

30 Aug 2022

Hold

Price
RM0.35

Target Price
RM0.39

Market Data

Bloomberg Code	MRC MK
No. of shares (m)	4,467.5
Market cap (RMm)	1,563.6
52-week high/low (RM)	0.43 / 0.33
Avg daily turnover (RMm)	1.3
KLCI (pts)	1,512.1

Source: Bloomberg, KAF

Major Shareholder (%)

EPF	(36.2%)
Gapurna	(15.5%)
Lembaga Tabung Haji	(5.7%)
Free Float	42.6

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	(1.4)	(1.4)	(12.7)
Rel Market (%)	1.3	4.6	(7.7)



Source: Bloomberg, KAF

Analyst

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

MRCB

1H bumped up by land injection gains; LRT 3 improves

We maintain our Hold rating on MRCB with a lower TP of RM0.39 post its 1H22 results. While topline surged on growing LRT 3 recognition, its earnings recovery, sans the SIDEC land injection, is still hampered by labour constraints and lack of property presales support. Moreover, the timing of new job prospects from LRT 3 and the RE segment, although promising, is still fluid pending the next general elections.

Financial Highlights

FYE Dec	2020	2021	2022F	2023F	2024F
Revenue (RMm)	1,199.5	1,448.5	3,048.7	2,374.2	2,080.1
Core net profit (RMm)	(2.1)	(107.9)	49.4	41.3	50.4
Core EPS (Sen)	0.3	(1.9)	1.3	1.2	1.4
EPS growth (%)	(69.9)	n/m	n/m	(12.2)	15.6
DPS (Sen)	1.0	1.0	1.0	1.0	1.0
Core PE (x)	166.0	n/m	26.0	29.7	25.6
Div yield (%)	2.0	2.5	2.9	2.9	2.9
ROE (%)	(3.8)	0.3	1.1	0.9	1.1
Net Gearing (%)	30.6	30.0	32.8	34.7	30.6
PBV(x)	0.5	0.4	0.3	0.3	0.3

Source: Company, KAF

Headline 1H numbers jump

For the first half of FY22, MRCB recorded core profits of RM28m against a RM27m loss a year ago. As expected, no dividends were declared.

Revenue surged 234% YoY on the back of a resumption in project activities following an easing of lockdown measures.

Notably, progress on LRT 3 has improved a great deal – gaining traction from its full-year consolidation as a wholly-owned subsidiary. Yet, labour constraints have hampered further gains for the project – as reflected in its productivity levels, which is not quite as high as it should have been (physical progress – 74%; financial progress – 67%).

While headline 1H numbers were better-than-expected – our deeper inspection revealed that part of this was attributable to injection of the balance SIDEC land worth RM18m into its books during the quarter under review. Stripping this out, we estimate that its core bottomline would have been lower, at ~RM10m.

Revisiting its key targets

MRCB recorded 1H22 new property sales of RM250m - exactly half of its full-year target of RM500m (unbilled sales: RM707m) - rising to RM277m in July. Bulk of it was contributed by 9 Seputeh (RM202m or 81%). Ex SIDEC land injection, we nevertheless estimate that property margins would only have been c.2.8% in 2Q22 against 11.3% a quarter ago.

Besides, the group's pre-sales pipeline continues to be muted – with only two new launches being lined up for the year; Kwasa Sentral Plot F (GDV: RM328m – 4Q22) and Bandar Seri Iskandar (GDV: RM29m).

Further out, management cautioned that property sentiment could be impacted by the rising interest rate cycle. As such, its immediate focus is on cash and inventory management (unsold stock: ~RM808m – excluding un-launched retail/office units in VIVO @ 9 Seputeh worth RM207m).

On the construction front, MRCB's open tenderbook has whittled down to RM35m (vs less than RM100m a quarter ago), and has not articulated a specific replenishment target for this FY.

This is not to say that there no new opportunities in the horizon – the group is weighing up bids for all three major civil works packages for MRT 3 (including tie-ups with partners at both Tier-1 and Tier-2 levels for the tunnel heavy Package CMC303), aside from the Shah Alam Stadium refurbishment works, Pan Borneo Sabah, flood mitigation proposals and Waste-To-Energy (WTE) projects.

In addition to this, MRCB could be in a position to benefit from potential increases in the scope for LRT 3 works worth ~RM1b (e.g. additional stations). However, the timeline for all of these job prospects remains unclear pending the next general elections.

Maintain Hold

We retain our Hold rating on the stock, nudging down its TP slightly to RM0.39 (from RM0.40) on wider discount to NAV (from 45% to 50%) and updating the market value of its listed REIT.

Although its 1H22 results was above our expectations, with a strong uptick in LRT 3 billings, we are unsure if the property division can sustain its earnings momentum in 2H. Moreover, management believes that the prices of key inputs would remain volatile despite coming off its peak.

On the contrary, MRCB's financial position continues to be healthy with net gearing of 30% as of 30 June, and a significant narrowing in its negative operating cash flow position (from RM109m a year earlier to RM16m).

Exhibit 1: Financial results

YE 31 Dec (RM m)	1H21	1H22	% YoY	1Q22	2Q22	% QoQ
Turnover	452.5	1,511.9	234.2	810.7	701.2	(13.5)
EBIT	(20.5)	98.8	n/m	49.3	49.5	0.3
Interest Expense	(38.5)	(47.7)		(23.2)	(24.4)	
Interest Income	6.7	7.2		3.0	4.2	
Pre-Exceptionals Profit	(52.3)	58.3		29.1	29.2	
Exceptionals	0.0	0.0		0.0	0.0	
Pre-Associates/JV Profit	(52.3)	58.3		29.1	29.2	
Associates/JVs	19.8	1.5		2.6	(1.1)	
Pretax Profit	(32.5)	59.9	n/m	31.8	28.1	(11.5)
Taxation	(3.3)	(34.9)		(17.8)	(17.1)	
Minority Interest/discr.ops	8.6	3.2		0.1	3.1	
Net Profit	(27.2)	28.1	n/m	14.0	14.1	0.5
Core Net Profit	(27.2)	28.1	n/m	14.0	14.1	0.5
Shares - basic	4,412.0	4,467.5		4,467.5	4,467.5	
- diluted	4,412.0	4,467.5		4,467.5	4,467.5	
EPS (sen)	(0.6)	0.6		0.3	0.3	
Core EPS (sen)	(0.6)	0.6		0.3	0.3	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	1.02	1.01		1.01	1.01	
EBIT Margin (%)	(4.5)	6.5		6.1	7.1	
Pretax Margin (%)	(7.2)	4.0		3.9	4.0	
Effective Tax (%)	n/m	58.4		56.0	58.4	
Segmental Breakdown (RM m)						
Turnover						
Construction	156.4	1,152.3	636.7	612.5	539.8	(11.9)
Property development & investment	274.9	331.9	20.7	186.6	145.3	(22.1)
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	17.9	20.8	16.2	9.5	11.3	19.6
Investment holding & Others	3.3	6.9	112.0	2.1	4.8	124.0
Total	452.5	1,511.9	234.2	810.7	701.2	(13.5)
EBIT						
Construction	(33.0)	55.7	n/m	25.7	30.1	17.0
Property development & investment	16.5	43.2	162.4	21.1	22.1	5.0
Infrastructure & concession	0.0	1.8	n/m	0.0	1.8	n/m
Facilities management & parking	0.6	2.5	n/m	2.2	0.4	(83.9)
Investment holding & Others	(37.6)	51.3	n/m	26.1	25.2	(3.4)
Total	(20.5)	98.8	n/m	49.3	49.5	0.3
EBIT margin (%)						
Construction	(21.1)	4.8		4.2	5.6	
Property development & investment	6.0	13.0		11.3	15.2	
Infrastructure & concession	n/m	n/m		n/m	n/m	
Facilities management & parking	3.1	12.2		23.1	3.1	
Investment holding & Others	n/m	n/m		n/m	n/m	
Total	(4.5)	6.5		6.1	7.1	

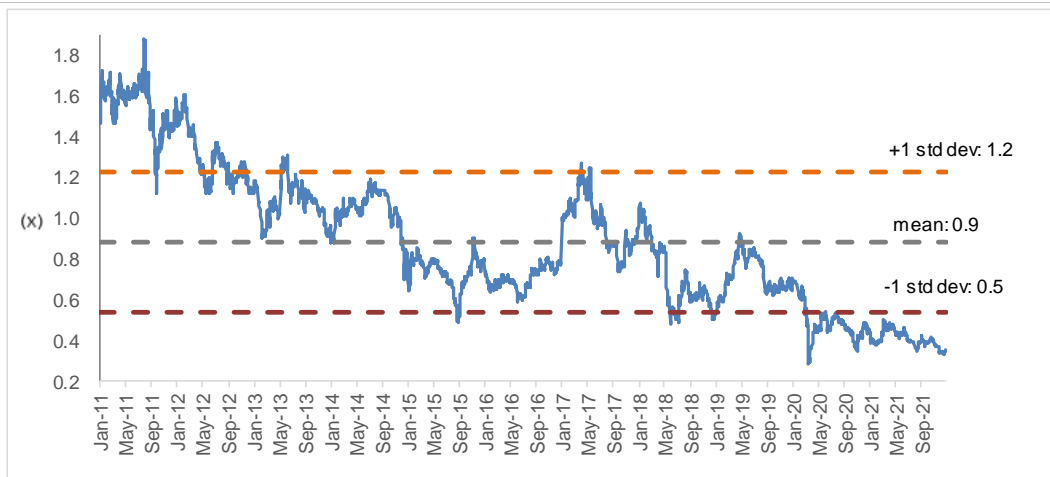
Source: Company, KAF

Exhibit 2: NAV calculation

Divisions/Operations	Size		Value (RM)		Method	% of NAV	Effective stake (%)
	(acres)	psf	m	/share			
Landbank							
Suria Subang	3.3	300	43.6	0.01			
Selbourne 2, Shah Alam	2.4	200	20.6	0.00			
Metro Spectacular, Jln. Putra (51%)	10.1	350	178.5	0.04			
Bukit Beruntung	1.4	180	10.8	0.00			
Simpang Pulai	22.0	33	31.5	0.01			
Sub-total	39.2		285.1	0.06		7.4	
Development properties							
Lot F - Office Towers			259.7	0.05	NPV @ 9%		100.0
9 Seputeh, Old Klang Road			128.3	0.03	NPV @ 9%		100.0
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Sentral Suites, KL Sentral			23.1	0.00	NPV @ 9%		100.0
Semarak City, Setapak			33.1	0.01	NPV @ 9%		30.0
PJ Sentral Phase 1 (PJ Garden City)			82.8	0.02	NPV @ 9%		100.0
Kwasa Sentral, Sg.Buloh			381.3	0.08	NPV @ 9%		70.0
Bukit Rahman Putra, Sg.Buloh			26.9	0.01	NPV @ 9%		100.0
Cyberjaya City Centre Phase 1, Cyberjaya			214.3	0.04	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			9.4	0.00	NPV @ 9%		100.0
Aotea Central Over Station Development (OSD), Auckland			85.0	0.02	NPV @ 9%		100.0
Unbilled sales			44.5	0.01	NPV @ 9%		100.0
Sub-total			1,978.9	0.40		51.7	
Investment properties							
		NLA/room bays	Value (RM) m	/share	Method		Effective stake (%)
Menara Celcom (Lot 8)		450,908	419.3	0.09	NPI@6%		100.0
Menara MRCB, Shah Alam		216,000	18.5	0.00	NPI@7%		100.0
Plaza Alam Sentral, Shah Alam		433,349	80.2	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	85.8	0.02	RM0.6m/room		100.0
Sub-total			648.9	0.13		17.0	
Cark parks							
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		3.7	
Property management							
Quill Capita Management (QCM)			91.3	0.02	NPI@7%		41.0
Sub-total			91.3	0.02		2.4	
Construction & Facilities Management							
Construction			1,024.3	0.21	11x FY22F net profit		
Facilities management			173.1	0.04	Net book value as of FY20		
Bukit Jalil Sentral Management Contract			40.5	0.01	NPV@7.5%		
Sub-total			1,237.8	0.25		32.3	
Listed-investments							
Sentral REIT			287.8	0.06	Market Value		27.8
Sub-total			287.8	0.06		7.5	
Others			(45.8)	(0.01)	Net book value as of FY20		
Sub-total			(45.8)	(0.01)		(1.2)	
Gross NAV			4,624.0	0.94			
Net cash			(1,353.5)	(0.28)	As at FY21		(35.4)
Proceeds from ESOS/warrant conversions			557.3	0.11	Warrants B exercise price: RM1.25		14.6
Total NAV			3,827.8	0.78		100.0	
FD no of shares			4,917.3				
NAV/share			0.78				
TP (less: 50% discount)			0.39				
Upside (%)			11.2				
Discount to NAV (%)			(55.0)				

Source: Company, Bloomberg, KAF

Exhibit 3: Historical P/BV band



Source: Company, Bloomberg, KAF

Income Statement

FYE Dec (RMm)	2020	2021	2022F	2023F	2024F
Revenue	1,199.5	1,448.5	3,048.7	2,374.2	2,080.1
EBITDA	134.0	47.8	260.1	214.6	205.4
Depreciation/Amortisation	(75.9)	(62.9)	(65.6)	(67.7)	(70.1)
Operating income (EBIT)	58.1	(15.1)	194.5	146.9	135.3
Other income & associates	19.5	31.3	30.7	38.5	46.9
Net interest	(56.0)	(78.7)	(75.2)	(76.2)	(73.1)
Exceptional items	(175.3)	123.7	0.0	0.0	0.0
Pretax profit	(153.7)	61.3	150.0	109.1	109.1
Taxation	(22.9)	(54.6)	(92.0)	(58.5)	(48.1)
Minorities/pref dividends	(0.8)	9.1	(8.6)	(9.2)	(10.6)
Net profit	(177.4)	15.8	49.4	41.3	50.4
Core net profit	(2.1)	(107.9)	49.4	41.3	50.4

Balance Sheet

FYE Dec (RMm)	2020	2021	2022F	2023F	2024F
Fixed assets	740.1	742.5	742.7	751.1	757.5
Intangible assets	219.4	215.7	211.2	206.8	202.4
Other long-term assets	4,392.3	4,594.0	4,631.5	4,686.5	4,769.6
Total non-current assets	5,351.9	5,552.2	5,585.4	5,644.4	5,729.5
Cash & equivalent	540.4	578.7	522.4	327.6	398.4
Stock	816.1	857.7	1,458.5	1,129.5	937.9
Trade debtors	1,283.6	2,071.3	1,921.1	1,691.2	1,424.7
Other current assets	322.2	125.4	116.5	107.3	98.1
Total current assets	2,962.3	3,633.1	4,018.4	3,255.6	2,859.0
Trade creditors	962.7	1,883.4	2,219.4	1,620.6	1,406.8
Short-term borrowings	601.8	479.4	361.3	343.8	323.3
Other current liabilities	69.4	71.5	71.5	71.5	71.5
Total current liabilities	1,633.9	2,434.4	2,652.2	2,035.9	1,801.6
Long-term borrowings	1,331.0	1,452.7	1,640.9	1,548.4	1,455.9
Other long-term liabilities	788.5	757.7	756.9	756.0	755.0
Total long-term liabilities	2,119.5	2,210.5	2,397.9	2,304.5	2,210.9
Shareholders' funds	4,550.6	4,512.7	4,517.4	4,514.0	4,519.8
Minority interests	10.1	27.8	36.4	45.7	56.2

Cash flow Statement

FYE Dec (RMm)	2020	2021	2022F	2023F	2024F
Pretax profit	(153.7)	61.3	150.0	109.1	109.1
Depreciation/Amortisation	75.9	62.9	65.6	67.7	70.1
Net change in working capital	562.9	91.5	(114.6)	(40.0)	244.3
Others	(269.5)	(399.2)	(122.7)	(97.0)	(95.0)
Cash flow from operations	215.6	(183.6)	(21.6)	39.8	328.5
Capital expenditure	(75.6)	(127.6)	(60.0)	(80.0)	(100.0)
Net investments & sale of fixed assets	136.8	0.0	0.0	0.0	0.0
Others	(194.9)	455.5	0.0	0.0	0.0
Cash flow from investing	(133.6)	328.0	(60.0)	(80.0)	(100.0)
Debt raised/(repaid)	103.9	(0.7)	70.0	(110.0)	(113.0)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(44.1)	(44.1)	(44.7)	(44.7)	(44.7)
Others	(11.3)	(50.6)	0.0	0.0	0.0
Cash flow from financing	48.4	(95.4)	25.3	(154.7)	(157.7)
Net cash flow	130.4	49.0	(56.3)	(194.8)	70.8
Cash b/f	336.9	467.3	515.9	459.6	264.7
Cash c/f	467.3	515.9	459.6	264.7	335.5

Key Ratios

FYE Dec	2020	2021	2022F	2023F	2024F
Revenue growth (%)	(9.1)	20.8	110.5	(22.1)	(12.4)
EBITDA growth (%)	(10.4)	(64.3)	444.0	(17.5)	(4.3)
Pretax margins (%)	(12.8)	4.2	4.9	4.6	5.2
Net profit margins (%)	(14.8)	1.1	1.6	1.7	2.4
Interest cover (x)	1.0	n/m	2.6	1.9	1.9
Effective tax rate (%)	(14.9)	89.0	61.3	53.6	44.1
Net dividend payout (%)	n/m	n/m	90.5	108.1	88.6
Debtors turnover (days)	391	522	230	260	250
Stock turnover (days)	337	269	230	230	220
Creditors turnover (days)	398	591	350	330	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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Dato' Ahmad Bin Kadis
Managing Director
KAF Equities Sdn Bhd (Reg No. 198501002182)