

01 Mar 2024

Buy

Price
 RM0.58

Target Price
 RM0.73

Market Data

Bloomberg Code	MRC MK
No. of shares (m)	4,467.5
Market cap (RMm)	2,635.8
52-week high/low (RM)	0.71 / 0.29
Avg daily turnover (RMm)	21.2
KLCI (pts)	1,545.6

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 (%)	35.6	34.1	90.3
Rel Market (%)	27.1	25.3	79.1



Source: Bloomberg, KAF

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MRCB

Earnings in transition

MRCB slipped into core losses of RM66m in 4Q23 (FY23: -RM87m), which was below consensus and our expectations. Nevertheless, job visibility is improving on the back of a RM30b active tenderbook. This is supported by RM4b worth of property launches between this year and 1Q25. Maintain Buy with a higher TP of RM0.73. The stock is trading at a steep 60% to its NAV, while net gearing has improved to 18%.

Financial Highlights

FYE Dec	2022	2023	2024F	2025F	2026F
Revenue (RMm)	3,205.1	2,514.1	1,837.4	1,744.1	2,319.8
Core net profit (RMm)	64.8	(66.2)	14.9	60.2	81.1
Core EPS (Sen)	1.7	(1.0)	0.6	1.6	2.0
EPS growth (%)	n/m	n/m	n/m	144.2	27.4
DPS (Sen)	1.0	1.0	1.0	1.0	1.0
Core PE (x)	19.8	(36.3)	90.7	37.1	29.2
Div yield (%)	3.0	2.7	1.7	1.7	1.7
ROE (%)	1.4	2.2	0.3	1.3	1.8
Net Gearing (%)	33.6	18.1	21.6	25.1	25.1
PBV(x)	0.3	0.4	0.6	0.6	0.6

Source: Company, KAF

4Q23 in the red

MRCB reported headline net profits of RM80m (3Q23: RM1m) on 33% QoQ topline growth. The group also declared a DPS of 1 sen, which was in line with our forecast. Bottomline was boosted by gains from the disposal of two investment properties - Menara CelcomDigi (RM60m) and Plaza Alam Sentral together with an adjoining piece of land (RM108m). Stripping them off, MRCB swung into core losses of RM87m for the quarter under review. This took core losses for FY23 to RM66m – below consensus and our expectations. Part of these losses were due to upfront cost incurred for Vista @ Gold Coast, which was launched last April. While Vista has achieved a sales rate of 16% last month, we understand that roughly half of its units have been booked, as sales momentum picks up.

Topline fell 22% YoY

FY23 revenue fell 22% YoY following the completion of (i) three major infrastructure projects in late-FY22; and (ii) two major property development projects in 1H23 (Sentral Suites and Tria @ 9 Seputeh). At the same time, the LRT 3 project has achieved physical progress of 92% as at the end of last year.

Buzzing with job prospects

MRCB's tenderbook remains at RM30b, although it does not include two redevelopment initiatives (KSSA and KL Sentral) as well as flood mitigation works. On top of that, negotiations on the reinstated LRT 3 stations, which we estimate to be worth over RM2b, could conclude soon, with potential award of works by next month. MRCB is also a contender for the MRT 3 works, and is part of the Berjaya Rail-led consortium that participated in the RFI exercise for the KL-Singapore HSR link. All in, we estimate that these bids could potentially yield up to RM5b worth of job opportunities for MRCB.

RM4b launch pipeline

MRCB has set a new property sales target of RM800m for FY24F, after selling RM831m worth of properties last year. Further out, MRCB has lined up RM4b worth of property launches for this year, and in 1Q25. The projects are: The Symphony Centre in Auckland (RM1.3b); Bukit Jalil Sentral Phase 1A & 1B (RM900m); KL Sentral CBD – Lot F (RM1b); and 9 Seputeh – Parcel A (RM400m). This will be followed by Bledisloe House, Auckland city centre (RM0.4b) in 1Q25.

Balance sheet strengthens on asset disposals

Recall that the divestment of Menara CelcomDigi for RM450m was completed towards the end of last year. Coupled with proceeds from the sale of Plaza Alam Sentral, it helped to shore up MRCB's balance sheet – with net gearing improving to 18% as of 31 December 2023 (FY22: 34%).

Maintain Buy with higher TP of RM0.73

Despite the underwhelming quarter, we maintain our Buy rating on MRCB and raise its' TP from RM0.66 to RM0.73 (pegged at unchanged 50% discount to NAV), on rollover of its valuation base to FY24F. We also project modest core profits of RM15m for FY24F, accelerating to RM60m/RM81m in FY25F/26F, as the newly-secured construction jobs and property launches (including Vista – settlement process will only commence in 2026) start to contribute more meaningfully. Valuation-wise, the stock is trading at a steep 60% discount to its NAV.

Key upside/downside risks

MRCB's share price could re-rate further, if it manages to secure more project wins in the coming months. On the contrary, its earnings may be impacted by delays to its upcoming property launches worth RM4b.

Exhibit 1: Financial results

YE 31 Dec (RM m)	FY22	FY23	% YoY	3Q23	4Q23	% QoQ
Turnover	3,205.1	2,514.1	(21.6)	503.7	668.8	32.8
EBIT	229.6	44.8	(80.5)	40.6	(72.3)	n/m
Interest Expense	(99.1)	(112.8)		(30.2)	(25.9)	
Interest Income	18.3	22.6		5.7	5.6	
Pre-Exceptionals Profit	148.8	(45.4)		16.1	(92.6)	
Exceptionals	0.0	167.2		0.0	167.2	
Pre-Associates/JV Profit	148.8	121.8		16.1	74.6	
Associates/JVs	5.6	12.4		2.5	5.2	
Pretax Profit	154.3	134.2	(13.0)	18.7	79.7	n/m
Taxation	(100.8)	(33.2)		(17.2)	0.4	
Minority Interest/disc't.ops	11.3	(0.1)		(0.0)	0.2	
Net Profit	64.8	101.0	55.8	1.5	80.2	n/m
Core Net Profit	64.8	(66.2)	n/m	1.5	(87.0)	n/m
Core EPS (sen)	1.5	(1.5)		0.0	(1.9)	
Gross DPS (sen)	1.0	1.0		0.0	1.0	
BV/share (RM)	1.01	1.03		1.0	1.03	
EBIT Margin (%)	7.2	1.8		8.1	(10.8)	
Pretax Margin (%)	4.8	5.3		3.7	11.9	
Effective Tax (%)	65.3	24.7		92.0	(0.4)	
Segmental Breakdown (RM m)						
Turnover						
Construction	2,233.6	1,736.6	(22.3)	397.5	398.7	0.3
Property development & investment	914.6	711.9	(22.2)	90.0	252.4	180.3
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	46.4	51.3	10.4	12.6	14.1	11.9
Investment holding & Others	10.4	14.4	38.1	3.7	3.7	1.0
Total	3,205.1	2,514.1	(21.6)	503.7	668.8	32.8
EBIT						
Construction	69.9	87.4	25.0	44.6	(0.2)	n/m
Property development & investment	176.7	148.8	(15.7)	2.7	113.2	n/m
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	(0.5)	(2.4)	n/m	(1.4)	0.9	n/m
Investment holding & Others	53.4	(101.7)	n/m	39.3	(186.4)	n/m
Total	229.6	44.8	n/m	40.6	(72.3)	n/m
EBIT margin (%)						
Construction	3.1	5.0		11.2	(0.1)	
Property development & investment	19.3	20.9		3.0	44.8	
Infrastructure & concession	n/m	n/m		n/m	n/m	
Facilities management & parking	(1.1)	(4.6)		(11.3)	6.4	
Investment holding & Others	n/m	n/m		n/m	n/m	
Total	7.2	1.8		8.1	(10.8)	

Source: Company, KAF

Exhibit 2: NAV calculations

MRCB

Divisions/Operations	Size (acres)	Value (RM)		Method	% of NAV	Effective stake (%)
		psf	m /share			
Landbank						
Suria Subang	3.3	300	43.6	0.01	Market value	
Selbourne 2, Shah Alam	2.4	200	20.6	0.00	Market value	
Metro Spectacular, Jln. Putra (51%)	10.1	300	67.0	0.01	Market value	
Bukit Beruntung	1.4	180	10.8	0.00	Market value	
Ipoh Raya	832.3	5	181.3	0.04	Market value	
Sub-total	849.4		323.4	0.07		4.5
Development properties						
Development projects			5,330.3	1.09	NPV @ 9%	100.0
Sub-total			5,330.3	1.09		74.8
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		3.4
Property management						
Quill Capita Management (QCM)			91.3	0.02	NPI@7%	41.0
Sub-total			91.3	0.02		1.3
Construction & Facilities Management						
Construction			667.9	0.14	13x FY23F net profit	
Facilities management			213.0	0.04	Net book value as of FY22	
Bukit Jalil Sentral Management Contract			48.8	0.01	NPV@7.5%	
Sub-total			929.8	0.19		13.0
Listed-investments						
Sentral REIT			267.8	0.05	Market Value	27.8
Sub-total			267.8	0.05		3.8
Others			222.6	0.05	Net book value as of FY22	
Sub-total			222.6	0.05		3.1
Gross NAV			7,406.1	1.51		
Net cash/(debt)			(829.5)	(0.17)	As of 31 December 2023	(11.6)
Proceeds from ESOS/warrant conversions			548.1	0.11	Warrants B exercise price: RM1.25	7.7
Total NAV			7,124.6	1.45		100.0
FD no of shares			4,906.0			
NAV/share			1.45			
TP (less: 50% discount)			0.73			
Upside (%)			25.2			
FY24F Yield (%)			1.7			
Discount to NAV (%)			(60.1)			
Total Return (%)			26.9			

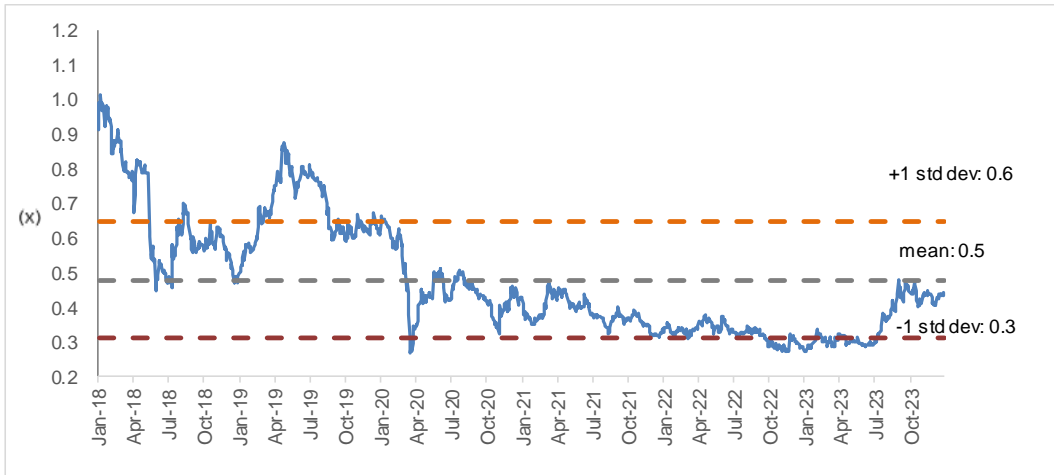
Source: Company, Bloomberg, KAF

Exhibit 3: Historical PE band



Source: Company, Bloomberg, KAF

Exhibit 4: Historical P/BV band



Source: Company, Bloomberg, KAF

Income Statement

FYE Dec (RMm)	2022	2023	2024F	2025F	2026F
Revenue	3,205.1	2,514.1	1,837.4	1,744.1	2,319.8
EBITDA	312.5	121.0	150.0	192.7	236.2
Depreciation/Amortisation	(82.9)	(76.2)	(75.3)	(78.2)	(81.1)
Operating income (EBIT)	229.6	44.8	74.7	114.5	155.1
Other income & associates	5.6	12.4	43.4	54.6	37.3
Net interest	(80.8)	(90.2)	(68.4)	(66.3)	(63.9)
Exceptional items	0.0	167.2	0.0	0.0	0.0
Pretax profit	154.3	134.2	49.7	102.7	128.6
Taxation	(100.8)	(33.2)	(29.2)	(34.5)	(37.8)
Minorities/pref dividends	11.3	(0.1)	(5.6)	(8.0)	(9.6)
Net profit	64.8	101.0	14.9	60.2	81.1
Core net profit	64.8	(66.2)	14.9	60.2	81.1

Balance Sheet

FYE Dec (RMm)	2022	2023	2024F	2025F	2026F
Fixed assets	778.9	733.9	734.4	732.6	728.5
Intangible assets	194.8	177.0	169.8	162.7	155.6
Other long-term assets	4,707.6	4,537.6	4,620.6	4,714.4	4,790.5
Total non-current assets	5,681.3	5,448.5	5,524.9	5,609.7	5,674.6
Cash & equivalent	533.6	972.0	703.0	374.4	204.2
Stock	785.2	510.4	575.6	705.6	1,184.5
Trade debtors	2,155.6	1,965.0	1,409.5	1,290.2	1,207.6
Other current assets	72.9	114.2	105.0	95.5	85.8
Total current assets	3,547.3	3,561.7	2,793.0	2,465.6	2,682.2
Trade creditors	1,806.0	1,820.4	1,266.2	1,164.2	1,563.6
Short-term borrowings	840.8	311.0	210.8	190.3	169.8
Other current liabilities	50.5	23.4	23.4	23.4	23.4
Total current liabilities	2,697.3	2,154.8	1,500.5	1,378.0	1,756.8
Long-term borrowings	1,215.9	1,490.5	1,477.7	1,335.2	1,192.7
Other long-term liabilities	778.7	765.1	764.1	763.1	762.1
Total long-term liabilities	1,994.6	2,255.6	2,241.8	2,098.3	1,954.8
Shareholders' funds	4,531.2	4,594.1	4,564.3	4,579.8	4,616.3
Minority interests	5.5	5.6	11.2	19.2	28.9

Cash flow Statement

FYE Dec (RMm)	2022	2023	2024F	2025F	2026F
Pretax profit	154.3	134.2	49.7	102.7	128.6
Depreciation/Amortisation	82.9	76.2	75.3	78.2	81.1
Net change in working capital	(88.5)	479.7	(63.8)	(112.7)	3.0
Others	(229.7)	(260.3)	(72.6)	(89.1)	(75.2)
Cash flow from operations	(80.9)	429.9	(11.4)	(20.9)	137.5
Capital expenditure	(82.4)	(50.9)	(100.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	0.0	450.0	0.0	0.0	0.0
Others	135.8	20.8	0.0	0.0	0.0
Cash flow from investing	53.4	419.9	(100.0)	(100.0)	(100.0)
Debt raised/(repaid)	122.2	(255.2)	(113.0)	(163.0)	(163.0)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(44.7)	(44.7)	(44.7)	(44.7)	(44.7)
Others	(63.6)	(144.4)	0.0	0.0	0.0
Cash flow from financing	14.0	(444.3)	(157.7)	(207.7)	(207.7)
Net cash flow	(13.5)	405.5	(269.0)	(328.6)	(170.2)
Cash b/f	515.9	501.6	907.3	638.3	309.7
Cash c/f	501.6	907.3	638.3	309.7	139.5

Key Ratios

FYE Dec	2022	2023	2024F	2025F	2026F
Revenue growth (%)	121.3	(21.6)	(26.9)	(5.1)	33.0
EBITDA growth (%)	n/m	(61.3)	24.0	28.4	22.6
Pretax margins (%)	4.8	5.3	2.7	5.9	5.5
Net profit margins (%)	2.0	4.0	0.8	3.4	3.5
Interest cover (x)	2.8	0.5	1.1	1.7	2.4
Effective tax rate (%)	65.3	24.7	58.6	33.6	29.4
Net dividend payout (%)	68.9	44.2	299.3	74.3	55.1
Debtors turnover (days)	245	285	280	270	190
Stock turnover (days)	107	78	150	200	250
Creditors turnover (days)	246	278	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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