

26 Feb 2020

Hold

Price
RM0.66

Target Price
RM0.70

Market Data

| | |
|--------------------------|-------------|
| Bloomberg Code | MRC MK |
| No. of shares (m) | 4,412.1 |
| Market cap (RMm) | 2,912.0 |
| 52-week high/low (RM) | 1.15 / 0.63 |
| Avg daily turnover (RMm) | 4.3 |
| KLCI (pts) | 1,495.2 |

Source: Bloomberg, KAF

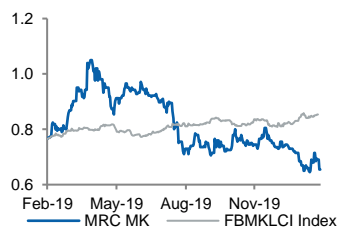
Major Shareholder (%)

| | |
|---------------------|---------|
| EPF | (35.9%) |
| Gapurna | (15.5%) |
| Lembaga Tabung Haji | (6.0%) |
| Free Float | 42.6 |

Source: Bloomberg, KAF

Performance

| | 3M | 6M | 12M |
|----------------|--------|--------|--------|
| Absolute (%) | (12.0) | (10.8) | (17.5) |
| Rel Market (%) | (6.8) | (4.5) | (5.2) |



Source: Bloomberg, KAF

MRCB

FY19 inline

We maintain our Hold rating on MRCB with a lower TP of RM0.70 (from RM0.78), adjusting for a higher net gearing level and rollover of valuation base to FY20F. The group is targeting a doubling of its property revenue with an active construction tender book of RM1.4b. However, there is still no significant progress from the LRT 3 negotiations. FY19 results was in line.

Financial Highlights

| FYE Dec | 2018 | 2019 | 2020F | 2021F | 2022F |
|-----------------------|---------|---------|---------|---------|---------|
| Revenue (RMm) | 1,870.7 | 1,319.4 | 2,081.7 | 2,534.8 | 2,610.0 |
| Core net profit (RMm) | 101.2 | 31.7 | 60.4 | 82.0 | 139.8 |
| Core EPS (Sen) | 2.4 | 1.0 | 1.6 | 2.0 | 3.2 |
| EPS growth (%) | (10.1) | (58.8) | 58.4 | 28.0 | 58.5 |
| DPS (Sen) | 1.8 | 1.0 | 1.5 | 2.0 | 2.0 |
| Core PE (x) | 34.0 | 81.9 | 41.6 | 32.5 | 20.5 |
| Div yield (%) | 2.1 | 1.2 | 2.3 | 3.0 | 3.0 |
| ROE (%) | 2.1 | 0.5 | 1.3 | 1.7 | 2.9 |
| Net Gearing (%) | 19.5 | 27.4 | 31.0 | 23.8 | 24.5 |
| PBV(x) | 0.8 | 0.7 | 0.6 | 0.6 | 0.6 |

Source: Company, KAF

FY19 results inline

For its 4Q19 results, MRCB recorded core net profits of RM6m, taking FY19 core profits for the year to RM32m. Core earnings rose 139% QoQ thanks to a pick-up in construction billings on the back of an improvement in construction margins (from 1.3% in 3Q19 to 7.6% in 4Q19). Its full year results were broadly in line with our expectations but was 67% ahead of consensus.

On a YoY basis, FY19 core earnings fell 69% YoY. This was largely due to slow progress for certain key infrastructure projects. The core profits exclude an RM8m charge the group made in 2Q19 for projects that are undergoing an arbitration hearing. Similarly, its share of JV profits from LRT was less than RM1m vs RM15m in FY18.

On the property front, MRCB could not meaningfully benefit from sizeable locked-in sales for Sentral Suites (RM949m) and 1060 Carnegie (RM247m); progress for the former was only at 29% as of end-2019 while the latter's profits can only be realized upon settlement.

In addition, we understand that the group has started recognizing amortization charges for property leases during the FY (RM21m) following its adoption of MFRS 16. Net gearing also inched up to 27% (FY18: 20%) following some new loans taken to acquire a piece of land within KL city centre.

The year ahead

MRCB has an active construction tenderbook of RM1.4b. Among others, it is awaiting tenders for the East Coast Rail Line (ECRL) to commence. Nevertheless, progress for LRT 3 is still minimal as negotiations with the works package contractors are still ongoing.

For the property division, management guided that it expects a doubling of property revenue through the recognition of higher billings, especially from Sentral Suites and 1080 Carnegie.

The completion rate for Sentral Suites is expected to reach 50% by year end. As for 1080 Carnegie, which has recently been completed, the group is hopeful of securing a settlement rate of 80% (overall take-up: 86%).

On the whole, MRCB has set a net property sales target of RM500m for FY20F – a tad lower than the RM537m achieved in 2019. It hopes to convert a bulk of the sales from ongoing projects such as Sentral Suites, TRIA @ 9 Seputeh and the balance of Vivo @ 9 Seputeh.

Analyst

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MRCB is also lining up two new launches this year, including the maiden launch at Kwasa Sentral involving 600 units of apartments with indicative prices of RM350k-RM450k (average: ~RM650m psf). The estimated GDV is ~RM300m.

At the same time, MRCB is also contemplating to launch Tower 5 of PJ Sentral (GDV: RM520m) and its Suria Subang land (GDV: RM320m). However, the timing of launch may straddle over to next year, depending on the approval timeline.

Coupled with higher construction billings, we project higher core net profits of RM60m-RM140m for the group in FY20F-22F, albeit from a low base of RM32m in FY19. This is backed by an outstanding orderbook of RM21b and unbilled property sales of RM1.6b.

Exhibit 1: Financial results

| YE 31 Dec (RM m) | FY18 | FY19 | % YoY | 3Q19 | 4Q19 | % QoQ |
|-----------------------------------|----------------|----------------|---------------|--------------|--------------|--------------|
| Turnover | 1,870.7 | 1,319.4 | (29.5) | 372.7 | 471.6 | 26.5 |
| EBIT | 120.9 | 80.4 | (33.5) | 20.6 | 21.0 | 1.7 |
| Interest Expense | (44.0) | (45.6) | | (13.7) | (7.0) | |
| Interest Income | 20.6 | 19.6 | | 4.6 | 5.8 | |
| Pre-Exceptionals Profit | 97.5 | 54.4 | | 11.6 | 19.8 | |
| Exceptionals | 0.0 | (8.0) | | 0.0 | 0.0 | |
| Pre-Associates/JV Profit | 97.5 | 46.4 | | 11.6 | 19.8 | |
| Associates/JVs | 25.5 | 6.6 | | 2.7 | 0.7 | |
| Pretax Profit | 123.0 | 53.0 | (56.9) | 14.3 | 20.4 | 43.1 |
| Taxation | (46.1) | (34.3) | | (12.1) | (13.1) | |
| Minority Interest/disc. ops | 24.3 | 5.0 | | 0.3 | (1.3) | |
| Net Profit | 101.2 | 23.7 | (76.5) | 2.5 | 6.0 | 139.4 |
| Core Net Profit | 101.2 | 31.7 | (68.6) | 2.5 | 6.0 | 139.4 |
| Core EPS (sen) | 2.3 | 0.7 | | 0.1 | 0.1 | |
| Gross DPS (sen) | 1.8 | 1.0 | | 0.0 | 1.0 | |
| BV/share (RM) | 1.10 | 1.09 | | 1.08 | 1.09 | |
| EBIT Margin (%) | 6.5 | 6.1 | | 5.5 | 4.4 | |
| Pretax Margin (%) | 6.6 | 4.0 | | 3.8 | 4.3 | |
| Effective Tax (%) | 37.5 | 64.7 | | 84.8 | 64.2 | |
| Segmental Breakdown (RM m) | | | | | | |
| Turnover | | | | | | |
| Construction | 1,042.7 | 679.5 | (34.8) | 137.4 | 258.7 | 88.3 |
| Property development & investment | 758.6 | 566.7 | (25.3) | 215.0 | 195.3 | (9.2) |
| Infrastructure & concession | 0.0 | 0.0 | n/m | 0.0 | 0.0 | n/m |
| Facilities management & parking | 53.3 | 53.6 | 0.6 | 13.5 | 14.3 | 5.9 |
| Investment holding & Others | 16.1 | 19.5 | 21.0 | 6.9 | 3.4 | (51.0) |
| Total | 1,870.7 | 1,319.4 | (29.5) | 372.7 | 471.6 | 26.5 |
| EBIT | | | | | | |
| Construction | 97.8 | 23.1 | (76.4) | 1.8 | 19.8 | n/m |
| Property development & investment | 56.2 | 76.8 | 36.6 | 22.8 | 7.0 | (69.5) |
| Infrastructure & concession | 74.5 | 0.0 | n/m | 0.0 | 0.0 | n/m |
| Facilities management & parking | 6.4 | 6.0 | (6.7) | 3.6 | 2.3 | (35.1) |
| Investment holding & Others | (16.2) | (2.4) | n/m | (5.8) | 11.7 | n/m |
| Total | 120.9 | 80.4 | (33.5) | 20.6 | 21.0 | 1.7 |
| EBIT margin (%) | | | | | | |
| Construction | 9.4 | 3.4 | | 1.3 | 7.6 | |
| Property development & investment | 7.4 | 13.6 | | 10.6 | 3.6 | |
| Infrastructure & concession | n/m | n/m | | n/m | n/m | |
| Facilities management & parking | 12.0 | 11.1 | | 26.5 | 16.3 | |
| Investment holding & Others | n/m | n/m | | n/m | n/m | |
| Total | 6.5 | 6.1 | | 5.5 | 4.4 | |

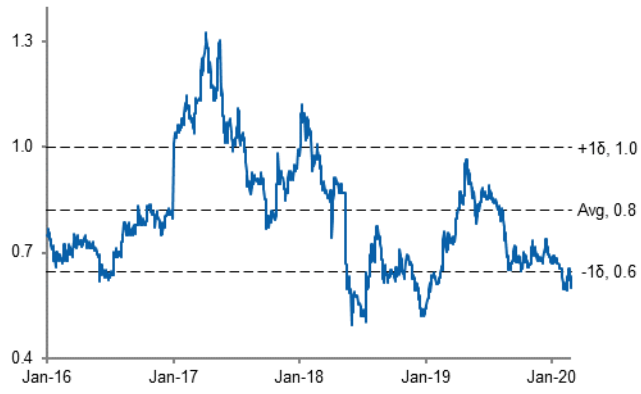
Source: Company, KAF

Exhibit 2: NAV calculations

| Divisions/Operations | Size (acres) | Value (RM) | | | Method | % of NAV | Effective stake (%) |
|---|-----------------|--------------------------|-------------------|---------------|-----------------------------------|--------------|--------------------------------|
| | | psf | m | /share | | | |
| Landbank | | | | | | | |
| Suria Subang | 3.3 | 500 | 72.7 | 0.01 | | | |
| Selbourne 2, Shah Alam | 2.4 | 350 | 36.1 | 0.01 | | | |
| Metro Spectacular, Jln. Putra (51%) | 10.1 | 600 | 171.1 | 0.04 | | | |
| Sub-total | 15.8 | | 280.0 | 0.06 | | 6.6 | |
| Development properties | | | | | | | |
| Sentral Residences (Lot D) | | | 0.0 | 0.00 | NPV @ 9% | | 51.0 |
| Lot F - Office Towers | | | 268.1 | 0.06 | NPV @ 9% | | 100.0 |
| 9 Seputeh, Old Klang Road | | | 205.2 | 0.04 | NPV @ 9% | | 100.0 |
| Sentral Suites, KL Sentral | | | 221.8 | 0.05 | NPV @ 9% | | 100.0 |
| Semarak City, Setapak | | | 61.7 | 0.01 | NPV @ 9% | | 30.0 |
| PJ Sentral Phase 1 (PJ Garden City) | | | 162.6 | 0.03 | NPV @ 9% | | 100.0 |
| Kwasa Sentral, Sg.Buloh | | | 625.0 | 0.13 | NPV @ 9% | | 70.0 |
| Rahman Putra, Sg.Buloh | | | 46.7 | 0.01 | NPV @ 9% | | 100.0 |
| Cyberjaya City Centre Phase 1, Cyberjaya | | | 331.7 | 0.07 | NPV @ 9% | | 70.0 |
| Bukit Jalil Sentral | | | 441.5 | 0.09 | NPV @ 9% | | 20.0 |
| Penang Sentral | | | 222.3 | 0.05 | NPV @ 9% | | 100.0 |
| Pulai Land | | | 83.4 | 0.02 | NPV @ 9% | | 100.0 |
| 1060 Carnegie, Melbourne | | | 25.1 | 0.01 | NPV @ 9% | | 100.0 |
| Unbilled sales | | | 227.7 | 0.05 | NPV @ 9% | | 100.0 |
| Sub-total | | | 2,922.6 | 0.60 | | 69.0 | |
| | | NLA/room bays | Value (RM) | | Method | | Effective stake (%) |
| | | | m | /share | | | |
| Investment properties | | | | | | | |
| 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 | 0.02 | RM0.85m/room | | 100.0 |
| Sub-total | | | 717.5 | 0.15 | | 16.9 | |
| 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 | | 3.3 | |
| Property management | | | | | | | |
| Quill Capita Management (QCM) | | | 84.9 | 0.02 | NPI@7% | | 41.0 |
| Sub-total | | | 84.9 | 0.02 | | 2.0 | |
| Construction & Facilities Management | | | | | | | |
| Construction | | | 291.1 | 0.06 | 13x FY20F net profit | | |
| Facilities management | | | 57.7 | 0.01 | Net book value | | |
| Bukit Jalil Sentral Management Contract | | | 40.5 | 0.01 | NPV@7.5% | | |
| Sub-total | | | 389.3 | 0.08 | | 9.2 | |
| Listed-investments | | | | | | | |
| MRCB-Quill REIT | | | 266.9 | 0.05 | Market Value | | 27.8 |
| Sub-total | | | 266.9 | 0.05 | | 6.3 | |
| Others | | | 189.1 | 0.04 | Net book value as of FY18 | | |
| Sub-total | | | 189.1 | 0.04 | | 4.5 | |
| Gross NAV | | | 4,990.3 | 1.03 | | | |
| Net cash | | | (1,314.2) | (0.27) | FY19 | (31.0) | |
| Proceeds from ESOS/warrant conversions | | | 560.9 | 0.12 | Warrants B exercise price: RM1.25 | 13.2 | |
| Total NAV | | | 4,237.0 | 0.87 | | 100.0 | |
| FD no of shares | | | 4,868.5 | | | | |
| NAV/share | | | 0.87 | | | | |
| TP (less: 20% discount) | | | 0.70 | | | | |
| Upside (%) | | | 5.5 | | | | |
| Implied PE (x) | | | 43.9 | | | | |
| Discount to NAV (%) | | | (24.2) | | | | |

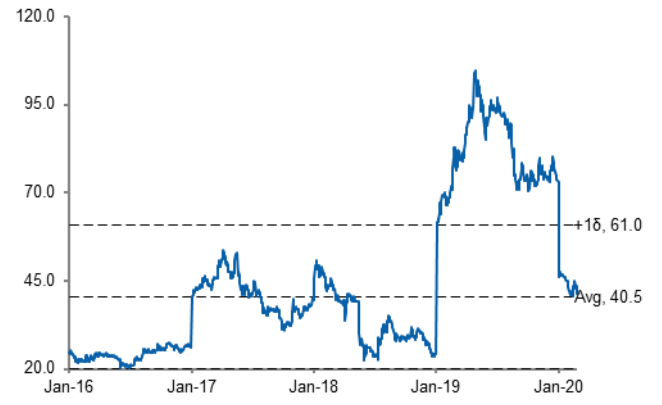
Source: Company, Bloomberg, KAF

Exhibit 3: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 4: PE Band chart



Source: Company, KAF, Bloomberg

Income Statement

| FYE Dec (RMm) | 2018 | 2019 | 2020F | 2021F | 2022F |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | 1,870.7 | 1,319.4 | 2,081.7 | 2,534.8 | 2,610.0 |
| EBITDA | 152.4 | 142.4 | 218.9 | 242.5 | 295.9 |
| Depreciation/Amortisation | (31.5) | (62.0) | (74.5) | (77.0) | (79.5) |
| Operating income (EBIT) | 120.9 | 80.4 | 144.4 | 165.4 | 216.3 |
| Other income & associates | 25.5 | 6.6 | 28.4 | 43.1 | 64.1 |
| Net interest | (23.4) | (26.0) | (59.8) | (58.4) | (55.2) |
| Exceptional items | 0.0 | (8.0) | 0.0 | 0.0 | 0.0 |
| Pretax profit | 123.0 | 53.0 | 113.0 | 150.2 | 225.2 |
| Taxation | (46.1) | (34.3) | (45.6) | (58.9) | (70.3) |
| Minorities/pref dividends | 24.3 | 5.0 | (7.0) | (9.3) | (15.2) |
| Net profit | 101.2 | 23.7 | 60.4 | 82.0 | 139.8 |
| Core net profit | 101.2 | 31.7 | 60.4 | 82.0 | 139.8 |

Balance Sheet

| FYE Dec (RMm) | 2018 | 2019 | 2020F | 2021F | 2022F |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Fixed assets | 665.4 | 600.4 | 623.8 | 645.4 | 665.2 |
| Intangible assets | 226.7 | 224.3 | 218.2 | 212.1 | 206.1 |
| Other long-term assets | 4,227.0 | 4,351.9 | 4,368.5 | 4,399.1 | 4,449.9 |
| Total non-current assets | 5,119.0 | 5,176.6 | 5,210.5 | 5,256.6 | 5,321.2 |
| Cash & equivalent | 469.8 | 300.9 | 124.3 | 419.4 | 320.8 |
| Stock | 1,043.7 | 963.2 | 950.8 | 966.5 | 975.7 |
| Trade debtors | 1,609.2 | 1,750.7 | 1,825.0 | 1,805.6 | 1,859.2 |
| Other current assets | 100.6 | 313.6 | 313.6 | 313.6 | 313.6 |
| Total current assets | 3,223.3 | 3,328.4 | 3,213.8 | 3,505.1 | 3,469.4 |
| Trade creditors | 1,188.7 | 1,013.6 | 909.4 | 1,271.8 | 1,283.9 |
| Short-term borrowings | 727.1 | 824.8 | 487.3 | 564.8 | 642.3 |
| Other current liabilities | 49.4 | 32.9 | 32.9 | 32.9 | 32.9 |
| Total current liabilities | 1,965.2 | 1,871.3 | 1,429.7 | 1,869.5 | 1,959.1 |
| Long-term borrowings | 767.4 | 1,006.4 | 1,343.8 | 1,216.3 | 1,088.8 |
| Other long-term liabilities | 709.3 | 803.9 | 803.9 | 803.9 | 803.9 |
| Total long-term liabilities | 1,476.7 | 1,810.2 | 2,147.7 | 2,020.2 | 1,892.7 |
| Shareholders' funds | 4,832.4 | 4,791.6 | 4,808.0 | 4,823.8 | 4,875.4 |
| Minority interests | 68.0 | 31.9 | 38.9 | 48.2 | 63.4 |

Cash flow Statement

| FYE Dec (RMm) | 2018 | 2019 | 2020F | 2021F | 2022F |
|--|------------------|----------------|----------------|----------------|----------------|
| Pretax profit | 123.0 | 53.0 | 113.0 | 150.2 | 225.2 |
| Depreciation/Amortisation | 31.5 | 62.0 | 74.5 | 77.0 | 79.5 |
| Net change in working capital | 1,304.9 | (236.0) | (166.2) | 366.0 | (50.7) |
| Others | (298.8) | (224.3) | (74.0) | (102.0) | (134.4) |
| Cash flow from operations | 1,160.5 | (345.4) | (52.6) | 491.2 | 119.7 |
| Capital expenditure | (509.8) | 0.0 | (80.0) | (80.0) | (80.0) |
| Net investments & sale of fixed assets | 71.2 | 128.7 | 0.0 | 0.0 | 0.0 |
| Others | 1,479.4 | 29.3 | 0.0 | 0.0 | 0.0 |
| Cash flow from investing | 1,040.7 | 158.0 | (80.0) | (80.0) | (80.0) |
| Debt raised/(repaid) | (1,891.0) | 336.7 | 0.0 | (50.0) | (50.0) |
| Equity raised/(repaid) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends paid | (106.2) | (106.2) | (44.0) | (66.2) | (88.2) |
| Others | (198.3) | (212.0) | 0.0 | 0.0 | 0.0 |
| Cash flow from financing | (2,195.5) | 18.5 | (44.0) | (116.2) | (138.2) |
| Net cash flow | 5.8 | (168.9) | (176.6) | 295.0 | (98.6) |
| Cash b/f | 464.0 | 469.8 | 300.9 | 124.3 | 419.4 |
| Cash c/f | 469.8 | 300.9 | 124.3 | 419.4 | 320.8 |

Key Ratios

| FYE Dec | 2018 | 2019 | 2020F | 2021F | 2022F |
|---------------------------|-------------|-------------|--------------|--------------|--------------|
| Revenue growth (%) | (29.2) | (29.5) | 57.8 | 21.8 | 3.0 |
| EBITDA growth (%) | (40.6) | (6.6) | 53.7 | 10.8 | 22.0 |
| Pretax margins (%) | 6.6 | 4.0 | 5.4 | 5.9 | 8.6 |
| Net profit margins (%) | 5.4 | 1.8 | 2.9 | 3.2 | 5.4 |
| Interest cover (x) | 5.2 | 3.1 | 2.4 | 2.8 | 3.9 |
| Effective tax rate (%) | 37.5 | 64.7 | 40.4 | 39.2 | 31.2 |
| Net dividend payout (%) | 76.3 | 185.1 | 109.6 | 107.6 | 63.1 |
| Debtors turnover (days) | 314 | 484 | 320 | 260 | 260 |
| Stock turnover (days) | 260 | 351 | 230 | 190 | 190 |
| Creditors turnover (days) | 296 | 370 | 220 | 250 | 250 |

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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Managing Director
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