

30 Aug 2021

Hold

Price
RM0.40

Target Price
RM0.43

Market Data

Bloomberg Code	MRC MK
No. of shares (m)	4,467.5
Market cap (RMm)	1,764.7
52-week high/low (RM)	0.57 / 0.35
Avg daily turnover (RMm)	2.5
KLCI (pts)	1,583.6

Source: Bloomberg, KAF

Major Shareholder (%)

EPF	(36.2%)
Gapurna	(15.5%)
Lembaga Tabung Haji	(5.9%)
Free Float	42.4

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	(14.6)	(9.3)	(42.1)
Rel Market (%)	(14.9)	(20.1)	(40.7)



Source: Bloomberg, KAF

Analyst

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

MRCB

In the grip of disruptions

We maintain our Hold rating on MRCB with a lower TP of RM0.43. This is mainly to account for disruptions as a result of lockdowns, which will likely trickle down into 3Q21 as well. Its FY21F new property sales target of RM300m could fall short of expectations (1H21: RM107m) as movements in new tender flows remains tepid. Balance sheet strength is rather comforting with net gearing at 29% as of 30 June.

Financial Highlights

FYE Dec	2019	2020	2021F	2022F	2023F
Revenue (RMm)	1,319.4	1,199.5	987.6	1,413.9	1,461.0
Core net profit (RMm)	31.7	(0.8)	(30.2)	29.5	60.0
Core EPS (Sen)	1.0	0.3	(0.3)	1.0	1.6
EPS growth (%)	(59.0)	(67.1)	n/m	n/m	65.8
DPS (Sen)	1.0	1.0	0.5	0.5	1.0
Core PE (x)	81.9	155.9	n/m	41.5	25.0
Div yield (%)	1.2	2.0	1.3	1.3	2.5
ROE (%)	0.5	(3.8)	(0.7)	0.7	1.3
Net Gearing (%)	27.4	30.4	29.6	29.3	30.5
PBV(x)	0.7	0.5	0.4	0.4	0.4

Source: Company, KAF

2Q lockdown impact; construction losses widen

MRCB was back in the red with 2Q21 core losses at RM32m. This brought 1H core losses to RM32m on 24% topline erosion. Given the headline losses, MRCB's first half results were below both consensus and our expectations.

The group's operating performance was hit by a tightening of containment measures, resulting in April being the one productive month in 2Q21. This could be seen as the actual progress for several major ongoing projects fell behind their budgeted timeline – with SUKE (17%), Sentral Suites (29%) being the worse-hit.

Notably, the construction unit's operating loss widened to RM31m against RM2m in 1Q21. On the other hand, higher construction billings from its internal property developments did not filter down to its bottomline, given inter-co eliminations at the group level.

As highlighted earlier, property earnings (-42% QoQ) were hampered by slower progress for key projects - i.e. Sentral Suites (52%) and TRIA@9Seputeh (48%). There was also a fall-off in contributions from 1060 Carnegie (42 units settled in 1H21 vs 79 units a year earlier).

Additionally, management may push back the targeted launch of Lot J, KL Sentral (it may pre-sell or let it to an interested party for its corporate HQ) to next year, and PJ Sentral Tower 1 – in 2023. It however aims to hold the maiden launch of Kwasa Sentral by next quarter.

As such, FY21F new property sales target of RM300m could fall short of expectations (1H21: RM107m) vs total unsold inventories of RM811m, in our view. Completed unsold units was RM412m, with Vivo@9Seputeh (RM227m) accounting for 55% of it.

Strategic land purchase

The proposed RPT involving the acquisition of 22 acres of land adjoining the Simpang Pulai exit of the NSE (14km from Ipoh) – would complement its Simpang Pulai landbank (759 acres). We understand that the land would provide direct access to the NSE, and add RM307m to the project's total estimated GDV of RM4b.

MRCB intends to complete the acquisition in 3Q21 and amalgamate it into planned its Simpang Pulai development (targeted launch: 2023), which may involve industrial, logistics and commercial components. We also deem the implied land cost to be fairly attractive at RM33psf, as the vendors had sold other nearby plots at ~RM35psf back in 2006.

Zooming in on environmental win

MRCB's open tenderbook currently stands at ~RM2.1b, with building jobs making up three-quarters of it. Its outstanding orderbook currently stands at RM17.6b. While tenderbook visibility remains poor, management is hopeful of clinching a RM350m contract under Phase 3 of the Sg.Pahang flood mitigation project. As it involves specialized works, we believe that the realizable margins could be could attractive at low-double digit levels.

Maintain Hold; Reduce TP to RM0.43

While MRCB expects a pick-up in productivity levels in 3Q21 (it resumed site work in mid-July), near-term constraints remain before some degree of normalcy can be achieved. Bearing this in mind, we lower our TP to RM0.43 (previously: RM0.46) on a wider discount to NAV to 35% (from 30% to 35%) as its earnings recovery could now be delayed. On the flip side, we draw comfort that no provisions were made despite the challenging operating environment.

Exhibit 1: Financial results

YE 31 Dec (RM m)	1H20	1H21	% YoY	1Q21	2Q21	% QoQ
Turnover	592.9	452.5	(23.7)	226.7	225.7	(0.4)
EBIT	26.4	(20.5)	n/m	11.0	(31.6)	n/m
Interest Expense	(32.5)	(38.5)		(18.2)	(20.2)	
Interest Income	6.9	6.7		3.8	2.9	
Pre-Exceptionals Profit	0.7	(52.3)		(3.4)	(48.9)	
Exceptionals	(202.5)	0.0		0.0	0.0	
Pre-Associates/JV Profit	(201.8)	(52.3)		(3.4)	(48.9)	
Associates/JVs	5.8	19.8		9.1	10.7	
Pretax Profit	(196.0)	(32.5)	n/m	5.7	(38.2)	n/m
Taxation	(8.5)	(3.3)		(1.8)	(1.5)	
Minority Interest/disct. ops	(0.4)	8.6		1.3	7.3	
Net Profit	(204.8)	(27.2)	n/m	5.2	(32.4)	n/m
Core Net Profit	(2.3)	(27.2)	n/m	5.2	(32.4)	n/m
Core EPS (sen)	(0.1)	(0.6)		0.1	(0.7)	
Gross DPS (sen)	0.0	0.0		0.0		
BV/share (RM)	1.03			1.03	0.00	
EBIT Margin (%)	4.5	(4.5)		4.9	(14.0)	
Pretax Margin (%)	(33.0)	(7.2)		2.5	(16.9)	
Effective Tax (%)	(4.3)	(10.0)		31.3	(3.8)	
Segmental Breakdown (RM m)						
Turnover						
Construction	231.5	156.4	(32.4)	84.4	72.0	(14.7)
Property development & investment	336.4	274.9	(18.3)	132.2	142.8	8.0
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	22.2	17.9	(19.6)	8.9	9.0	0.9
Investment holding & Others	2.8	3.3	14.4	1.2	2.0	66.3
Total	592.9	452.5	(23.7)	226.7	225.7	(0.4)
EBIT						
Construction	(195.7)	(33.0)	n/m	(1.6)	(31.3)	n/m
Property development & investment	28.6	16.5	(42.4)	13.1	3.3	(74.5)
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	3.2	0.6	(82.7)	0.4	0.1	(70.7)
Investment holding & Others	(5.4)	(37.6)	n/m	(2.5)	(35.1)	n/m
Total	26.4	(20.5)	n/m	11.0	(31.6)	n/m
EBIT margin (%)						
Construction	(84.5)	(21.1)		(1.9)	(43.5)	
Property development & investment	8.5	6.0		9.9	2.3	
Infrastructure & concession	n/m	n/m		n/m	n/m	
Facilities management & parking	14.6	3.1		4.9	1.4	
Investment holding & Others	n/m	n/m		n/m	n/m	
Total	4.5	(4.5)		4.9	(14.0)	

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	300	43.6	0.01		
Selbourne 2, Shah Alam	2.4	250	25.8	0.01		
Metro Spectacular, Jln. Putra (51%)	10.1	400	171.1	0.04		
Sub-total	15.8		240.6	0.05		7.5
Development properties						
Lot F - Office Towers			305.4	0.06	NPV @ 9%	100.0
9 Seputeh, Old Klang Road			133.8	0.03	NPV @ 9%	100.0
Sentral Suites, KL Sentral			36.3	0.01	NPV @ 9%	100.0
Semarak City, Setapak			43.1	0.01	NPV @ 9%	30.0
PJ Sentral Phase 1 (PJ Garden City)			96.8	0.02	NPV @ 9%	100.0
Kwasa Sentral, Sg.Buloh			473.2	0.10	NPV @ 9%	70.0
Bukit Rahman Putra, Sg.Buloh			40.5	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			12.2	0.00	NPV @ 9%	100.0
Aotea Central Over Station Development (OSD), Auckland			117.7	0.02	NPV @ 9%	100.0
Unbilled sales			52.5	0.01	NPV @ 9%	100.0
Sub-total			1,984.0	0.41		62.1
		NLA/room bays	Value (RM) m /share		Method	Effective stake (%)
Investment properties						
Menara Celcom (Lot 8)		450,908	419.3	0.09	NPI@6%	100.0
Menara MRCB, Shah Alam		216,000	3.7	0.00	NPI@7%	100.0
Plaza Alam Sentral, Shah Alam		433,349	56.8	0.01	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			646.5	0.13		20.2
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			312.7	0.06	12x 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			500.1	0.10		15.6
Listed-investments						
Sentral REIT			259.5	0.05	Market Value	27.8
Sub-total			259.5	0.05		8.1
Others			160.2	0.03	Net book value as of FY19	
Sub-total			160.2	0.03		5.0
Gross NAV						
			4,029.2	0.83		
Net cash			(1,392.3)	(0.29)	FY20	(43.6)
Proceeds from ESOS/warrant conversions			559.5	0.12	Warrants B exercise price: RM1.25	17.5
Total NAV			3,196.4	0.66		100.0
FD no of shares			4,864.6			
NAV/share			0.66			
TP (less: 35% discount)			0.43			
Upside (%)			8.1			

Source: Company, Bloomberg, KAF

Income Statement

FYE Dec (RMm)	2019	2020	2021F	2022F	2023F
Revenue	1,319.4	1,199.5	987.6	1,413.9	1,461.0
EBITDA	150.2	101.7	92.0	162.5	193.4
Depreciation/Amortisation	(69.8)	(60.2)	(91.8)	(97.3)	(104.0)
Operating income (EBIT)	80.4	41.4	0.3	65.2	89.4
Other income & associates	6.6	19.5	36.2	49.8	70.4
Net interest	(26.0)	(38.6)	(48.4)	(49.9)	(46.7)
Exceptional items	(8.0)	(175.3)	0.0	0.0	0.0
Pretax profit	53.0	(152.9)	(11.9)	65.1	113.1
Taxation	(34.3)	(23.0)	(18.1)	(29.5)	(44.2)
Minorities/pref dividends	5.0	(0.3)	(0.2)	(6.0)	(8.8)
Net profit	23.7	(176.1)	(30.2)	29.5	60.0
Core net profit	31.7	(0.8)	(30.2)	29.5	60.0

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	4,485.9	4,592.0	4,716.2
Total non-current assets	5,176.6	5,350.4	5,456.9	5,602.2	5,782.5
Cash & equivalent	516.9	540.4	647.6	542.9	326.7
Stock	963.2	852.3	695.6	694.3	647.0
Trade debtors	1,726.7	1,287.4	947.0	1,007.2	1,040.7
Other current assets	97.6	322.2	309.4	295.8	281.1
Total current assets	3,304.4	3,002.3	2,599.7	2,540.2	2,295.5
Trade creditors	989.9	966.9	695.6	888.7	928.3
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	1,183.8	1,349.3	1,331.5
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	4,503.7	4,511.2	4,549.2
Minority interests	31.9	10.7	10.9	17.0	25.8

Cash flow Statement

FYE Dec (RMm)	2019	2020	2021F	2022F	2023F
Pretax profit	53.0	(152.9)	(11.9)	65.1	113.1
Depreciation/Amortisation	69.8	60.2	91.8	97.3	104.0
Net change in working capital	(236.1)	527.2	225.7	134.2	53.4
Others	(232.1)	(218.9)	(54.3)	(79.3)	(114.6)
Cash flow from operations	(345.4)	215.6	251.3	217.3	155.9
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)	(22.1)
Others	(208.9)	16.7	0.0	0.0	0.0
Cash flow from financing	18.5	54.8	5.9	(142.1)	(172.1)
Net cash flow	(168.9)	136.7	107.2	(104.7)	(216.2)
Cash b/f	505.8	336.9	473.6	580.8	476.1
Cash c/f	336.9	473.6	580.8	476.1	259.9

Key Ratios

FYE Dec	2019	2020	2021F	2022F	2023F
Revenue growth (%)	(29.5)	(9.1)	(17.7)	43.2	3.3
EBITDA growth (%)	(5.2)	(32.3)	(9.5)	76.6	19.0
Pretax margins (%)	4.0	(12.7)	(1.2)	4.6	7.7
Net profit margins (%)	1.8	(14.7)	(3.1)	2.1	4.1
Interest cover (x)	3.1	1.1	0.0	1.3	1.9
Effective tax rate (%)	64.7	(15.0)	n/m	45.4	39.1
Net dividend payout (%)	185.9	n/m	n/m	74.7	73.5
Debtors turnover (days)	478	392	350	260	260
Stock turnover (days)	369	346	350	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.

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 Equities 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 Equities 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 Equities 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 Equities Sdn Bhd (Reg No. 198501002182)