

22 Nov 2018

Buy

Price
RM0.73

Target Price
RM0.92

Market Data

Bloomberg Code	MRC MK
No. of shares (m)	4,395.0
Market cap (RMm)	3,208.4
52-week high/low (RM)	1.31 / 0.55
Avg daily turnover (RMm)	15.9
KLCI (pts)	1,695.6

Source: Bloomberg, KAF

Major Shareholder (%)

EPF	(34.7%)
Gapurna	(16.8%)
Lembaga Tabung Haji	(8.1%)
Free Float	40.3

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	(9.9)	0.7	(25.9)
Rel Market (%)	(4.4)	9.6	(24.7)



Source: Bloomberg, KAF

Analyst

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MRCB

9M18: support from land sale gains

We maintain our Buy call on MRCB with an unchanged TP of RM0.92 (20% discount to NAV). For the 9M18 reporting period, core earnings rose 29% YoY largely on the recognition of land disposal gains for the ex-German Embassy site, and another development plot in Penang in the preceding quarter. This offset a marked slowdown in the work progress for LRT 3 amid muted property sales. From a balance sheet standpoint, proforma net gearing is expected to improve significantly from 71% as of 30 September 2018 to only 22%, once the group's receives the proceeds from the termination of the EDL concession, and sale of an 80% stake in KL Sports City. The latter will also pave the way for MRCB to crystallize a RM11b management contract for KL Sports City, and potentially lifts its outstanding orderbook to a record RM23b.

Financial Highlights

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue (RMm)	2,408.1	2,823.7	1,927.4	2,177.2	2,258.5
Core net profit (RMm)	75.0	101.3	92.4	103.5	139.0
Core EPS (Sen)	4.2	2.9	2.8	2.5	3.2
EPS growth (%)	>100	(30.4)	(5.5)	(9.3)	28.7
DPS (Sen)	2.8	1.8	1.5	1.8	2.5
Core PE (x)	24.2	38.7	26.3	29.0	22.5
Div yield (%)	2.7	1.5	2.1	2.4	3.4
ROE (%)	10.3	4.3	1.9	2.1	2.8
Net Gearing (%)	75.7	55.1	37.5	26.0	25.1
PBV(x)	0.8	1.0	0.7	0.7	0.6

Source: Company, KAF

Boosted by land sale gains

For the reporting period ending 30 September 2018, MRCB registered a core net profit of RM75m, representing a YoY growth of 29%. The bump-up in earnings was largely attributable to the recognition of land disposal gains at the ex-German Embassy site at Jln. Kia Peng (RM38m) in 3Q18, and another plot of development land in Batu Ferringhi (RM31m) in the preceding quarter.

The land sale gains offset its muted property sales, lower property billings and some residual costs for the Eastern Dispersal Link (EDL) concession.

Property earnings rose 9% QoQ to RM34m, as the group completed the disposal of ex-German Embassy site to SOSCO during the quarter under review. During this period, the key projects that contributed to its property billings are 9 Seputeh, PJ Sentral, Sentral Suites, Kalista Homes, Sentral Residences, Q Sentral and Easton Burwood.

Excluding the land sale gains, its property division would have registered a small loss of RM4m. This is mainly due to: (i) newer projects (e.g. Sentral Suites) that are at the early stages of its development cycle; and (ii) the completion of the Easton Burwood project in Australia in the previous FY.

Management flagged that the group will likely miss its FY18F new property sales target of RM700m, as the take-up rates for its recent launches has slowed. As a result, its 9M18 property sales came in at only RM356m, or 51% of its target. We are however, keeping our full-year sales assumptions at RM550m, which is more conservative

9M18 construction billings dipped 65% YoY due to the completion of the KL Sports City project in the previous financial quarter. Construction earnings fell 4% YoY, as progress on the LRT 3 project decelerated in 3Q18 following the government's review of its cost structure. Despite this, LRT 3 still contributed a profit of RM21m for the 9M18 period (vs RM7m a year ago), as work momentum was building up in 1H18.

MRCB also expects to seal a new contract with Prasarana Malaysia soon. This follows the MRCB-George Kent (GKEN MK, RM1.05, NC) JV's re-appointment as turnkey contractor for LRT 3 under a revised contract sum of RM11.9b. Following this, management expects construction works to re-commence by next January/February, once MRCB-GK concludes new terms with its work package contractors. The current progress for LRT 3 is ~10%, with minimal works taking place at the moment.

Negotiations on the Eastern Dispersal Link (EDL) concession should wrap-up by year-end, and we expect MRCB to receive the RM1.3b compensation sum by 1Q19 following the termination of toll collection at the highway since 1 January 2018. MRCB is also expected to book-in an accounting gain of RM24m; this being the balance of unamortized premiums on the EDL Junior Sukuk bonds, which it presold a few years ago.

Similarly, the group is set to receive a cash infusion of RM1.1b by the end of this quarter, following its divestment of an 80% stake in the KL Sports City project to the EPF. MRCB has plans to line up its maiden residential launch at this mixed-use project in Bukit Jalil by end-2019, once EPF comes onboard as its development partner.

More importantly, with a revitalized balance sheet, MRCB is readying itself to unleash its key transit-oriented developments (TOD) that will help underpin future NAV growth. Apart from KL Sports City, MRCB has several other value-accretive TOD landbank in its development pipeline, i.e. Penang Sentral, Kwasa Sentral, PJ Sentral and the balance 5 acres at its flagship KL Sentral project.

Valuation and recommendation

Several re-rating catalysts shaping up

MRCB's proforma net gearing is expected to improve significantly from 71% as of 30 September 2018 to only 22%, once the group's receives the proceeds from the termination of the EDL concession, and the KL Sports City stake sale.

On top of an improving balance sheet, we expect three re-rating catalysts that will help drive MRCB's share price moving into next year:

- (1) The finalization of its LRT 3 contract: We see further upside to our earnings estimates, as our current working assumptions of RM9b (based on the project's original budget back in 2015) is lower than the revised contract price of RM11.9b
- (2) The monetization of its prime TOD landbank, starting with Penang Sentral.
- (3) The crystallization of the RM11b management contract for KL Sports City could potentially lift MRCB's total outstanding orderbook to a record RM23b, once the deal with EPF is consummated.

Exhibit 1: Financial results

YE 31 Dec (RM m)	9M17	9M18	% YoY	2Q18	3Q18	% QoQ
Turnover	2,374.9	1,496.6	(37.0)	405.2	663.8	63.8
EBIT	193.7	106.6	(45.0)	47.7	43.0	(9.9)
Interest Expense	(114.0)	(36.1)		(16.8)	(15.1)	
Interest Income	15.7	17.9		6.2	3.4	
Pre-Exceptionals Profit	95.5	88.4		37.1	31.3	
Exceptionals	5.5	0.0		0.0	37.6	
Pre-Associates/JV Profit	101.0	88.4		37.1	31.3	
Associates/JVs	14.2	25.7		5.8	9.2	
Pretax Profit	115.2	114.1	(1.0)	42.9	40.5	(5.7)
Taxation	(37.0)	(37.7)		(10.8)	(22.0)	
Minority Interest/disc. ops	(15.0)	(1.6)		1.2	1.3	
Net Profit	63.3	74.8	18.2	33.3	19.8	(40.6)
Core Net Profit	57.8	74.8	29.4	33.3	19.8	(40.6)
Core EPS (sen)	2.7	1.7		0.8	0.5	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	1.37	1.09		1.11	1.09	
EBIT Margin (%)	8.2	7.1		11.8	6.5	
Pretax Margin (%)	4.9	7.6		10.6	6.1	
Effective Tax (%)	32.1	33.1		25.1	54.4	
Segmental Breakdown (RM m)						
Turnover						
Construction	1,614.4	561.2	(65.2)	192.8	177.3	(8.0)
Property development & investment	620.1	882.9	42.4	193.4	469.1	142.5
Infrastructure & concession	86.1	2.2	(97.5)	0.7	0.8	8.1
Facilities management & parking	42.0	39.7	(5.5)	13.1	13.7	4.4
Investment holding & Others	12.3	10.5	(14.1)	5.3	2.9	(44.3)
Total	2,374.9	1,496.6	(37.0)	405.2	663.8	63.8
EBIT						
Construction	46.5	44.8	(3.7)	25.0	3.8	(84.7)
Property development & investment	111.9	88.9	(20.6)	30.9	33.8	9.3
Infrastructure & concession	41.7	(7.8)	n/m	(1.7)	(4.8)	n/m
Facilities management & parking	11.2	5.6	(49.7)	0.7	4.8	n/m
Investment holding & Others	28.9	20.0	(30.8)	17.8	9.2	(47.9)
Total	193.7	106.6	(45.0)	47.7	43.0	(9.9)
EBIT margin (%)						
Construction	2.9	8.0		13.0	2.2	
Property development & investment	18.0	10.1		16.0	7.2	
Infrastructure & environmental	48.5	n/m		n/m	n/m	
Facilities management & parking	26.6	14.1		5.3	34.9	
Investment holding & Others	n/m	n/m		n/m	n/m	
Total	8.2	7.1		11.8	6.5	

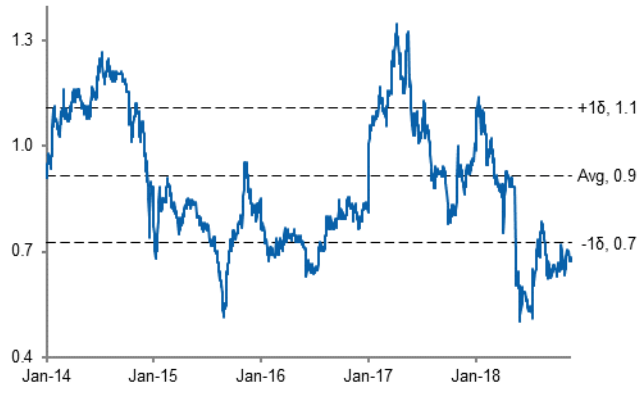
Source: Company, KAF

Exhibit 2: NAV model

Divisions/Operations	Size		Value (RM)		Method	% of NAV	Effective stake (%)
	(acres)	psf	mil	/share			
Landbank							
Suria Subang	3.3	250	36.4	0.01			
Selbourne 2, Shah Alam	2.4	150	15.5	0.00			
Metro Spectacular, Jln. Putra (51%)	10.1	390	171.1	0.03			
Sub-total	15.8		223.0	0.04		3.6	
Development properties							
Sentral Residences (Lot D)			7.8	0.00	NPV @ 9%		51.0
Lot F - Office Towers			371.8	0.07	NPV @ 9%		100.0
9 Seputeh, Old Klang Road			218.8	0.04	NPV @ 9%		100.0
Sentral Suites, Brickfields			156.2	0.03	NPV @ 9%		100.0
Semarak City, Setapak			61.3	0.01	NPV @ 9%		30.0
MRCB Putra, Putrajaya			7.1	0.00	NPV @ 9%		100.0
PJ Sentral Phase 1 (PJ Garden City)			170.5	0.03	NPV @ 9%		100.0
Kwasa Sentral, Sg.Buloh			601.5	0.11	NPV @ 9%		70.0
Rahman Putra, Sg.Buloh			45.4	0.01	NPV @ 9%		100.0
Cyberjaya City Centre Phase 1, Cyberjaya			328.1	0.06	NPV @ 9%		70.0
KL Sports City			407.7	0.07	NPV @ 9%		20.0
Penang Sentral			331.4	0.06	NPV @ 9%		100.0
Pulai Land			82.6	0.02	NPV @ 9%		100.0
The Easton, Burwood			0.5	0.00	NPV @ 9%		100.0
1060 Carnagie, Melbourne			17.6	0.00	NPV @ 9%		100.0
Unbilled sales			161.9	0.03	NPV @ 9%		100.0
Sub-total			2,970.1	0.54		47.4	
	NLA/room		Value (RM)		Method		Effective
	bays		mil	/share			stake (%)
Investment properties							
Menara Celcom (Lot 8)	450,908		419.3	0.08	NPI@6%		100.0
Menara MRCB, Shah Alam	216,000		25.9	0.00	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
Nu Tower 2, KL Sentral	498,309		59.8	0.01	NPI@6%		100.0
Ascott Sentral (Lot 348), KL Sentral	143 rooms		121.6	0.02	RM0.85mil/room		100.0
St. Regis Hotel (Lot C), KL Sentral	208 rooms		62.4	0.01	RM1mil/room		30.0
Sub-total			839.7	0.15		13.4	
Car parks							
Plaza Alam Sentral, Shah Alam	1,400 bays		70.0	0.01	RM50k/bay		100.0
St. Regis Hotel (Lot C), KL Sentral	797 bays		16.7	0.00	RM80k/bay		30.0
Sub-total			86.7	0.02		1.4	
Property management							
Quill Capita Management (QCM)			97.8	0.02	NPI@8%		41.0
Sub-total			97.8	0.02		1.6	
Construction & Facilities Management							
Construction			451.8	0.08	8x FY18F net profit		
Facilities management			15.2	0.00	6x FY18F net profit		
Sub-total			467.0	0.09		7.5	
Listed-investments							
MRCB-Quill REIT			334.7	0.06	Market Value		27.9
Sub-total			334.7	0.06		5.3	
Gross NAV							
			5,019.1	0.9			
Net cash (excluding EDL debt)			(755.1)	(0.14)	FY18F		(12.1)
Proceeds from ESOS/warrant conversions			2,000.6	0.36	Warrants A exercise price: RM2.30 Rights Warrants exercise price: RM1.25		31.9
Total NAV			6,264.6	1.14		100.0	
FD no of shares			5,487.4				
NAV/share			1.14				
TP (less: 20% discount)			0.92				
Capital gain (%)			25.7				
Discount to NAV (%)			(36.1)				

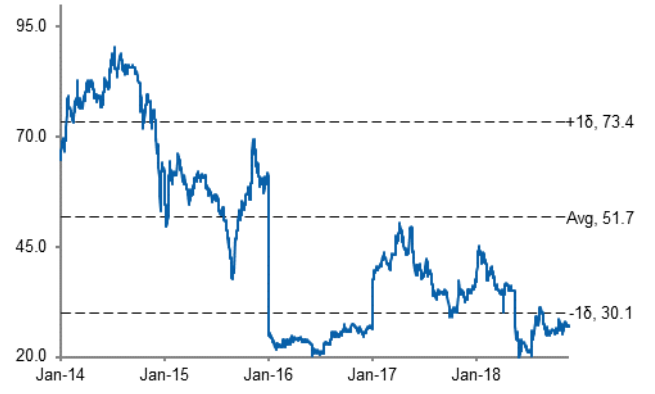
Source: Company, KAF

Exhibit 3: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 4: PE Band chart



Source: Company, KAF, Bloomberg

Income Statement

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Revenue	2,408.1	2,823.7	1,927.4	2,177.2	2,258.5
EBITDA	411.1	367.1	203.5	235.2	275.0
Depreciation/Amortisation	(94.2)	(120.5)	(45.2)	(60.0)	(63.8)
Operating income (EBIT)	316.9	246.6	158.3	175.2	211.2
Other income & associates	32.7	25.0	31.3	35.9	41.8
Net interest	(149.3)	(90.6)	(35.9)	(18.6)	(7.0)
Exceptional items	192.4	66.3	0.0	0.0	0.0
Pretax profit	392.6	247.3	153.6	192.5	246.0
Taxation	(73.5)	(65.5)	(56.3)	(76.0)	(90.1)
Minorities/pref dividends	(51.7)	(14.2)	(4.9)	(13.0)	(16.8)
Net profit	267.4	167.6	92.4	103.5	139.0
Core net profit	75.0	101.3	92.4	103.5	139.0

Balance Sheet

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Fixed assets	437.8	614.2	675.1	729.7	782.0
Intangible assets	252.9	225.6	220.5	215.4	210.2
Other long-term assets	3,895.9	4,688.2	5,594.8	4,753.5	5,064.5
Total non-current assets	4,586.6	5,528.0	6,490.5	5,698.6	6,056.7
Cash & equivalent	592.8	464.0	608.3	146.5	172.4
Stock	57.5	154.5	57.4	64.6	66.0
Trade debtors	1,600.5	3,179.7	1,214.6	1,491.3	1,299.4
Other current assets	914.8	974.8	1,234.3	1,441.4	1,290.3
Total current assets	3,165.6	4,772.9	3,114.6	3,143.9	2,828.2
Trade creditors	1,586.4	1,279.2	1,262.5	1,357.6	1,320.6
Short-term borrowings	806.3	2,490.6	662.2	654.7	739.8
Other current liabilities	42.6	217.9	217.9	217.9	217.9
Total current liabilities	2,435.2	3,987.8	2,142.6	2,230.2	2,278.3
Long-term borrowings	2,130.8	891.2	2,019.9	1,019.1	934.3
Other long-term liabilities	161.2	493.3	493.3	493.3	493.3
Total long-term liabilities	2,292.0	1,384.6	2,513.3	1,512.5	1,427.7
Shareholders' funds	2,925.8	4,824.1	4,839.7	4,877.4	4,939.8
Minority interests	99.2	104.5	109.4	122.3	139.2

Cash flow Statement

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Pretax profit	392.6	247.3	153.6	192.5	246.0
Depreciation/Amortisation	94.2	120.5	45.2	60.0	63.8
Net change in working capital	(366.5)	(1,919.2)	1,786.0	(396.1)	304.6
Others	(261.6)	662.6	(203.9)	(184.2)	(172.0)
Cash flow from operations	(141.3)	(888.7)	1,780.8	(327.8)	442.4
Capital expenditure	(540.4)	(672.7)	(860.0)	(360.0)	(340.0)
Net investments & sale of fixed assets	300.0	0.0	0.0	0.0	0.0
Others	883.3	(384.3)	0.0	1,300.0	0.0
Cash flow from investing	642.9	(1,057.0)	(860.0)	940.0	(340.0)
Debt raised/(repaid)	(458.2)	444.7	(699.8)	(1,008.3)	0.3
Equity raised/(repaid)	401.9	1,798.1	0.0	0.0	0.0
Dividends paid	(76.6)	(70.1)	(76.8)	(65.8)	(76.7)
Others	(115.2)	(355.7)	0.0	0.0	0.0
Cash flow from financing	(248.1)	1,816.9	(776.6)	(1,074.0)	(76.5)
Net cash flow	253.5	(128.7)	144.3	(461.8)	25.9
Cash b/f	339.2	592.8	464.0	608.3	146.5
Cash c/f	592.8	464.0	608.3	146.5	172.4

Key Ratios

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue growth (%)	41.9	17.3	(31.7)	13.0	3.7
EBITDA growth (%)	69.5	(10.7)	(44.6)	15.6	16.9
Pretax margins (%)	16.3	8.8	8.0	8.8	10.9
Net profit margins (%)	11.1	5.9	4.8	4.8	6.2
Interest cover (x)	2.1	2.7	4.4	9.4	30.3
Effective tax rate (%)	18.7	26.5	36.7	39.5	36.6
Net dividend payout (%)	22.6	45.8	71.2	74.1	78.8
Debtors turnover (days)	243	411	230	250	210
Stock turnover (days)	13	28	15	15	15
Creditors turnover (days)	358	235	330	315	300

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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