

26 Aug 2019

## Buy

**Price**  
 RM0.74

**Target Price**  
 RM0.96

### Market Data

Bloomberg Code	MRC MK
No. of shares (m)	4,412.1
Market cap (RMm)	3,264.9
52-week high/low (RM)	1.15 / 0.57
Avg daily turnover (RMm)	6.2
KLICI (pts)	1,600.5

Source: Bloomberg, KAF

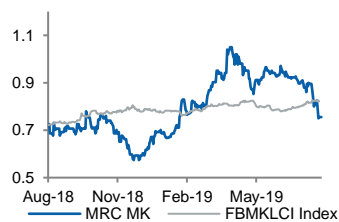
### Major Shareholder (%)

EPF	(35.9%)
Gapurna	(16.1%)
Lembaga Tabung Haji	(6.2%)
Free Float	41.8

Source: Bloomberg, KAF

### Performance

	3M	6M	12M
Absolute (%)	(16.9)	(7.5)	(3.3)
Rel Market (%)	(17.0)	(0.7)	9.3



Source: Bloomberg, KAF

### Analyst

**Mak Hoy Ken**  
 (603) 2171 0508  
 mak.hoyken@kaf.com.my

# MRCB

## Aiming for a stronger 2H

We maintain our Buy call on MRCB with a lower TP of RM0.96 (20% discount to NAV). The lower TP reflects its poorer 1H19 results, which came in below expectations and potential delays to the resumption of LRT 3 (due to the ongoing arbitration proceedings). Nevertheless, earnings momentum should pick-up from 2H19 ahead of a stronger FY20F on (i) back-loaded recognition from key property projects (Vivo @ 9 Seputeh, Sentral Suites and Carnegie); (ii) maiden launch of Kwasa Sentral; and (iii) gradual resumption of LRT 3. The commencement of tenders for ECRL is a key rerating catalyst for the group, in our view.

### Financial Highlights

FYE Dec	2017	2018	2019F	2020F	2021F
Revenue (RMm)	2,640.6	1,870.7	2,110.1	3,083.0	3,645.1
Core net profit (RMm)	95.6	38.7	39.0	88.7	157.8
Core EPS (Sen)	2.7	2.0	1.2	2.2	3.6
EPS growth (%)	(35.4)	(28.2)	(40.9)	88.6	65.4
DPS (Sen)	1.8	1.5	1.0	1.5	2.0
Core PE (x)	41.7	42.3	63.9	33.9	20.5
Div yield (%)	1.5	1.8	1.4	2.0	2.7
ROE (%)	4.2	2.1	0.6	1.8	3.2
Net Gearing (%)	55.2	19.6	24.5	30.4	30.6
PBV(x)	1.0	0.8	0.7	0.7	0.7

Source: Company, KAF

### 1H19 results below; expects stronger 2H

MRCB recorded 2Q19 core net profits of RM19m (+361% QoQ), taking 1H earnings to RM23m. The huge jump in sequential earnings was largely attributable to a RM55m gain from the sale of its 30% stake in One IFC (the developer and owner of the St.Regis KL), which more than offset provisions that were booked in for its construction division during the quarter under review.

Similarly, the 58% decline in its 1H19 bottom line was due to the following reasons:

- (i) Gains from the St.Regis sale masked a lack of development profits for its property division due to timing issues for key projects (stripping this out, the property division would have swung to the red with a RM8m loss);
- (ii) Minimal contributions from the LRT 3 project, which is now exacerbated by arbitration proceedings against its JV partner (its 50% share of profits was only RM1m vs RM15 a year ago); and
- (iii) Lower earnings captured from MRCB Quill REIT (MQREIT MK, RM1.04, Hold).

For its property projects, we understand that the revenue from Vivo @ 9 Seputeh will only be booked upon the signing of SPA's instead of progress billings as the project was completed last November.

Similarly, there has also been minimal recognition of revenue and profits from the three tower blocks under Sentral Suites, which are still below the podium level (revenue recognized to-date was only ~RM30m vs locked-in sales of RM1.1b). Over in Melbourne, the lumpy contributions from 1060 Carnegie can only be recognized by 1Q20, once the project is completed as scheduled by November.

On the whole, MRCB's results came in at only 34% of our previous full year forecast and 25% of consensus. Accordingly, we have lowered our FY19F core net profit forecast by 43% (FY20F -17%; FY21F - 4%). We have also excluded the associate contributions from St.Regis from our earnings/NAV model following its sale.

Despite the revised earnings, we still expect MRCB's 2H19 earnings momentum to pick-up ahead of a stronger FY20F. This is anchored by the:

- (i) Back-loaded contributions from the key property projects highlighted above;
- (ii) Maiden launch of Kwasa Sentral (expected by 1Q20);
- (iii) Gradual resumption of LRT 3 contributions.

Our revised forecast implies a flattish core net profit of RM39m for FY19F, before rebounding to RM89m-RM158m over the next two FY's.

Taken together, this lowers our TP to RM0.96 (previously: RM1.08) on a higher discount to NAV (from 10% to 20%).

### Other conference call highlights

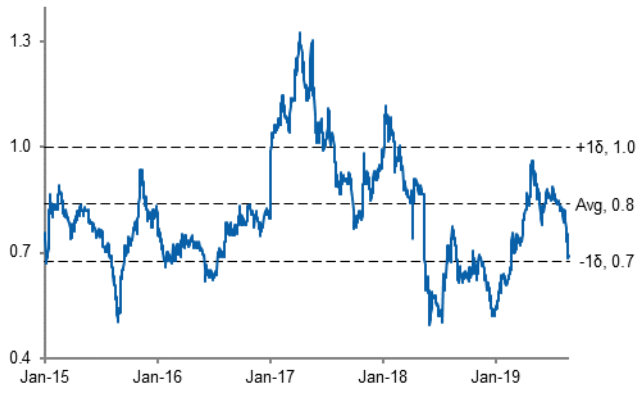
- The maiden launch of Kwasa Sentral will likely be pushed back to the first quarter of 2020 from the initial target of 3Q/4Q19. This was due to additional time required to sub-divide the land plots for development purposes.
- Despite the arbitration proceedings, management believes that it is still early to pre-empt if there could be associated repercussions to the construction timeline for LRT 3, and is still hopeful of step-up in its progress by next quarter.
- The outlook for its property division remains challenging, and the core focus is still on liquidating its existing inventories, which has risen to ~RM400m with the release of the bumi units under Vivo @ 9 Seputeh.
- MRCB chalked up 1H19 new property sales of ~RM244m on the back of unbilled sales totaling RM1.8b. The sales figure has since increased to ~RM370m-RM380m following intensifying efforts to market its products.
- Notably, management noted that MRCB has just managed to close the sales of 20 units upon its return from a marketing trip in Hong Kong. A bulk of the sales came from Sentral Suites, while a few other units were from Sentral Residences.
- The negative minority interest position of ~RM6m in 1H19 mainly came from interest expenses from loans taken up by a subsidiary to acquire a piece of land in the Klang Valley. There have been no development plans to date.
- Due to the soft property market and high infrastructure cost upfront, there is no urgency for MRCB to roll out the development of two of its prime landbanks, i.e. KL Sports City and Kwasa Sentral, in a big way. However, as highlighted earlier, the group is looking to test the market with the launch of the first two residential blocks for the latter.
- MRCB is also looking to launch a new commercial tower under its PJ Sentral development.
- Excluding the East Coast Rail Line (ECRL), MRCB's current tenderbook stands at ~RM1.5b-RM1.6b vs ~RM2.6b about a year ago. While it is awaiting the tender details for ECRL to come out, management is uncertain if it could take place by 4Q19.
- Despite the delays, we reaffirm our view that MRCB is well placed to clinch a slice of the ECRL pie, given its proven track record in rail-related projects and status as among the largest listed bumiputera-controlled construction and property development companies in Malaysia.

## Exhibit 1: Financial results

YE 31 Dec (RM m)	1H18	1H19	% YoY	1Q19	2Q19	% QoQ
<b>Turnover</b>	<b>832.8</b>	<b>475.0</b>	<b>(43.0)</b>	<b>234.1</b>	<b>241.0</b>	<b>3.0</b>
<b>EBIT</b>	<b>63.7</b>	<b>38.8</b>	<b>(39.1)</b>	<b>13.8</b>	<b>25.0</b>	<b>81.5</b>
Interest Expense	(21.0)	(25.0)		(12.4)	(12.6)	
Interest Income	14.5	9.2		5.1	4.1	
Pre-Exceptionals Profit	57.1	23.0		6.5	16.6	
Exceptionals	0.0	(8.0)		0.0	(8.0)	
Pre-Associates/JV Profit	57.1	15.0		6.5	8.6	
Associates/JVs	16.5	3.2		1.9	1.3	
<b>Pretax Profit</b>	<b>73.6</b>	<b>18.2</b>	<b>(75.2)</b>	<b>8.4</b>	<b>9.8</b>	<b>16.8</b>
Taxation	(15.7)	(9.0)		(6.9)	(2.2)	
Minority Interest/disc. ops	(2.9)	6.0		2.6	3.4	
<b>Net Profit</b>	<b>55.0</b>	<b>15.2</b>	<b>(72.4)</b>	<b>4.1</b>	<b>11.1</b>	<b>167.4</b>
<b>Core Net Profit</b>	<b>55.0</b>	<b>23.2</b>	<b>(57.8)</b>	<b>4.1</b>	<b>19.1</b>	<b>360.9</b>
Core EPS (sen)	1.3	0.5		0.1	0.4	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	1.11	1.11		1.10	1.11	
EBIT Margin (%)	7.6	8.2		5.9	10.4	
Pretax Margin (%)	8.8	3.8		3.6	4.1	
Effective Tax (%)	21.3	49.5		81.5	22.1	
<b>Segmental Breakdown (RM m)</b>						
<b>Turnover</b>						
Construction	383.9	283.5	(26.1)	132.7	150.8	13.6
Property development & investment	413.9	156.4	n/m	85.1	71.2	(16.3)
Infrastructure & concession	1.4	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	26.1	25.9	(0.6)	13.1	12.8	(2.7)
Investment holding & Others	7.6	9.2	21.8	3.1	6.2	100.8
<b>Total</b>	<b>832.8</b>	<b>475.0</b>	<b>(43.0)</b>	<b>234.1</b>	<b>241.0</b>	<b>3.0</b>
<b>EBIT</b>						
Construction	41.0	1.5	(96.3)	16.7	(15.2)	(190.9)
Property development & investment	55.1	47.0	n/m	3.0	44.0	n/m
Infrastructure & concession	(3.0)	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	0.9	0.1	n/m	(0.4)	0.5	n/m
Investment holding & Others	10.8	(8.3)	n/m	11.1	(19.4)	n/m
<b>Total</b>	<b>63.7</b>	<b>38.8</b>	<b>(39.1)</b>	<b>13.8</b>	<b>25.0</b>	<b>81.5</b>
<b>EBIT margin (%)</b>						
Construction	10.7	0.5		12.6	(10.1)	
Property development & investment	13.3	30.0		3.5	61.7	
Infrastructure & concession	n/m	n/m		n/m	n/m	
Facilities management & parking	3.3	0.3		(2.8)	3.5	
Investment holding & Others	n/m	n/m		n/m	n/m	
<b>Total</b>	<b>7.6</b>	<b>8.2</b>		<b>5.9</b>	<b>10.4</b>	

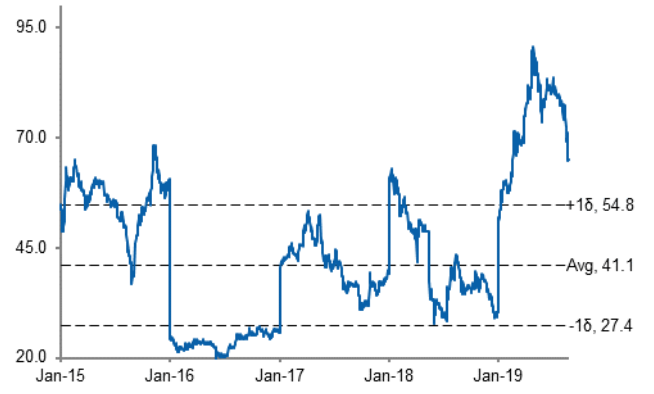
Source: Company, KAF

Exhibit 2: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 3: PE Band chart



Source: Company, KAF, Bloomberg

## Exhibit 4: NAV calculations

Divisions/Operations	Size		Value (RM)		Method	% of NAV	Effective stake (%)
	(acres)	psf	m	/share			
<b>Landbank</b>							
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			
<b>Sub-total</b>	<b>15.8</b>		<b>260.3</b>	<b>0.05</b>		<b>4.5</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			209.1	0.04	NPV @ 9%		100.0
Sentral Suites, KL Sentral			234.4	0.05	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			621.9	0.13	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 Carnegie, Melbourne			23.5	0.00	NPV @ 9%		100.0
Unbilled sales			80.5	0.02	NPV @ 9%		100.0
<b>Sub-total</b>			<b>2,768.4</b>	<b>0.57</b>		<b>47.5</b>	
<b>Investment properties</b>							
		NLA/room	Value (RM)		Method	% of NAV	Effective stake (%)
		bays	m	/share			
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
<b>Sub-total</b>			<b>717.5</b>	<b>0.15</b>		<b>12.3</b>	
<b>Car parks</b>							
Plaza Alam Sentral, Shah Alam		1,400 bays	70.0	0.01	RM50k/bay		100.0
Menara Celcom (Lot 8)		1000 bay	60.0	0.01	RM60k/bay		100.0
<b>Sub-total</b>			<b>130.0</b>	<b>0.03</b>		<b>2.2</b>	
<b>Property management</b>							
Quill Capita Management (QCM)			84.9	0.02	NPI@7%		41.0
<b>Sub-total</b>			<b>84.9</b>	<b>0.02</b>		<b>1.5</b>	
<b>Construction &amp; Facilities Management</b>							
Construction			1,377.2	0.28	13x FY20F net profit		
Facilities management			61.0	0.01	Net book value		
Bukit Jalil Sentral Management Contract			37.6	0.01	NPV@7.5%		
<b>Sub-total</b>			<b>1,475.8</b>	<b>0.31</b>		<b>25.3</b>	
<b>Listed-investments</b>							
MRCB-Quill REIT			293.6	0.06	Market Value		27.8
<b>Sub-total</b>			<b>293.6</b>	<b>0.06</b>		<b>5.0</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>8.1</b>	
<b>Gross NAV</b>							
			<b>6,203.9</b>	<b>1.28</b>			
Net cash			(947.7)	(0.20)	FY18	(16.3)	
Proceeds from ESOS/warrant conversions			567.8	0.12	Warrants B exercise price: RM1.25	9.7	
<b>Total NAV</b>			<b>5,824.0</b>	<b>1.20</b>		<b>100.0</b>	
FD no of shares			4,837.7				
<b>NAV/share</b>			<b>1.20</b>				
TP (less: 20% discount)			0.96				
Capital gain (%)			30.1			600.89	0.12
Discount to NAV (%)			(38.5)				
<b>Total Return (%)</b>			<b>31.5</b>				

Source: Company, KAF

**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>2,110.1</b>	<b>3,083.0</b>	<b>3,645.1</b>
<b>EBITDA</b>	<b>211.8</b>	<b>88.9</b>	<b>157.0</b>	<b>221.6</b>	<b>309.6</b>
Depreciation/Amortisation	(31.1)	(31.0)	(38.0)	(39.8)	(41.7)
Operating income (EBIT)	180.7	57.9	119.0	181.8	268.0
Other income & associates	25.0	25.5	26.1	47.3	67.3
Net interest	(2.8)	(22.9)	(38.4)	(52.6)	(58.4)
Exceptional items	66.3	62.5	(8.0)	0.0	0.0
<b>Pretax profit</b>	<b>269.2</b>	<b>123.0</b>	<b>98.6</b>	<b>176.4</b>	<b>276.8</b>
Taxation	(68.8)	(46.1)	(58.9)	(78.2)	(103.2)
Minorities/pref dividends	(38.6)	24.3	(8.7)	(9.5)	(15.9)
<b>Net profit</b>	<b>161.9</b>	<b>101.2</b>	<b>31.0</b>	<b>88.7</b>	<b>157.8</b>
<b>Core net profit</b>	<b>95.6</b>	<b>38.7</b>	<b>39.0</b>	<b>88.7</b>	<b>157.8</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	4,032.0	4,105.6	4,199.1
<b>Total non-current assets</b>	<b>4,339.1</b>	<b>4,871.6</b>	<b>4,939.7</b>	<b>5,027.2</b>	<b>5,132.8</b>
Cash & equivalent	464.0	469.8	593.1	295.1	208.7
Stock	885.1	1,043.7	866.8	1,270.0	1,295.3
Trade debtors	3,155.0	1,864.5	2,023.3	2,449.5	2,646.4
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>3,583.9</b>	<b>4,115.2</b>	<b>4,251.0</b>
Trade creditors	1,295.1	1,364.2	1,213.6	1,778.0	1,961.5
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>1,731.6</b>	<b>2,381.0</b>	<b>2,642.0</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>4,797.7</b>	<b>4,842.5</b>	<b>4,934.5</b>
Minority interests	104.5	68.0	76.7	86.2	102.1

**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	98.6	176.4	276.8
Depreciation/Amortisation	31.1	31.0	38.0	39.8	41.7
Net change in working capital	(1,886.9)	1,200.9	(132.5)	(264.9)	(38.7)
Others	697.9	(194.3)	(85.0)	(125.5)	(170.4)
<b>Cash flow from operations</b>	<b>(888.7)</b>	<b>1,160.5</b>	<b>(80.9)</b>	<b>(174.2)</b>	<b>109.3</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>123.3</b>	<b>(298.0)</b>	<b>(86.4)</b>
<b>Cash b/f</b>	<b>592.8</b>	<b>464.0</b>	<b>469.8</b>	<b>593.1</b>	<b>295.1</b>
<b>Cash c/f</b>	<b>464.0</b>	<b>469.8</b>	<b>593.1</b>	<b>295.1</b>	<b>208.7</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)	12.8	46.1	18.2
EBITDA growth (%)	(44.6)	(58.0)	76.5	41.2	39.7
Pretax margins (%)	10.2	6.6	4.7	5.7	7.6
Net profit margins (%)	6.1	5.4	1.5	2.9	4.3
Interest cover (x)	63.5	2.5	3.1	3.5	4.6
Effective tax rate (%)	25.5	37.5	59.8	44.3	37.3
Net dividend payout (%)	47.5	65.0	141.4	74.2	55.6
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.

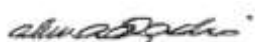
**Target price:** The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts 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.

## Disclaimer

This report has been prepared solely for the information of clients of KAF Group of companies. It is meant for private circulation only, and shall not be reproduced, distributed or published either in part or otherwise without the prior written consent of KAF-Seagroatt & Campbell Securities Sdn Bhd.

The information and opinions contained in this report have been compiled and arrived at based on information obtained from sources believed to be reliable and made in good faith. Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made by KAF-Seagroatt & Campbell Securities Sdn Bhd as to the accuracy, completeness or correctness of such information and opinion.

Any recommendations referred to herein may involve significant risk and may not be suitable for all investors, who are expected to make their own investment decisions at their own risk. Descriptions of any company or companies or their securities are not intended to be complete and this report is not, and should not, be construed as an offer, or a solicitation of an offer, to buy or sell any securities or any other financial instruments. KAF-Seagroatt & Campbell Securities Sdn Bhd, their Directors, Representatives or Officers may have positions or an interest in any of the securities or any other financial instruments mentioned in this report. All opinions are solely of the author, and subject to change without notice.



Dato' Ahmad Bin Kadis  
Managing Director  
KAF-Seagroatt & Campbell Securities Sdn Bhd (134631-U)