

28 Nov 2023

Buy

Price  
RM0.44

Target Price  
RM0.68

Bloomberg code  
MRC MK

Equity | Malaysia | Property  
**Flashnote**

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# MRCB

## Clearer job, launch visibility

### Financial Highlights

FYE Dec	2021	2022	2023F	2024F	2025F
Revenue (RMm)	1,448.5	3,205.1	1,983.7	1,889.2	1,667.6
Core net profit (RMm)	(107.9)	64.8	36.8	64.1	80.1
Core EPS (Sen)	(1.9)	1.7	1.1	1.6	2.0
EPS growth (%)	nm	nm	(34.5)	51.2	19.8
DPS (Sen)	1.0	1.0	1.0	1.0	1.0
Core PE (x)	Nm	19.8	40.5	26.8	22.4
Div yield (%)	2.6	3.0	2.3	2.3	2.3
ROE (%)	0.3	1.4	1.9	1.4	1.7
Net Gearing (%)	30.0	33.6	28.4	0.0	0.0
PBV(x)	0.4	0.3	0.4	0.4	0.4

Source: Company, KAF

- We maintain our Buy call on MRCB at an unchanged TP of RM0.68 (50% discount to NAV) following the release of its 3Q23 results. It posted core profits of only RM1m against RM11m a quarter ago (revenue: -16% QoQ). As a consequence, 9M23 core profits tallied at RM21m, representing a decline of 60% YoY (topline: -22%).
- On a 9M basis, the lower bottomline was largely attributable to the completion of three major infrastructure projects in late-2022, coupled with the delivery of two key property developments – Sentral Suites and Tria @ 9 Seputeh – in 1H23.
- In addition to this, the previous corresponding period was boosted by an RM18m contribution from the value of land injected into SIDEC. This was compounded by a much higher effective tax rate of 92% in 3Q23 (2Q23 - 29%; 9M23 - 61%), which was mainly due to the (i) non-deductibility of certain units that were loss-making or without deferred tax assets (e.g. Penang Sentral, TTSB); and (ii) higher under-provisioning of taxes in the previous FY.
- While its cumulative results came up to only 56% of our full-year results (consensus: 44%), we are keeping our estimates on account of an expected uptick in sequential earnings in the coming quarter. This is owing to the proposed divestment of Menara CelcomDigi to Sentral REIT (Hold, TP=RM0.89) for RM450m, which is also expected to yield a pro-forma gain on disposal of ~RM53m.
- That said, we note that both MRCB's job and launch visibility are improving moving into FY24F. To begin with, MRCB's tenderbook remains at c.RM30b, and includes the MRT 3, additional LRT 3 station works and water infrastructure worth ~RM1b. This will be augmented by redevelopment initiatives under Shah Alam Stadium (KSSA – 2024) and KL Sentral (2025).
- The additional station works for LRT 3 relates to five stops that had been reinstated under Budget 2024. The indicative value for this additional scope is estimated at c.RM1.5b, providing fresh orderbook impetus for MRCB. On the contrary, the bidding exercise for Iskandar BRT has not yet concluded.
- Meanwhile, MRCB has surpassed its FY23F new property sales target by chalking up cumulative sales of RM513m up to October. This excludes another RM240m worth of bookings, which are pending SPA's. As of 3Q23, its unbilled sales and property stock stood at RM34m and RM603m, respectively.
- For the year ahead, MRCB is stepping up its launches by lining up RM4b worth of properties (The Symphony Center and Bledishoe – both in Auckland; Bukit Jalil Sentral Phase 1A and 1B; Lot F – KL Sentral CBD; and 9 Seputeh – Parcel A). This will be followed by another RM1.2b worth of launches in 2025 – i.e. Lot R – KL Sentral CBD and PJ Sentral – Tower 1 and 5.

- For the current FY, the group has launched VISTA @ Surfers Paradise back in April (sales rate as of October – 12%) as well as Residensi Tujoh – Kwasa Sentral.
- Entering the summer months, management expects the take-up rate for VISTA to gain momentum. Likewise, it launched Residensi Tujoh in September and has since achieved bookings of c.90 units.
- Last but not least, the group is working with its consultants to improve its tax structure. Valuation-wise, it is only trading at 0.4x its FY23F book value – a tad below historical mean.

**Exhibit 1: Financial results**

YE 31 Dec (RM m)	9M22	9M23	% YoY	2Q23	3Q23	% QoQ
<b>Turnover</b>	<b>2,371.1</b>	<b>1,845.3</b>	<b>(22.2)</b>	<b>599.3</b>	<b>503.7</b>	<b>(16.0)</b>
<b>EBIT</b>	<b>173.9</b>	<b>117.1</b>	<b>(32.7)</b>	<b>34.0</b>	<b>40.6</b>	<b>19.6</b>
Interest Expense	(71.9)	(86.9)		(28.9)	(30.2)	
Interest Income	11.1	17.0		5.9	5.7	
Pre-Exceptionals Profit	113.1	47.3		11.0	16.1	
Exceptionals	0.0	0.0		0.0	0.0	
Pre-Associates/JV Profit	113.1	47.3		11.0	16.1	
Associates/JVs	3.7	7.3		4.3	2.5	
<b>Pretax Profit</b>	<b>116.9</b>	<b>54.5</b>	<b>(53.4)</b>	<b>15.3</b>	<b>18.7</b>	<b>22.1</b>
Taxation	(76.2)	(33.5)		(4.4)	(17.2)	
Minority Interest/disc.t. ops	11.4	(0.2)		(0.1)	(0.0)	
<b>Net Profit</b>	<b>52.1</b>	<b>20.8</b>	<b>(60.1)</b>	<b>10.9</b>	<b>1.5</b>	<b>(86.6)</b>
<b>Core Net Profit</b>	<b>52.1</b>	<b>20.8</b>	<b>(60.1)</b>	<b>10.9</b>	<b>1.5</b>	<b>(86.6)</b>
Core EPS (sen)	1.2	0.5		0.2	0.0	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	1.01	1.01		1.01	1.01	
EBIT Margin (%)	7.3	6.3		5.7	8.1	
Pretax Margin (%)	4.9	3.0		2.6	3.7	
Effective Tax (%)	65.2	61.5		28.6	92.0	
<b>Segmental Breakdown (RM m)</b>						
<b>Turnover</b>						
Construction	1,674.9	1,338.0	(20.1)	482.0	397.5	(17.5)
Property development & investment	653.5	459.5	(29.7)	101.5	90.0	(11.3)
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	33.4	37.2	11.4	12.3	12.6	2.2
Investment holding & Others	9.3	10.7	14.6	3.5	3.7	3.8
<b>Total</b>	<b>2,371.1</b>	<b>1,845.3</b>	<b>(22.2)</b>	<b>599.3</b>	<b>503.7</b>	<b>(16.0)</b>
<b>EBIT</b>						
Construction	61.3	87.6	43.1	35.8	44.6	24.5
Property development & investment	124.6	35.7	(71.4)	(0.4)	2.7	n/m
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	(0.0)	(3.3)	n/m	(1.7)	(1.4)	n/m
Investment holding & Others	49.4	84.7	71.6	36.1	39.3	9.0
<b>Total</b>	<b>173.9</b>	<b>117.1</b>	<b>(32.7)</b>	<b>34.0</b>	<b>40.6</b>	<b>19.6</b>
<b>EBIT margin (%)</b>						
Construction	3.7	6.6		7.4	11.2	
Property development & investment	19.1	7.8		(0.4)	3.0	
Infrastructure & concession	n/m	n/m		n/m	n/m	
Facilities management & parking	(0.1)	(8.8)		(14.0)	(11.3)	
Investment holding & Others	n/m	n/m		n/m	n/m	
<b>Total</b>	<b>7.3</b>	<b>6.3</b>		<b>5.7</b>	<b>8.1</b>	

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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