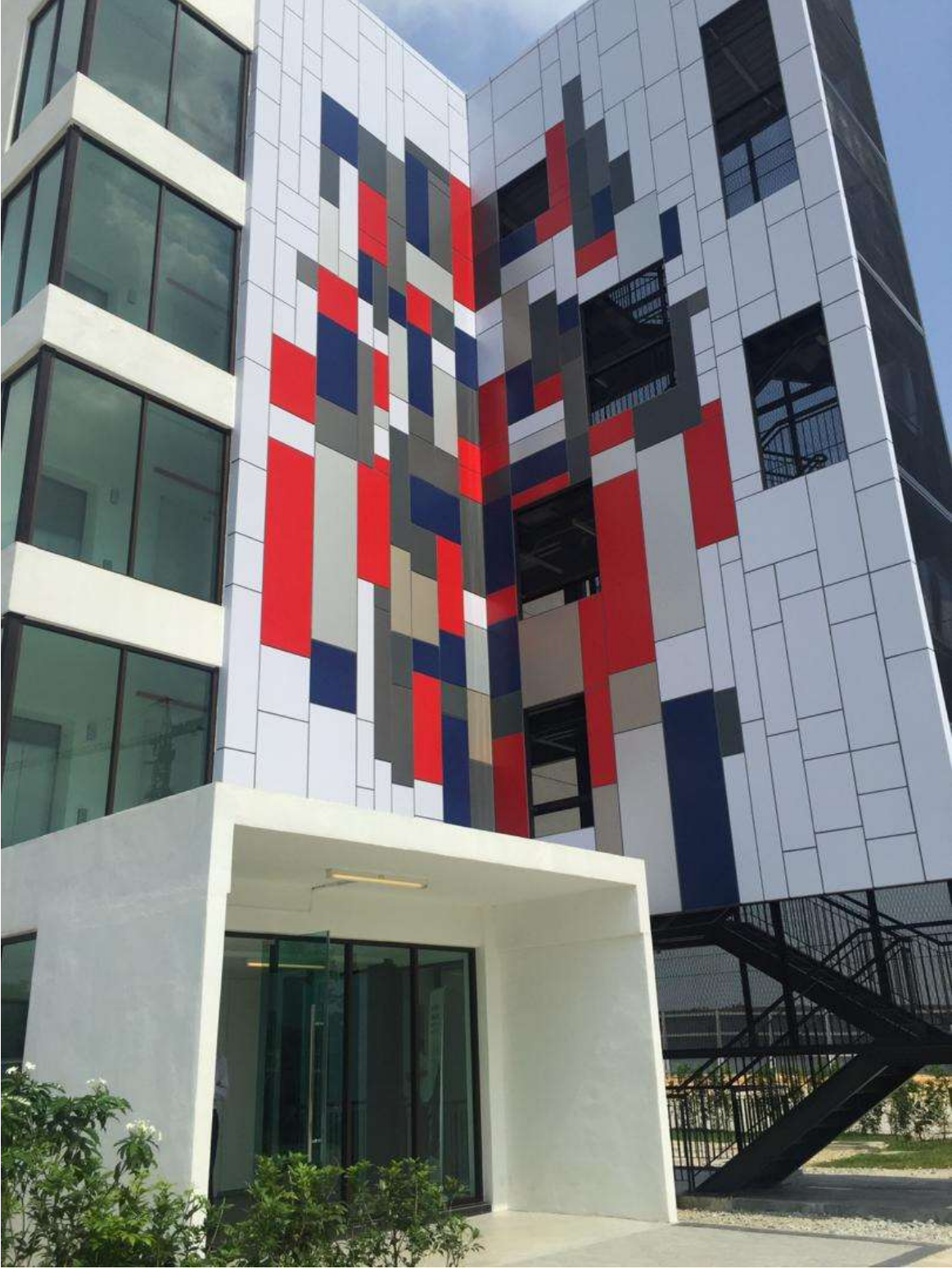
- This enables off-site fabrication, which includes fully-finished building components and 3D modules, to be done simultaneously with the site development. The latter is achieved through high-tech automation, which facilitates the conversion of 2D precast panels into a 3D model.
- It also ensures a neat and clean connection system with high quality assurance at the assembly center, when the finished modules are delivered to site. Once delivered, the modules are hoisted out and installed on site.
- The completed MBS units will then be stacked on one another, and locked into position to form a building.
- More importantly, we believe that MBS will propel MRCB to be at the forefront of IBS applications, which are still nascent in Malaysia.
- From our channel checks, MRCB is one of only two local construction companies that have employed the PPVC method, the highest form of IBS, for its projects. The other player is integrated building materials solution provider, Chin Hin Group (CHIN MK, RM0.78, Buy).
- The benefits of MBS are obvious; first of all, it helps to speed up construction with minimal labor as up to 95% of the work flows are done off-site for the building components, as opposed to 30%-40% under conventional IBS systems.
- This results in time and cost savings, minimizes physical labour and improves safety-on-site via a controlled environment. Other key benefits include lesser material wastage, better product quality and the potential to entice local talent to join the construction workforce through a more convenient, safe and efficient work place.
- For perspective, it only takes about four to five days to complete tiling works a unit that incorporates MBS as opposed one month under the conventional construction method.
- At the same time, apart from bare walls, MBS can fabricate architectural fittings and interior finishes, which allows for total customization of the units.
- Other potential benefits of MBS includes reduced foundation costs through (i) the Candle-Loc system, which does not require weight-bearing columns and beams; and (ii) the adoption of lightweight, concrete products.
- Because of its modular structure, certain sections of the MBS units are also hackable while it can also be customized to accommodate the varying needs of customers (e.g. rockwool board for sound insulation and fire resistance).
- Going forward, MRCB believes that Malaysia has what it takes to successfully implement MBS, as more companies are tipped to participate in the supply chain. To be sure, it noted that there are already many factories in Johor that have been set up to supply building components abroad.
- Furthermore, MRCB aspires to expand the application of MBS to cover all categories of residential properties, schools, hospitals, hotels, individual retail units and offices.
- For a start, its maiden residential launch at Kwasa Sentral will incorporate the same MBS system that was used to build the six-storey prototype building at the MBS gallery.
- We understand that the first residential phase at Kwasa Sentral will have 560 units of high-rise apartments (indicative pricing: over RM700psf).
- Due to height restrictions near Subang Airport, the residential towers will only be 25-storey high. Its launch will also likely be pushed back to 1H next year from the initial target by year-end.
- All said, while we believe that MBS will prove beneficial in lowering MRCB's building cost and accelerating its billings cycle, we do not envisage its cost-savings to be immediate.

Exhibit 1: Scale model of MBS units with Candel-Loc system



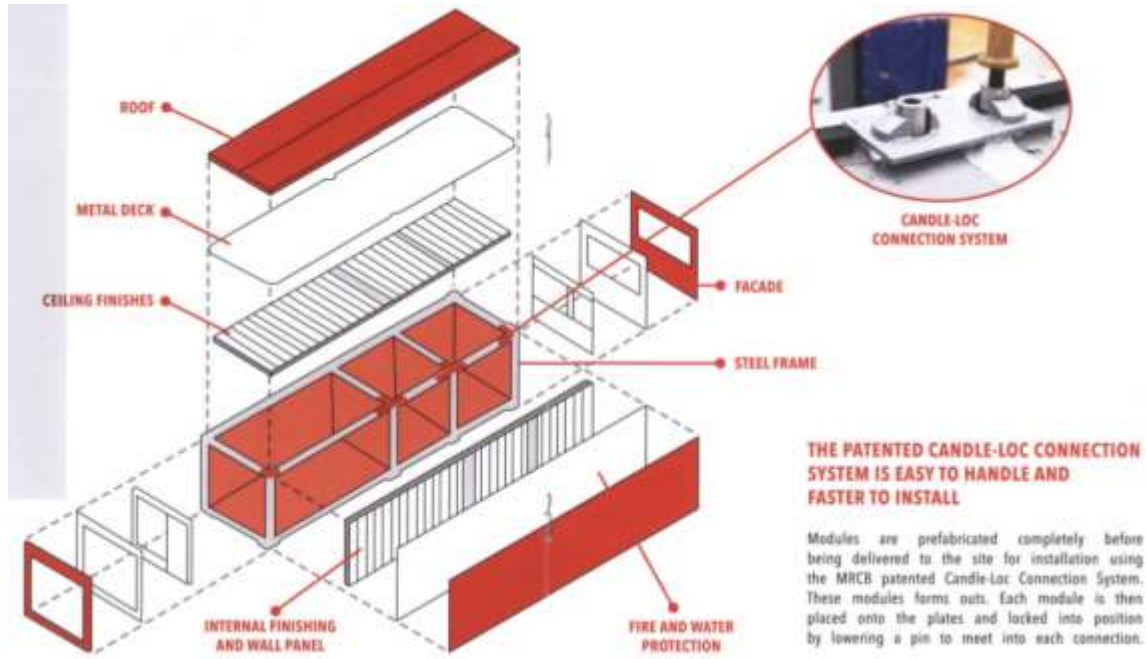
Source: Company, KAF

Exhibit 2: Prototype of six-storey MBS building at Kwasa Sentral



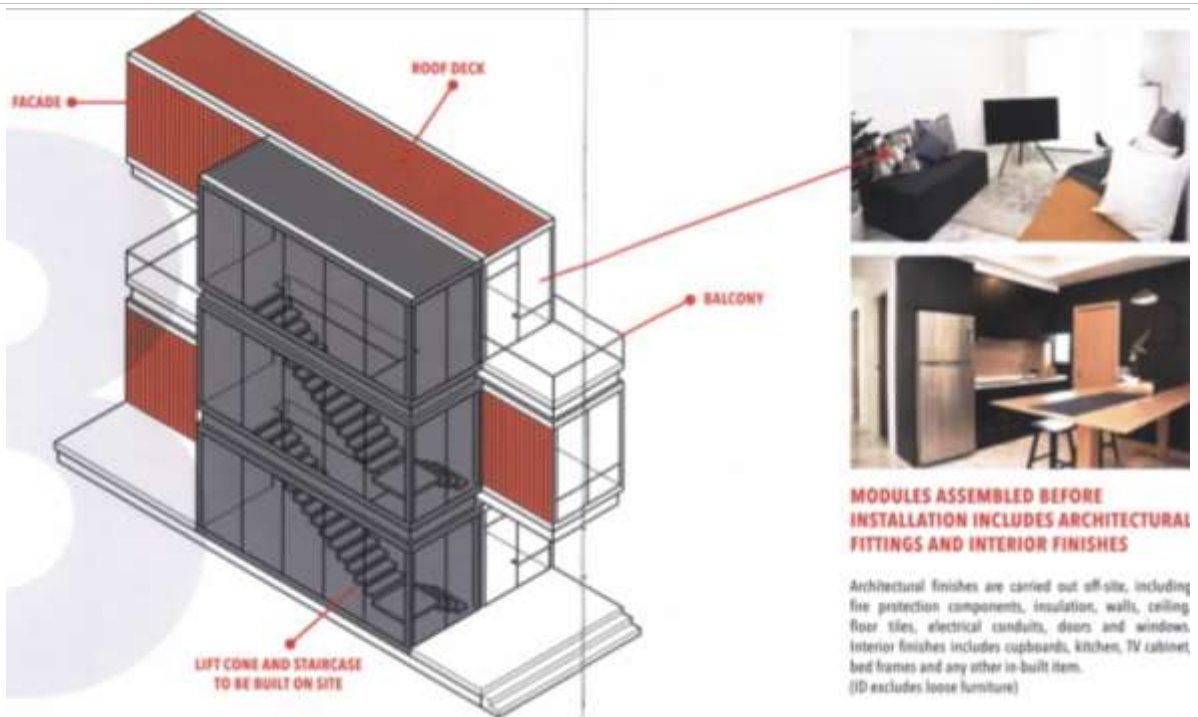
Source: Company, KAF

Exhibit 3: Schematic flow for MBS



Source: Company, KAF

Exhibit 4: Schematic flow for MBS



Source: Company, KAF

Exhibit 5: MBS fabrication and installation process



Source: Company, 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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