

26 Feb 2020

Hold

Price
RM0.42

Target Price
RM0.46

Market Data

Bloomberg Code	MRC MK
No. of shares (m)	4,412.1
Market cap (RMm)	1,831.0
52-week high/low (RM)	0.67 / 0.28
Avg daily turnover (RMm)	2.6
KLCI (pts)	1,581.5

Source: Bloomberg, KAF

Major Shareholder (%)

EPF	(35.9%)
Gapurna	(15.5%)
Lembaga Tabung Haji	(5.9%)
Free Float	42.6

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	(11.4)	(12.3)	(38.4)
Rel Market (%)	(12.4)	(20.9)	(38.3)



Source: Bloomberg, KAF

Analyst

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MRCB

Kwasa Sentral 3Q launch as LRT 3 improves

We maintain our Hold rating on MRCB with a lower target price of RM0.46 following its FY20 results. Earnings should gradually be on the mend starting in 1Q21, with improved LRT 3 progress, but the ROE trajectory still lags at <2%, despite the company's huge landbank and orderbook. Furthermore, contract visibility remains muted, though the maiden launch of Kwasa Sentral should finally occur by 3Q21.

Financial Highlights

FYE Dec	2019	2020	2021F	2022F	2023F
Revenue (RMm)	1,319.4	1,199.5	1,587.7	1,970.6	2,147.9
Core net profit (RMm)	31.7	(0.8)	29.3	57.3	81.9
Core EPS (Sen)	1.0	0.3	0.9	1.5	2.0
EPS growth (%)	(59.0)	(67.1)	189.3	60.7	33.1
DPS (Sen)	1.0	1.0	0.5	1.0	1.5
Core PE (x)	81.9	156.2	43.8	27.2	20.5
Div yield (%)	1.2	2.0	1.2	2.4	3.6
ROE (%)	0.5	(3.8)	0.6	1.3	1.8
Net Gearing (%)	27.4	30.4	35.8	35.8	32.4
PBV(x)	0.7	0.5	0.4	0.4	0.4

Source: Company, KAF

FY20 broadly in line

Stripping out lumpy one-off items (mainly from RM170m of provisions for certain completed projects), MRCB reported a small core net loss of RM1m vs core profits of RM32m a year ago.

We deem the results to be largely in line with our full-year profit forecast of RM3m (consensus: RM6m). A DPS of 1 sen was declared, exceeding our projection of 0.2 sen. Net gearing edged up to 30% (FY20: 27%) following the drawdown of RM600m from its new Sukuk facilities last August.

The top line fell 9% YoY as core property and construction operations were affected by lower activity levels during the MCO. Along with the absence of major property launches, property sales shrank to RM187m against RM537m in FY20.

Bright spots: LRT 3, 1090 Carnegie and Sentral Suites

Share of LRT 3 profits jumped to RM8m vs <RM1m a year earlier. The marked improvements tracked better project progress (a shade under 46%) with only two Works Package Contractors (WPC's) left that have yet to sign revised contracts. MRCB is also expecting another RM350m in outstanding LRT 3 payments for work certified up to Oct 2020.

On the property front, 1090 Carnegie and Sentral Suites together made up RM93m, or half of new property sales in FY20. In terms of billings and profits, 1090 Carnegie accounted for RM170m and RM37m (Sentral Suites: RM195m and RM53m).

Despite the lockdown in Melbourne in 2H20, 1090 Carnegie hit an overall sales rate of 71%, completing the settlement process for 113 out of 122 units sold as of 31 December 2020 (excluding 39 units that dropped out). Meanwhile, Sentral Suites should be a key contributor again for the current FY for higher progress billings (44% as of FY20). Meanwhile, the group handed over the MyIPO Tower 6 at PJ Sentral Garden City on 13 November 2020.

Three new launches in FY21

Apart from the maiden launch at Kwasa Sentral (GDV275m; 660 units at RM625psf), MRCB is lining up two more new projects in 2Q: Tower 5 at PJ Sentral Garden City (GDV: RM524m-340 units) in 2Q and KL Sentral Lot J (GDV RM229m with 266 SoHo units). MRCB has set a higher property sales target for the year ahead of RM600m (KAF: RM340m) though part of this could come from ongoing inventory liquidation initiatives. Unbilled sales stood at RM1.1b.

RM2.5b open tenders

After netting off four unsuccessful bids worth ~RM200m under the East Coast Rail Link (ECRL), MRCB has open tenders worth RM2.5b. It submitted RM734m worth of tenders last year; apart from the small ECRL bids, the remaining balance largely revolved around ~RM500m worth of highway packages on the East Coast.

The group has also made encouraging progress in the Waste to Energy (WTE) space and has identified suitable locations for the proposed plant. Nevertheless, nothing has been finalised yet, with negotiations continuing with federal and state authorities.

Exhibit 1: Financial results

YE 31 Dec (RM m)	FY19	FY20	% YoY	3Q20	4Q20	% QoQ
Turnover	1,319.4	1,194.6	(9.5)	297.6	304.0	2.1
EBIT	80.4	41.4	(48.5)	8.6	12.4	43.2
Interest Expense	(45.6)	(55.2)		(11.7)	(17.7)	
Interest Income	19.6	16.6		7.3	2.5	
Pre-Exceptionals Profit	54.4	2.9		4.2	(2.8)	
Exceptionals	(8.0)	(175.3)		0.0	27.2	
Pre-Associates/JV Profit	46.4	(172.4)		4.2	24.4	
Associates/JVs	6.6	19.5		3.5	10.3	
Pretax Profit	53.0	(152.9)	n/m	7.6	34.6	n/m
Taxation	(34.3)	(23.0)		(6.8)	(7.5)	
Minority Interest/disc. ops	5.0	(0.3)		0.1	(0.3)	
Net Profit	23.7	(176.1)	n/m	0.9	26.9	n/m
Core Net Profit	31.7	(0.8)	n/m	0.9	(0.3)	n/m
Core EPS (sen)	0.7	(0.0)		0.0	(0.0)	
Gross DPS (sen)	1.0	1.0		0.0	1.0	
BV/share (RM)	1.09	1.04		1.03	1.04	
EBIT Margin (%)	6.1	3.5		2.9	4.1	
Pretax Margin (%)	4.0	(12.8)		2.6	11.4	
Effective Tax (%)	64.7	(15.0)		89.6	21.5	
Segmental Breakdown (RM m)						
Turnover						
Construction	679.5	514.9	(24.2)	131.7	151.6	15.1
Property development & investment	566.7	635.1	12.1	153.0	145.7	(4.8)
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	53.6	43.8	(18.4)	11.5	10.1	(11.7)
Investment holding & Others	19.5	0.8	(95.9)	1.4	(3.4)	n/m
Total	1,319.4	1,194.6	(9.5)	297.6	304.0	2.1
EBIT						
Construction	23.1	(174.3)	n/m	(3.0)	24.4	n/m
Property development & investment	76.8	46.7	(39.2)	11.8	12.3	5.1
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	6.0	6.9	15.2	2.4	1.2	(51.0)
Investment holding & Others	(2.4)	(12.2)	n/m	(5.6)	(1.2)	n/m
Total	80.4	41.4	(48.5)	8.6	12.4	43.2
EBIT margin (%)						
Construction	3.4	(33.9)		(2.3)	16.1	
Property development & investment	13.6	7.4		7.7	8.5	
Infrastructure & concession	n/m	n/m		n/m	n/m	
Facilities management & parking	11.1	15.7		21.3	11.8	
Investment holding & Others	n/m	n/m		n/m	n/m	
Total	6.1	3.5		2.9	4.1	

Source: Company, KAF

Exhibit 2: NAV calculations

Divisions/Operations	Size		Value (RM)		Method	% of NAV	Effective stake (%)
	(acres)	psf	m	/share			
Landbank							
Suria Subang	3.3	400	58.2	0.01			
Selbourne 2, Shah Alam	2.4	300	31.0	0.01			
Metro Spectacular, Jln. Putra (51%)	10.1	500	171.1	0.04			
Sub-total	15.8		260.3	0.05		8.2	
Development properties							
Lot F - Office Towers			305.4	0.06	NPV @ 9%		100.0
9 Seputeh, Old Klang Road			134.2	0.03	NPV @ 9%		100.0
Sentral Suites, KL Sentral			46.5	0.01	NPV @ 9%		100.0
Semarak City, Setapak			43.1	0.01	NPV @ 9%		30.0
PJ Sentral Phase 1 (PJ Garden City)			110.1	0.02	NPV @ 9%		100.0
Kwasa Sentral, Sg.Buloh			475.7	0.10	NPV @ 9%		70.0
Bukit Rahman Putra, Sg.Buloh			38.5	0.01	NPV @ 9%		100.0
Cyberjaya City Centre Phase 1, Cyberjaya			110.1	0.02	NPV @ 9%		70.0
Bukit Jalil Sentral			320.0	0.07	NPV @ 9%		20.0
Penang Sentral			194.7	0.04	NPV @ 9%		100.0
Pulai Land			47.5	0.01	NPV @ 9%		100.0
1060 Carnagie, Melbourne			16.3	0.00	NPV @ 9%		100.0
Unbilled sales			140.1	0.03	NPV @ 9%		100.0
Sub-total			1,982.5	0.41		62.3	
Investment properties							
		NLA/room bays	Value (RM) m	/share	Method		Effective stake (%)
Menara Celcom (Lot 8)		450,908	402.6	0.08	NPI@6.25%		100.0
Menara MRCB, Shah Alam		216,000	25.9	0.01	NPI@7%		100.0
Plaza Alam Sentral, Shah Alam		433,349	98.1	0.02	NPI@7%		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	0.02	RM0.85m/room		100.0
Sub-total			693.2	0.14		21.8	
Car park							
Plaza Alam Sentral, Shah Alam		1,400 bays	70.0	0.01	RM50k/bay		100.0
Menara Celcom (Lot 8)		1000 bay	70.0	0.01	RM70k/bay		100.0
Sub-total			140.0	0.03		4.4	
Property management							
Quill Capita Management (QCM)			98.4	0.02	NPI@6.5%		41.0
Sub-total			98.4	0.02		3.1	
Construction & Facilities Management							
Construction			196.0	0.04	11x FY21F net profit		
Facilities management			147.0	0.03	Net book value as of FY19		
Bukit Jalil Sentral Management Contract			40.5	0.01	NPV@7.5%		
Sub-total			383.5	0.08		12.0	
Listed-investments							
Sentral REIT			268.6	0.06	Market Value		27.8
Sub-total			268.6	0.06		8.4	
Others			189.1	0.04	Net book value as of FY19		
Sub-total			189.1	0.04		5.9	
Gross NAV			4,015.5	0.83			
Net cash			(1,392.3)	(0.29)	FY19	(43.7)	
Proceeds from ESOS/warrant conversions			559.5	0.12	Warrants B exercise price: RM1.25	17.6	
Total NAV			3,182.7	0.65		100.0	
FD no of shares			4,864.6				
NAV/share			0.65				
TP (less: 30% discount)			0.46				
Upside (%)			10.4				
Implied PE (x)			48.3				
Discount to NAV (%)			(36.6)				

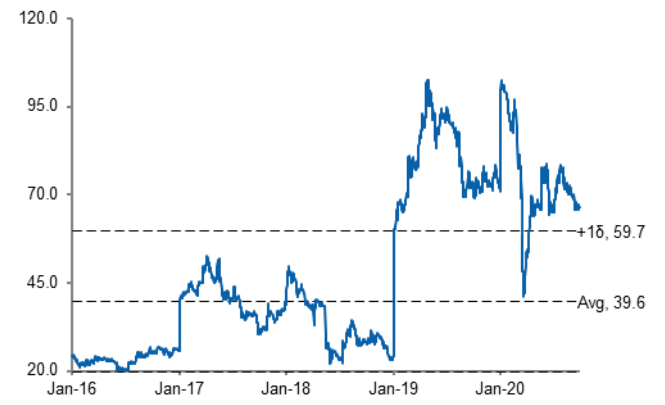
Source: Company, Bloomberg, KAF

Exhibit 3: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 4: PE Band chart



Source: Company, KAF, Bloomberg

Income Statement

FYE Dec (RMm)	2019	2020	2021F	2022F	2023F
Revenue	1,319.4	1,199.5	1,587.7	1,970.6	2,147.9
EBITDA	150.2	101.7	195.1	222.7	247.6
Depreciation/Amortisation	(69.8)	(60.2)	(91.8)	(97.3)	(104.0)
Operating income (EBIT)	80.4	41.4	103.3	125.3	143.6
Other income & associates	6.6	19.5	32.9	47.9	61.0
Net interest	(26.0)	(38.6)	(51.8)	(57.7)	(52.2)
Exceptional items	(8.0)	(175.3)	0.0	0.0	0.0
Pretax profit	53.0	(152.9)	84.4	115.5	152.4
Taxation	(34.3)	(23.0)	(49.8)	(48.1)	(58.3)
Minorities/pref dividends	5.0	(0.3)	(5.2)	(10.1)	(12.2)
Net profit	23.7	(176.1)	29.3	57.3	81.9
Core net profit	31.7	(0.8)	29.3	57.3	81.9

Balance Sheet

FYE Dec (RMm)	2019	2020	2021F	2022F	2023F
Fixed assets	677.6	740.1	757.7	802.9	865.1
Intangible assets	224.3	219.4	213.3	207.3	201.2
Other long-term assets	4,274.7	4,390.9	4,482.5	4,586.7	4,701.5
Total non-current assets	5,176.6	5,350.4	5,453.6	5,597.0	5,767.8
Cash & equivalent	516.9	540.4	350.7	217.3	209.8
Stock	963.2	852.3	958.0	969.7	969.9
Trade debtors	1,726.7	1,287.4	1,435.4	1,511.7	1,412.3
Other current assets	97.6	322.2	309.4	295.8	281.1
Total current assets	3,304.4	3,002.3	3,053.6	2,994.5	2,873.1
Trade creditors	989.9	966.9	1,081.6	1,241.2	1,391.6
Short-term borrowings	825.6	638.6	418.7	391.2	333.7
Other current liabilities	43.3	69.4	69.4	69.4	69.4
Total current liabilities	1,858.8	1,675.0	1,569.8	1,701.9	1,794.7
Long-term borrowings	1,003.4	1,294.1	1,564.0	1,471.5	1,379.0
Other long-term liabilities	795.4	794.8	794.2	793.4	792.5
Total long-term liabilities	1,798.8	2,089.0	2,358.2	2,264.9	2,171.5
Shareholders' funds	4,791.6	4,578.0	4,563.3	4,598.5	4,636.3
Minority interests	31.9	10.7	16.0	26.1	38.3

Cash flow Statement

FYE Dec (RMm)	2019	2020	2021F	2022F	2023F
Pretax profit	53.0	(152.9)	84.4	115.5	152.4
Depreciation/Amortisation	69.8	60.2	91.8	97.3	104.0
Net change in working capital	(236.1)	527.2	(139.1)	71.7	249.5
Others	(232.1)	(218.9)	(82.7)	(96.0)	(119.3)
Cash flow from operations	(345.4)	215.6	(45.6)	188.6	386.7
Capital expenditure	(148.8)	(186.8)	(150.0)	(180.0)	(200.0)
Net investments & sale of fixed assets	117.4	0.0	0.0	0.0	0.0
Others	189.4	53.2	0.0	0.0	0.0
Cash flow from investing	158.0	(133.6)	(150.0)	(180.0)	(200.0)
Debt raised/(repaid)	335.9	103.8	50.0	(120.0)	(150.0)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(108.5)	(65.7)	(44.1)	(22.1)	(44.1)
Others	(208.9)	16.7	0.0	0.0	0.0
Cash flow from financing	18.5	54.8	5.9	(142.1)	(194.1)
Net cash flow	(168.9)	136.7	(189.7)	(133.5)	(7.5)
Cash b/f	505.8	336.9	473.6	283.9	150.5
Cash c/f	336.9	473.6	283.9	150.5	143.0

Key Ratios

FYE Dec	2019	2020	2021F	2022F	2023F
Revenue growth (%)	(29.5)	(9.1)	32.4	24.1	9.0
EBITDA growth (%)	(5.2)	(32.3)	91.9	14.1	11.2
Pretax margins (%)	4.0	(12.7)	5.3	5.9	7.1
Net profit margins (%)	1.8	(14.7)	1.8	2.9	3.8
Interest cover (x)	3.1	1.1	2.0	2.2	2.8
Effective tax rate (%)	64.7	(15.0)	59.0	41.6	38.3
Net dividend payout (%)	185.9	n/m	75.2	76.9	80.8
Debtors turnover (days)	478	392	330	280	240
Stock turnover (days)	369	346	310	250	230
Creditors turnover (days)	380	392	350	320	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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