

31 May 2021

## Hold

**Price**  
 RM0.43

**Target Price**  
 RM0.46

### Market Data

Bloomberg Code	MRC MK
No. of shares (m)	4,467.5
Market cap (RMm)	1,921.0
52-week high/low (RM)	0.57 / 0.35
Avg daily turnover (RMm)	2.5
KLCI (pts)	1,583.6

Source: Bloomberg, KAF

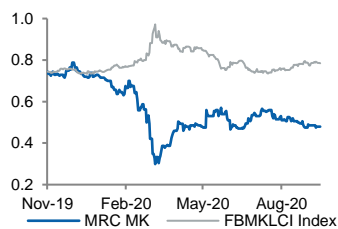
### Major Shareholder (%)

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

# MRCB

## 1Q21 below, challenges ahead

We maintain our Hold rating on MRCB with a lower TP of RM0.46 as 1Q21 came in below expectations despite an upturn in LRT profits. We believe the tightened lockdown poses significant challenges to MRCB's earnings delivery, which had already come under pressure from residual impact from COVID-19-related site closures. Property sales were muted and will likely remain so in the coming quarters.

### Financial Highlights

FYE Dec	2019	2020	2021F	2022F	2023F
Revenue (RMm)	1,319.4	1,199.5	1,122.2	1,441.3	1,550.5
Core net profit (RMm)	31.7	(0.8)	16.0	42.5	77.4
Core EPS (Sen)	1.0	0.3	0.7	1.2	1.9
EPS growth (%)	(59.0)	(67.1)	105.7	80.9	58.7
DPS (Sen)	1.0	1.0	0.5	0.5	1.0
Core PE (x)	81.9	155.9	63.8	35.3	22.2
Div yield (%)	1.2	2.0	1.2	1.2	2.3
ROE (%)	0.5	(3.8)	0.4	0.9	1.7
Net Gearing (%)	27.4	30.4	27.4	28.2	29.7
PBV(x)	0.7	0.5	0.4	0.4	0.4

Source: Company, KAF

### 1Q21 below estimates despite improved LRT 3 profits

1Q21 results were below expectations, despite an upturn in LRT profits. While the group returned to the black with core profit of RM5m (4Q20: core losses of <RM1m), it accounted for only 18% of our previous full-year estimates. This was largely down to (i) lower-than-expected progressive billings for Sentral Suites; (ii) much lower contributions from 1060 Carnegie (120 units settled out of 1411 sold); and (iii) op losses of RM2m in the construction division.

In particular, we think the tightened lockdown poses significant challenges to MRCB's earnings delivery, which had already come under pressure from residual impact from COVID-19-related site closures. The operating losses for the construction unit were partly attributable to key infrastructure projects being at the tail-end of their progress. In addition, work momentum for the RM335m Prima Brickfields contract had been slow but should pick up again following some proposals put forth by MRCB to utilize its proprietary MBS systems.

### LRT 3 profits expand

On a positive note, LRT 3 profits surged to RM5.9m from only RM1.2m a year earlier. The higher profits were aided by better work progress (56% vs year-end target of 65%) as only two main subcontractors have yet to sign re-measured contracts. While work on most of its property and major infrastructure projects should continue (including LRT 3) when the full lockdown commences tomorrow, the official approval is still pending. Aside from poor tenderbook visibility, management believes that the lockdown could be enforced for a month, before restrictions are eased again.

### 1Q property sales at RM52m

The group recorded new property sales of only RM52m (unbilled sales: RM1b), with Carnegie 1060 accounting for RM30m, or 57%. Take-up rates for Sentral Suites remained flatish at ~84%, with bumi lots accounting for most of the remaining units. Similarly, the sales rates for St.Regis remained rooted at 13% without marketing access to foreign investors (due to closed borders). Management also acknowledged that it would have to re-access the current situation before deciding on its planned launches for this year – i.e. Kwasa Sentral and Lot J, PJ Sentral.

### Maintain Hold; Reduce TP to RM0.46

We lower our TP from RM0.52 as we reduce our earnings and increase the discount to NAV to 30% (from 25). This is to reflect increased earnings risk from the lockdown and cost and labour pressures mounting. On the flip side, management does not see any immediate risk of provisions for ongoing construction or property projects, although it will prudently monitor the situation on the ground.

### Analyst

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**Exhibit 1: Financial results**

YE 31 Dec (RM m)	1Q20	1Q21	% YoY	4Q20	1Q21	% QoQ
<b>Turnover</b>	<b>425.8</b>	<b>226.7</b>	<b>(46.8)</b>	<b>304.0</b>	<b>226.7</b>	<b>(25.4)</b>
<b>EBIT</b>	<b>36.0</b>	<b>11.0</b>	<b>(69.3)</b>	<b>12.4</b>	<b>11.0</b>	<b>(10.6)</b>
Interest Expense	(15.5)	(18.2)		(17.7)	(18.2)	
Interest Income	3.5	3.8		2.5	3.8	
Pre-Exceptionals Profit	24.0	(3.4)		(2.8)	(3.4)	
Exceptionals	0.0	0.0		27.2	0.0	
Pre-Associates/JV Profit	24.0	(3.4)		24.4	(3.4)	
Associates/JVs	3.6	9.1		10.3	9.1	
<b>Pretax Profit</b>	<b>27.6</b>	<b>5.7</b>	<b>(79.3)</b>	<b>34.6</b>	<b>5.7</b>	<b>(83.5)</b>
Taxation	(11.4)	(1.8)		(7.5)	(1.8)	
Minority Interest/disct. ops	(0.1)	1.3		(0.3)	1.3	
<b>Net Profit</b>	<b>16.1</b>	<b>5.2</b>	<b>(67.7)</b>	<b>26.9</b>	<b>5.2</b>	<b>(80.7)</b>
<b>Core Net Profit</b>	<b>16.1</b>	<b>5.2</b>	<b>(67.7)</b>	<b>(0.3)</b>	<b>5.2</b>	<b>n/m</b>
Core EPS (sen)	0.4	0.1		(0.0)	0.1	
Gross DPS (sen)	0.0	0.0		1.0	0.0	
BV/share (RM)	1.09	1.03		1.0	1.0	
EBIT Margin (%)	8.5	4.9		4.1	4.9	
Pretax Margin (%)	6.5	2.5		11.4	2.5	
Effective Tax (%)	41.4	31.3		21.5	31.3	
<b>Segmental Breakdown (RM m)</b>						
<b>Turnover</b>						
Construction	174.8	84.4	(51.7)	151.6	84.4	(44.3)
Property development & investment	236.4	132.2	(44.1)	145.7	132.2	(9.3)
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	12.7	8.9	(29.7)	10.1	8.9	(12.1)
Investment holding & Others	1.9	1.2	(34.1)	(3.4)	1.2	(135.6)
<b>Total</b>	<b>425.8</b>	<b>226.7</b>	<b>(46.8)</b>	<b>304.0</b>	<b>226.7</b>	<b>(25.4)</b>
<b>EBIT</b>						
Construction	12.6	(1.6)	(113.1)	24.4	(1.6)	(106.8)
Property development & investment	24.2	13.1	(45.8)	12.3	13.1	6.3
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	2.4	0.4	n/m	1.2	0.4	n/m
Investment holding & Others	9.4	(2.5)	(126.6)	(1.2)	(2.5)	n/m
<b>Total</b>	<b>36.0</b>	<b>11.0</b>	<b>(69.3)</b>	<b>12.4</b>	<b>11.0</b>	<b>(10.6)</b>
<b>EBIT margin (%)</b>						
Construction	7.2	(1.9)		16.1	(1.9)	
Property development & investment	10.2	9.9		8.5	9.9	
Infrastructure & concession	n/m	n/m		n/m	n/m	
Facilities management & parking	18.8	4.9		11.8	4.9	
Investment holding & Others	n/m	n/m		n/m	n/m	
<b>Total</b>	<b>8.5</b>	<b>4.9</b>		<b>4.1</b>	<b>4.9</b>	

Source: Company, KAF

## Exhibit 2: NAV calculations

Divisions/Operations	Size (acres)	Value (RM)		Method	% of NAV	Effective stake (%)
		psf	m /share			
<b>Landbank</b>						
Suria Subang	3.3	400	58.2	0.01		
Selbourne 2, Shah Alam	2.4	280	28.9	0.01		
Metro Spectacular, Jln. Putra (51%)	10.1	450	171.1	0.04		
<b>Sub-total</b>	<b>15.8</b>		<b>258.2</b>	<b>0.05</b>		<b>8.2</b>
<b>Development properties</b>						
Lot F - Office Towers			305.4	0.06	NPV @ 9%	100.0
9 Seputeh, Old Klang Road			134.2	0.03	NPV @ 9%	100.0
Sentral Suites, KL Sentral			46.5	0.01	NPV @ 9%	100.0
Semarak City, Setapak			43.1	0.01	NPV @ 9%	30.0
PJ Sentral Phase 1 (PJ Garden City)			97.2	0.02	NPV @ 9%	100.0
Kwasa Sentral, Sg.Buloh			475.7	0.10	NPV @ 9%	70.0
Bukit Rahman Putra, Sg.Buloh			38.5	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 Carnegie, Melbourne			13.9	0.00	NPV @ 9%	100.0
Aotea Central Over Station Development (OSD), Auckland			117.7	0.02	NPV @ 9%	100.0
Unbilled sales			52.6	0.01	NPV @ 9%	100.0
<b>Sub-total</b>			<b>1,997.4</b>	<b>0.41</b>		<b>63.1</b>
		<b>NLA/room bays</b>	<b>Value (RM) m /share</b>		<b>Method</b>	<b>Effective stake (%)</b>
<b>Investment properties</b>						
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	98.1	0.02	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
<b>Sub-total</b>			<b>709.9</b>	<b>0.15</b>		<b>22.4</b>
<b>Cark parks</b>						
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
<b>Sub-total</b>			<b>140.0</b>	<b>0.03</b>		<b>4.4</b>
<b>Property management</b>						
Quill Capita Management (QCM)			98.4	0.02	NPI@6.5%	41.0
<b>Sub-total</b>			<b>98.4</b>	<b>0.02</b>		<b>3.1</b>
<b>Construction &amp; Facilities Management</b>						
Construction			162.3	0.03	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%	
<b>Sub-total</b>			<b>349.7</b>	<b>0.07</b>		<b>11.0</b>
<b>Listed-investments</b>						
Sentral REIT			258.0	0.05	Market Value	27.8
<b>Sub-total</b>			<b>258.0</b>	<b>0.05</b>		<b>8.1</b>
Others			189.1	0.04	Net book value as of FY19	
<b>Sub-total</b>			<b>189.1</b>	<b>0.04</b>		<b>6.0</b>
<b>Gross NAV</b>			<b>4,000.7</b>	<b>0.82</b>		
Net cash			(1,392.3)	(0.29)	FY20	(44.0)
Proceeds from ESOS/warrant conversions			559.5	0.12	Warrants B exercise price: RM1.25	17.7
<b>Total NAV</b>			<b>3,167.9</b>	<b>0.65</b>		<b>100.0</b>
FD no of shares			4,864.6			
<b>NAV/share</b>			<b>0.65</b>			
<b>TP (less: 30% discount)</b>			<b>0.46</b>			
<b>Upside (%)</b>			<b>6.0</b>			

Source: Company, Bloomberg, KAF

**Income Statement**

<b>FYE Dec (RMm)</b>	<b>2019</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
<b>Revenue</b>	<b>1,319.4</b>	<b>1,199.5</b>	<b>1,122.2</b>	<b>1,441.3</b>	<b>1,550.5</b>
<b>EBITDA</b>	<b>150.2</b>	<b>101.7</b>	<b>149.8</b>	<b>178.9</b>	<b>211.7</b>
Depreciation/Amortisation	(69.8)	(60.2)	(91.8)	(97.3)	(104.0)
Operating income (EBIT)	80.4	41.4	58.1	81.6	107.7
Other income & associates	6.6	19.5	44.5	56.9	80.3
Net interest	(26.0)	(38.6)	(47.4)	(48.4)	(46.2)
Exceptional items	(8.0)	(175.3)	0.0	0.0	0.0
<b>Pretax profit</b>	<b>53.0</b>	<b>(152.9)</b>	<b>55.2</b>	<b>90.0</b>	<b>141.9</b>
Taxation	(34.3)	(23.0)	(35.9)	(39.4)	(53.7)
Minorities/pref dividends	5.0	(0.3)	(3.4)	(8.1)	(10.8)
<b>Net profit</b>	<b>23.7</b>	<b>(176.1)</b>	<b>16.0</b>	<b>42.5</b>	<b>77.4</b>
<b>Core net profit</b>	<b>31.7</b>	<b>(0.8)</b>	<b>16.0</b>	<b>42.5</b>	<b>77.4</b>

**Balance Sheet**

<b>FYE Dec (RMm)</b>	<b>2019</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
<b>Fixed assets</b>	<b>677.6</b>	<b>740.1</b>	<b>757.7</b>	<b>802.9</b>	<b>865.1</b>
Intangible assets	224.3	219.4	213.3	207.3	201.2
Other long-term assets	4,274.7	4,390.9	4,494.2	4,607.4	4,741.5
<b>Total non-current assets</b>	<b>5,176.6</b>	<b>5,350.4</b>	<b>5,465.2</b>	<b>5,617.6</b>	<b>5,807.8</b>
Cash & equivalent	516.9	540.4	738.2	574.2	337.1
Stock	963.2	852.3	668.9	700.4	683.3
Trade debtors	1,726.7	1,287.4	983.9	1,026.7	1,104.5
Other current assets	97.6	322.2	309.4	295.8	281.1
<b>Total current assets</b>	<b>3,304.4</b>	<b>3,002.3</b>	<b>2,700.4</b>	<b>2,597.1</b>	<b>2,406.0</b>
Trade creditors	989.9	966.9	755.3	896.5	980.4
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
<b>Total current liabilities</b>	<b>1,858.8</b>	<b>1,675.0</b>	<b>1,243.4</b>	<b>1,357.1</b>	<b>1,383.6</b>
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
<b>Total long-term liabilities</b>	<b>1,798.8</b>	<b>2,089.0</b>	<b>2,358.2</b>	<b>2,264.9</b>	<b>2,171.5</b>
<b>Shareholders' funds</b>	<b>4,791.6</b>	<b>4,578.0</b>	<b>4,549.9</b>	<b>4,570.4</b>	<b>4,625.7</b>
Minority interests	31.9	10.7	14.1	22.2	33.0

**Cash flow Statement**

<b>FYE Dec (RMm)</b>	<b>2019</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Pretax profit	53.0	(152.9)	55.2	90.0	141.9
Depreciation/Amortisation	69.8	60.2	91.8	97.3	104.0
Net change in working capital	(236.1)	527.2	275.2	67.0	23.2
Others	(232.1)	(218.9)	(80.4)	(96.3)	(134.0)
<b>Cash flow from operations</b>	<b>(345.4)</b>	<b>215.6</b>	<b>341.8</b>	<b>158.1</b>	<b>135.0</b>
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
<b>Cash flow from investing</b>	<b>158.0</b>	<b>(133.6)</b>	<b>(150.0)</b>	<b>(180.0)</b>	<b>(200.0)</b>
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
<b>Cash flow from financing</b>	<b>18.5</b>	<b>54.8</b>	<b>5.9</b>	<b>(142.1)</b>	<b>(172.1)</b>
<b>Net cash flow</b>	<b>(168.9)</b>	<b>136.7</b>	<b>197.7</b>	<b>(164.0)</b>	<b>(237.0)</b>
<b>Cash b/f</b>	<b>505.8</b>	<b>336.9</b>	<b>473.6</b>	<b>671.3</b>	<b>507.4</b>
<b>Cash c/f</b>	<b>336.9</b>	<b>473.6</b>	<b>671.3</b>	<b>507.4</b>	<b>270.3</b>

**Key Ratios**

<b>FYE Dec</b>	<b>2019</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Revenue growth (%)	(29.5)	(9.1)	(6.4)	28.4	7.6
EBITDA growth (%)	(5.2)	(32.3)	47.4	19.4	18.3
Pretax margins (%)	4.0	(12.7)	4.9	6.2	9.2
Net profit margins (%)	1.8	(14.7)	1.4	3.0	5.0
Interest cover (x)	3.1	1.1	1.2	1.7	2.3
Effective tax rate (%)	64.7	(15.0)	64.9	43.8	37.9
Net dividend payout (%)	185.9	n/m	137.8	51.9	57.0
Debtors turnover (days)	478	392	320	260	260
Stock turnover (days)	369	346	310	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.

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