

23 Mar 2018

Buy

Price  
RM0.99

Target Price  
RM1.26

Bloomberg code  
MRC MK

Equity | Malaysia | Property  
**Flashnote**

Analyst

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

# MRCB

## Gets management contractor role for MX-1

### Financial Highlights

| FYE Dec               | 2016    | 2017    | 2018F   | 2019F   | 2020F   |
|-----------------------|---------|---------|---------|---------|---------|
| Revenue (RMm)         | 2,408.1 | 2,823.7 | 2,566.4 | 2,692.4 | 2,756.9 |
| Core net profit (RMm) | 75.0    | 101.3   | 150.3   | 181.8   | 232.3   |
| Core EPS (Sen)        | 4.2     | 2.9     | 3.8     | 4.1     | 5.1     |
| EPS growth (%)        | >100    | (30.4)  | 30.4    | 7.3     | 25.0    |
| DPS (Sen)             | 2.8     | 1.8     | 1.5     | 1.8     | 2.5     |
| Core PE (x)           | 24.9    | 39.7    | 25.8    | 24.1    | 19.3    |
| Div yield (%)         | 2.6     | 1.5     | 1.5     | 1.8     | 2.5     |
| ROE (%)               | 10.3    | 4.3     | 3.1     | 3.7     | 4.6     |
| Net Gearing (%)       | 75.7    | 55.1    | 30.6    | 30.6    | 28.9    |
| PBV(x)                | 0.8     | 1.1     | 0.9     | 0.9     | 0.8     |

Source: Company, KAF

- We maintain our Buy call on MRCB with an unchanged TP of RM1.26 (15% discount to NAV). MRCB announced that its wholly-owned subsidiary, MRCB Land has been appointed by Kwasa Sentral as the management contractor for the 64-acre plot of land (MX-1) at the Kwasa Damansara development.
- Kwasa Sentral is the developer of MX-1. It is jointly-owned by MRCB (70%) and EPF (30%). MRCB had on 20 December 2017, paid the balance 90% of its share of the land totaling RM737m.
- We understand that MX-1 has been earmarked as the main commercial centre for Kwasa Damansara. It will be developed over a period of 12 years (i.e. from 2018 until 2030).
- With an estimated plot ratio of 3.5x, the mixed-development project will have a mix of 60% for commercial use, and 40% for residential.
- It will be carved into ten separate plots: i.e. six blocks of office towers, two blocks of hotels, one block of wellness centre, three retail blocks, fifteen residential block and recreational facilities.
- Based on the management contract, MX-1 will be built on an estimated gross development cost (GDC) of RM8.6b. The corresponding total provisional contract sum that is payable to MRCB Land is approximately RM7.5b. This comprises of:
  - Contract cost (RM6.9b); and
  - Management contract fees (RM0.6b)
- We are positive with this development, as the Kwasa Sentral management contract adds to MRCB's expanding construction orderbook, and expands its growing footprint within Kwasa Damansara.
- Apart from a 70% stake in the development rights for Kwasa Sentral, MRCB also acts as the management contractor for Kwasa Utama, and the Project Delivery Partner (PDP) for the section of Kwasa Damansara that is under the jurisdiction of Petaling Jaya City Council (MBPJ).
- We also envisage potential synergies and savings in logistical cost, as Kwasa Sentral, together the Kwasa Utama plot (a 29-acre commercial project under EPF) and the MBPJ portion, forms part of the Kwasa Damansara integrated township.
- All said, we do not envisage any significant contributions from the Kwasa Sentral management contract in the near-term, as the development period is spread out over 12 years. As such, we maintain our earnings estimates pending further updates, particularly on its actual kick-off date.

Exhibit 1: MRCB's footprint at Kwasa Damansara



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.

## 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)