

30 Nov 2022

## Hold

**Price**  
RM0.32

**Target Price**  
RM0.35

### Market Data

Bloomberg Code	MRC MK
No. of shares (m)	4,467.5
Market cap (RMm)	1,295.6
52-week high/low (RM)	0.41 / 0.28
Avg daily turnover (RMm)	2.2
KLCI (pts)	1,441.3

Source: Bloomberg, KAF

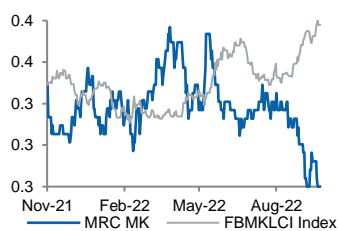
### Major Shareholder (%)

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

Source: Bloomberg, KAF

### Performance

	3M	6M	12M
Absolute (%)	(15.9)	(19.4)	(22.7)
Rel Market (%)	(13.3)	(13.4)	(18.1)



Source: Bloomberg, KAF

### Analyst

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# MRCB

## Normalizing operations

We maintain our Hold call on MRCB with a higher TP of RM0.35 following better-than-expected 3Q22 results. Core profits surged 70% QoQ to RM24m under normalizing conditions, with added boost from en-bloc sales at Viva @ Seputeh. The group's tender book stands at RM30b – with bulk of it coming from MRT 3 - but excludes several others that are under negotiations (e.g. flood mitigation, stadium works).

### Financial Highlights

FYE Dec	2020	2021	2022F	2023F	2024F
Revenue (RMm)	1,199.5	1,448.5	2,538.5	2,713.6	2,306.3
Core net profit (RMm)	(2.1)	(107.9)	68.1	60.2	77.5
Core EPS (Sen)	0.3	(1.9)	1.7	1.6	1.9
EPS growth (%)	(69.9)	n/m	n/m	(9.3)	22.5
DPS (Sen)	1.0	1.0	1.0	1.0	1.0
Core PE (x)	166.0	n/m	18.5	20.4	16.7
Div yield (%)	2.0	2.5	3.1	3.1	3.1
ROE (%)	(3.8)	0.3	1.5	1.3	1.7
Net Gearing (%)	30.6	30.0	28.4	37.2	30.9
PBV(x)	0.5	0.4	0.3	0.3	0.3

Source: Company, KAF

### Strong surge in 3Q

MRCB reported a 70% QoQ jump in 3Q22 core earnings at RM24m on 23% revenue uplift – as operating conditions continues to normalize. While it wasn't the best quarter for its construction division, property earnings surged 3.7x QoQ to RM81m.

The significant lift in property contributions can be partly attributable to the recognition of en-bloc sales worth ~RM165m for a retail block at Viva @ 9 Seputeh, which were recognized during the quarter under review. We understand that the realized margins for the en-bloc sale was also slightly higher than 20%, which is the typical range the group targets for commercial properties. Concurrently, progress billings at Sentral Suites and 9 Seputeh has also jumped 120% and 90% respectively, as site activities picked up post the Covid-19 lockdowns.

On the contrary, construction profits slipped 82% QoQ as recognitions from LRT 3 were hampered by sub-optimal performances by two of its works package contractors (WPC's) and project downtime due to a safety audit. Overall, physical progress for LRT 3 has reached 77% as of end-September (financial progress: 71%) – which puts the group on point to meet its end-2022 target of 80% completion. The project's margins could be around 4%, while there could also be some adjustments for Extension of Time (EOT) in relation to the DASH (92% progress) and SUKE (over 80% progress) jobs.

### RM30b bid book

MRCB's current tenderbook stands at RM30b, of which a bulk of comes from three civil works packages under MRT 3. This excludes several other job prospects that are currently under negotiations (e.g. Shah Alam stadium makeover, flood mitigation solutions, waste-to-energy [WTE] proposals).

### Stepping up launches in FY23F/24F

Moving forward, MRCB is lining up more launches over the next two years. This is in tandem with its quest to be more proactive in terms of landbank management. For next year, the new launches are: Vista Surfer's Paradise, Gold Coast; Kwasa Sentral Plot F [Residensi Tujoh]; Lot J, KL Sentral and Tower 1, PJ Sentral). In FY24F, they are: Bukit Jalil Sentral Phase 1A; The Symphony Centre, Auckland; and Tower 5, PJ Sentral). As for the Ipoh Raya integrated park, the group been reaching out to potential investors – positioning it as a sustainable, integrated logistics hub.

## Exhibit 1: Financial results

YE 31 Dec (RM m)	9M21	9M22	% YoY	2Q22	3Q22	% QoQ
<b>Turnover</b>	<b>590.3</b>	<b>2,371.1</b>	<b>301.7</b>	<b>701.2</b>	<b>859.2</b>	<b>22.5</b>
<b>EBIT</b>	<b>(40.5)</b>	<b>173.9</b>	<b>n/m</b>	<b>49.5</b>	<b>75.1</b>	<b>51.8</b>
Interest Expense	(61.2)	(71.9)		(24.4)	(24.3)	
Interest Income	10.2	11.1		4.2	4.0	
Pre-Exceptionals Profit	(91.5)	113.1		29.2	54.8	
Exceptionals	0.0	0.0		0.0	0.0	
Pre-Associates/JV Profit	(91.5)	113.1		29.2	54.8	
Associates/JVs	28.9	3.7		(1.1)	2.2	
<b>Pretax Profit</b>	<b>(62.6)</b>	<b>116.9</b>	<b>n/m</b>	<b>28.1</b>	<b>57.0</b>	<b>102.9</b>
Taxation	(5.1)	(76.2)		(17.1)	(41.2)	
Minority Interest/disc.t.ops	8.4	11.4		3.1	8.2	
<b>Net Profit</b>	<b>(59.4)</b>	<b>52.1</b>	<b>n/m</b>	<b>14.1</b>	<b>24.0</b>	<b>70.1</b>
<b>Core Net Profit</b>	<b>(59.4)</b>	<b>52.1</b>	<b>n/m</b>	<b>14.1</b>	<b>24.0</b>	<b>70.1</b>
Core EPS (sen)	(1.3)	1.2		0.3	0.5	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
BV/share (RM)	1.00	1.01		1.01	1.01	
EBIT Margin (%)	(6.9)	7.3		7.1	8.7	
Pretax Margin (%)	(10.6)	4.9		4.0	6.6	
Effective Tax (%)	n/m	65.2		58.4	72.3	
<b>Segmental Breakdown (RM m)</b>						
<b>Turnover</b>						
Construction	206.5	1,674.9	711.2	539.8	522.6	(3.2)
Property development & investment	345.9	653.5	88.9	145.3	321.6	121.3
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	26.1	33.4	27.8	11.3	12.6	11.6
Investment holding & Others	11.8	9.3	(21.3)	4.8	2.4	(49.5)
<b>Total</b>	<b>590.3</b>	<b>2,371.1</b>	<b>301.7</b>	<b>701.2</b>	<b>859.2</b>	<b>22.5</b>
<b>EBIT</b>						
Construction	(51.7)	61.3	n/m	30.1	5.5	(81.6)
Property development & investment	17.6	124.6	607.6	22.1	81.4	268.2
Infrastructure & concession	0.0	0.0	n/m	1.8	(1.8)	n/m
Facilities management & parking	1.5	(0.0)	n/m	0.4	(2.6)	n/m
Investment holding & Others	(59.6)	49.4	n/m	25.2	(1.9)	(107.6)
<b>Total</b>	<b>(40.5)</b>	<b>173.9</b>	<b>n/m</b>	<b>49.5</b>	<b>75.1</b>	<b>51.8</b>
<b>EBIT margin (%)</b>						
Construction	(25.0)	3.7		5.6	1.1	
Property development & investment	5.1	19.1		15.2	25.3	
Infrastructure & concession	n/m	n/m		n/m	n/m	
Facilities management & parking	5.9	(0.1)		3.1	(20.4)	
Investment holding & Others	n/m	n/m		n/m	n/m	
<b>Total</b>	<b>(6.9)</b>	<b>7.3</b>		<b>7.1</b>	<b>8.7</b>	

Source: Company, KAF

**Exhibit 2: PB Band chart**



Source: Company, KAF, Bloomberg

**Exhibit 3: PE Band chart**



Source: Company, KAF, Bloomberg

## Exhibit 4: NAV calculations

Divisions/Operations	Size (acres)	psf	Value (RM)		Method	% of NAV	Effective stake (%)
			m	/share			
<b>Landbank</b>							
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	300	67.0	0.01			
Bukit Beruntung	1.4	180	10.8	0.00			
Simpang Pulai	22.0	33	31.5	0.01			
<b>Sub-total</b>	<b>39.2</b>		<b>173.7</b>	<b>0.04</b>		<b>5.1</b>	
<b>Development properties</b>							
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
9 Seputeh, Old Klang Road			128.3	0.03	NPV @ 9%		100.0
Sentral Suites, KL Sentral			27.3	0.01	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			97.1	0.02	NPV @ 9%		100.0
<b>Sub-total</b>			<b>2,035.7</b>	<b>0.41</b>		<b>59.4</b>	
<b>Investment properties</b>							
		<b>NLA/room bays</b>	<b>Value (RM) m</b>	<b>/share</b>	<b>Method</b>		<b>Effective stake (%)</b>
Menara Celcom (Lot 8)		450,908	402.6	0.08	NPI@6.25%		100.0
Menara MRCB, Shah Alam		216,000	17.9	0.00	NPI@7.25%		100.0
Plaza Alam Sentral, Shah Alam		433,349	77.5	0.02	NPI@7.25%		100.0
Kompleks Sentral, Segambut Industrial Park		484,689	43.4	0.01	NPI@7%		100.0
Ascott Sentral (Lot 348), KL Sentral		143 rooms	78.7	0.02	RM0.6m/room		100.0
<b>Sub-total</b>			<b>620.0</b>	<b>0.13</b>		<b>18.1</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>4.1</b>	
<b>Property management</b>							
Quill Capita Management (QCM)			91.3	0.02	NPI@7%		41.0
<b>Sub-total</b>			<b>91.3</b>	<b>0.02</b>		<b>2.7</b>	
<b>Construction &amp; Facilities Management</b>							
Construction			729.1	0.15	10x FY22F net profit		
Facilities management			173.1	0.04	Net book value as of FY21		
Bukit Jalil Sentral Management Contract			40.5	0.01	NPV@7.5%		
<b>Sub-total</b>			<b>942.6</b>	<b>0.19</b>		<b>27.5</b>	
<b>Listed-investments</b>							
Sentral REIT			265.5	0.05	Market Value		27.8
<b>Sub-total</b>			<b>265.5</b>	<b>0.05</b>		<b>7.7</b>	
Others			(45.8)	(0.01)	Net book value as of FY21		
<b>Sub-total</b>			<b>(45.8)</b>	<b>(0.01)</b>		<b>(1.3)</b>	
<b>Gross NAV</b>			<b>4,223.0</b>	<b>0.86</b>			
Net cash			(1,353.5)	(0.28)	As at FY21		(39.5)
Proceeds from ESOS/warrant conversions			557.3	0.11	Warrants B exercise price: RM1.25		16.3
<b>Total NAV</b>			<b>3,426.8</b>	<b>0.70</b>		<b>100.0</b>	
FD no of shares			4,917.3				
<b>NAV/share</b>			<b>0.70</b>				
<b>TP (less: 55% discount)</b>			<b>0.35</b>				
<b>Upside (%)</b>			<b>8.9</b>				

Source: Company, Bloomberg, KAF



**Income Statement**

<b>FYE Dec (RMm)</b>	<b>2020</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
<b>Revenue</b>	<b>1,199.5</b>	<b>1,448.5</b>	<b>2,538.5</b>	<b>2,713.6</b>	<b>2,306.3</b>
<b>EBITDA</b>	<b>134.0</b>	<b>47.8</b>	<b>293.2</b>	<b>247.7</b>	<b>240.7</b>
Depreciation/Amortisation	(75.9)	(62.9)	(65.6)	(67.7)	(70.1)
Operating income (EBIT)	58.1	(15.1)	227.6	180.0	170.6
Other income & associates	19.5	31.3	30.7	38.5	46.9
Net interest	(56.0)	(78.7)	(72.8)	(75.5)	(75.2)
Exceptional items	(175.3)	123.7	0.0	0.0	0.0
<b>Pretax profit</b>	<b>(153.7)</b>	<b>61.3</b>	<b>185.6</b>	<b>143.0</b>	<b>142.3</b>
Taxation	(22.9)	(54.6)	(107.2)	(71.2)	(52.8)
Minorities/pref dividends	(0.8)	9.1	(10.2)	(11.6)	(12.0)
<b>Net profit</b>	<b>(177.4)</b>	<b>15.8</b>	<b>68.1</b>	<b>60.2</b>	<b>77.5</b>
<b>Core net profit</b>	<b>(2.1)</b>	<b>(107.9)</b>	<b>68.1</b>	<b>60.2</b>	<b>77.5</b>

**Balance Sheet**

<b>FYE Dec (RMm)</b>	<b>2020</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
<b>Fixed assets</b>	<b>740.1</b>	<b>742.5</b>	<b>742.7</b>	<b>751.1</b>	<b>757.5</b>
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
<b>Total non-current assets</b>	<b>5,351.9</b>	<b>5,552.2</b>	<b>5,585.4</b>	<b>5,644.4</b>	<b>5,729.5</b>
Cash & equivalent	540.4	578.7	716.0	197.0	361.3
Stock	816.1	857.7	1,174.3	1,289.7	1,033.4
Trade debtors	1,283.6	2,071.3	1,599.6	1,932.9	1,579.7
Other current assets	322.2	125.4	116.5	107.3	98.1
<b>Total current assets</b>	<b>2,962.3</b>	<b>3,633.1</b>	<b>3,606.3</b>	<b>3,527.0</b>	<b>3,072.4</b>
Trade creditors	962.7	1,883.4	1,786.9	1,850.4	1,550.1
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
<b>Total current liabilities</b>	<b>1,633.9</b>	<b>2,434.4</b>	<b>2,219.7</b>	<b>2,265.7</b>	<b>1,944.9</b>
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
<b>Total long-term liabilities</b>	<b>2,119.5</b>	<b>2,210.5</b>	<b>2,397.9</b>	<b>2,304.5</b>	<b>2,210.9</b>
<b>Shareholders' funds</b>	<b>4,550.6</b>	<b>4,512.7</b>	<b>4,536.1</b>	<b>4,551.7</b>	<b>4,584.6</b>
Minority interests	10.1	27.8	38.0	49.6	61.6

**Cash flow Statement**

<b>FYE Dec (RMm)</b>	<b>2020</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
Pretax profit	(153.7)	61.3	185.6	143.0	142.3
Depreciation/Amortisation	75.9	62.9	65.6	67.7	70.1
Net change in working capital	562.9	91.5	58.7	(385.3)	309.2
Others	(269.5)	(399.2)	(137.9)	(109.7)	(99.6)
<b>Cash flow from operations</b>	<b>215.6</b>	<b>(183.6)</b>	<b>171.9</b>	<b>(284.3)</b>	<b>421.9</b>
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
<b>Cash flow from investing</b>	<b>(133.6)</b>	<b>328.0</b>	<b>(60.0)</b>	<b>(80.0)</b>	<b>(100.0)</b>
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
<b>Cash flow from financing</b>	<b>48.4</b>	<b>(95.4)</b>	<b>25.3</b>	<b>(154.7)</b>	<b>(157.7)</b>
<b>Net cash flow</b>	<b>130.4</b>	<b>49.0</b>	<b>137.3</b>	<b>(518.9)</b>	<b>164.3</b>
<b>Cash b/f</b>	<b>336.9</b>	<b>467.3</b>	<b>515.9</b>	<b>653.1</b>	<b>134.2</b>
<b>Cash c/f</b>	<b>467.3</b>	<b>515.9</b>	<b>653.1</b>	<b>134.2</b>	<b>298.5</b>

**Key Ratios**

<b>FYE Dec</b>	<b>2020</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
Revenue growth (%)	(9.1)	20.8	75.3	6.9	(15.0)
EBITDA growth (%)	(10.4)	(64.3)	513.4	(15.5)	(2.8)
Pretax margins (%)	(12.8)	4.2	7.3	5.3	6.2
Net profit margins (%)	(14.8)	1.1	2.7	2.2	3.4
Interest cover (x)	1.0	n/m	3.1	2.4	2.3
Effective tax rate (%)	(14.9)	89.0	57.8	49.8	37.1
Net dividend payout (%)	n/m	n/m	65.6	74.2	57.6
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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