

20 Feb 2023

Hold

Price
 RM0.33

Target Price
 RM0.36

Market Data

Bloomberg Code	MRC MK
No. of shares (m)	4,467.5
Market cap (RMm)	1,451.9
52-week high/low (RM)	0.41 / 0.28
Avg daily turnover (RMm)	4.3
KLCI (pts)	1,473.5

Source: Bloomberg, KAF

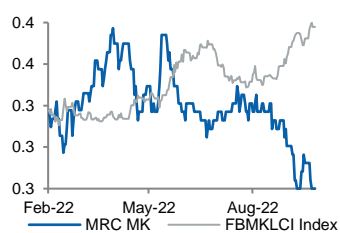
Major Shareholder (%)

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

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	10.3	(5.9)	(12.3)
Rel Market (%)	8.3	(4.1)	(4.8)



Source: Bloomberg, KAF

Analyst

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MRCB

Filling the LRT 3 gap

We maintain our Hold rating on MRCB with TP tweaked upwards to RM0.36. The group returned to the black with core profits of RM65m vs –RM108m a year ago. Nevertheless, forward ROE's (<2%) are still trailing its deep asset and long-term orderbook values. Needless to say, new major infra wins or launches are pivotal to stem any earnings gaps that could emerge as the LRT 3 (75% progress) winds down.

Financial Highlights

FYE Dec	2021	2022	2023F	2024F	2025F
Revenue (RMm)	1,448.5	3,205.1	2,347.7	1,922.9	1,728.1
Core net profit (RMm)	(107.9)	64.8	65.2	72.9	83.6
Core EPS (Sen)	(1.9)	1.7	1.7	1.8	2.0
EPS growth (%)	n/m	n/m	0.5	9.3	12.0
DPS (Sen)	1.0	1.0	1.0	1.0	1.0
Core PE (x)	n/m	19.6	19.5	17.9	15.9
Div yield (%)	2.5	3.1	3.1	3.1	3.1
ROE (%)	0.3	1.4	1.4	1.6	1.8
Net Gearing (%)	30.0	33.6	36.0	30.8	29.1
PBV(x)	0.4	0.3	0.3	0.3	0.3

Source: Company, KAF

FY22 inline

MRCB returned to the black in FY22 with core profits of RM65m, reversing the RM108m loss it suffered a year earlier.

As project activities recovered from Covid-19 lockdowns, the group benefited from a full-year recognition of LRT 3, which it now fully controls. This was supported by higher billings recognition from key property projects such as Sentral Suites, Tria @ 9 Seputeh and Alstonia, Bukit Rahman Putra.

On the whole, its FY22 results were broadly in-line with our estimates (-4.7%), but above consensus (+7.8%). However, 4Q22 earnings slipped 47% QoQ on (i) lower sales of completed property stock; and (ii) a downtick in sequential LRT 3 progress (due to safety audits and lagging performance of certain works package contractors). It also declared a DPS of 1 sen – matching the payment in FY21.

Bid outlook

MRCB only clinched one major job win last year- the RM380m Muara Sg. Pahang Phase 3 works.

Currently, the group's active tenderbook stands at c.RM30b (outstanding orderbook: RM17.4b) – which is mainly dominated by the three civil works packages of the MRT 3.

Unlike the first two bids, our checks indicate that MRCB could be teaming up with a leading Chinese construction giant to shore up its chances for MRT 3. It has also recently participated in the pre-qualification exercise for the Systems Turnkey Contract (STC) together with another leading European systems works specialist.

Meanwhile, the engagement session for the Shah Alam Stadium redevelopment (KSSA) has just been completed. We understand that the actual cost for the project could exceed RM1b as the previous estimate of RM787m is only confined to the existing stadium's refurbishment.

In any case, there are still some moving parts before a definitive agreement can be signed. Apart from the building plans, the identified land swap parcels related to the project, and more importantly, its associated commercial value would need to be ascertained first.

Construction works could start this year – although it would probably be a bit unrealistic for it to kick off within the next two months.

Maintaining property sales target at RM500m

For FY22, MRCB sold RM488m worth of properties – falling just short of its full-year target of RM500m. Heading into this year, the group intends to achieve a similar level of property sales – with two new launches being planned (VISTA Surfers Paradise, Gold Coast – RM1.2b and Residensi Tujoh, Kwasa Sentral – RM329m).

For FY24F, it has lined up four projects (Bukit Jalil Sentral Phase 1A – RM808m; The Symphony Centre, Auckland – RM1.3b; Lot J, KL Sentral – RM229m; and Tower 5, PJ Sentral – RM486m). For FY25F, its solitary launch would come from Tower 1, PJ Sentral – RM626m).

At the moment, MRCB has property inventories worth RM703m against unbilled sales of RM537m.

Hold; TP at RM0.36

We maintain our Hold rating on MRCB with TP tweaked upwards to RM0.36. Reflecting a noticeable pick-up in work flows, our revised TP is pegged at a lower discount to NAV (from 55% to 50%).

While it appears to have turned the corner earnings-wise, forward ROE's (<2%) are still trailing its deep asset and long-term orderbook values. Needless to say, new major infra wins or launches are pivotal to stem any earnings gaps that could emerge as the LRT 3 (75% progress) winds down.

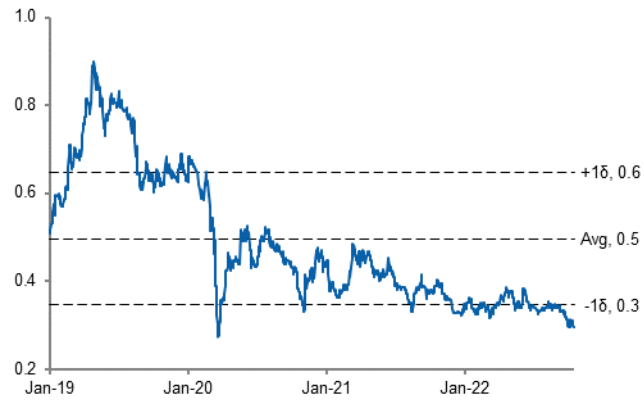
On a positive note, MRCB's balance sheet remains healthy with a net gearing of 34% as of 31 December 2022. Accordingly, its negative operating cash flow has narrowed from RM184m a year earlier to RM81m currently.

Exhibit 1: Financial results

YE 31 Dec (RM m)	FY21	FY22	% YoY	3Q22	4Q22	% QoQ
Turnover	1,448.5	3,205.1	121.3	859.2	833.9	(2.9)
EBIT	(15.1)	229.6	n/m	75.1	55.6	(26.0)
Interest Expense	(88.7)	(99.1)		(24.3)	(27.1)	
Interest Income	10.0	18.3		4.0	7.1	
Pre-Exceptionals Profit	(93.7)	148.8		54.8	35.6	
Exceptionals	123.7	0.0		0.0	0.0	
Pre-Associates/JV Profit	30.0	148.8		54.8	35.6	
Associates/JVs	31.3	5.6		2.2	1.8	
Pretax Profit	61.3	154.3	151.8	57.0	37.5	(34.3)
Taxation	(54.6)	(100.8)		(41.2)	(24.6)	
Minority Interest/disct.ops	9.1	11.3		8.2	(0.1)	
Net Profit	15.8	64.8	n/m	24.0	12.7	(47.0)
Core Net Profit	(107.9)	64.8	n/m	24.0	12.7	(47.0)
Core EPS (sen)	(2.4)	1.5		0.5	0.3	
Gross DPS (sen)	1.0	1.0		0.0	1.0	
BV/share (RM)	1.01	1.01		1.01	1.01	
EBIT Margin (%)	(1.0)	7.2		8.7	6.7	
Pretax Margin (%)	4.2	4.8		6.6	4.5	
Effective Tax (%)	89.0	65.3		72.3	65.8	
Segmental Breakdown (RM m)						
Turnover						
Construction	903.0	2,233.6	147.4	522.6	558.7	6.9
Property development & investment	498.6	914.6	83.4	321.6	261.1	(18.8)
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	34.6	46.4	34.1	12.6	13.0	3.4
Investment holding & Others	12.2	10.4	(14.6)	2.4	1.1	(54.8)
Total	1,448.5	3,205.1	121.3	859.2	833.9	(2.9)
EBIT						
Construction	(40.7)	69.9	n/m	5.5	8.7	56.6
Property development & investment	153.4	176.7	15.2	81.4	52.0	(36.1)
Infrastructure & concession	0.0	0.0	n/m	(1.8)	0.0	n/m
Facilities management & parking	(1.3)	(0.5)	n/m	(2.6)	(0.5)	n/m
Investment holding & Others	(167.1)	53.4	n/m	(1.9)	4.1	n/m
Total	(15.1)	229.6	n/m	75.1	55.6	(26.0)
EBIT margin (%)						
Construction	(4.5)	3.1		1.1	1.5	
Property development & investment	30.8	19.3		25.3	19.9	
Infrastructure & concession	n/m	n/m		n/m	n/m	
Facilities management & parking	(3.9)	(1.1)		(20.4)	(3.6)	
Investment holding & Others	n/m	n/m		n/m	n/m	
Total	(1.0)	7.2		8.7	6.7	

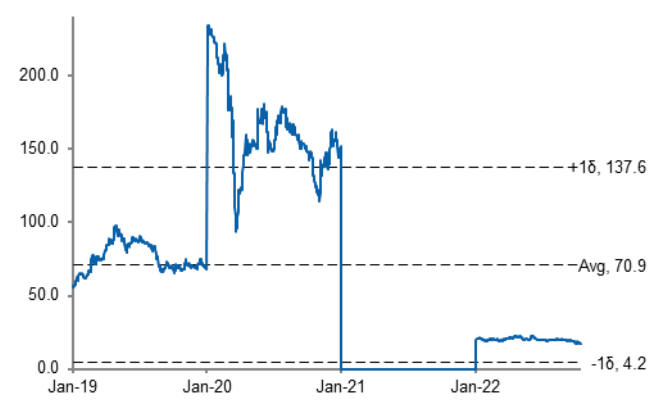
Source: Company, KAF

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		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	300	67.0	0.01			
Bukit Beruntung	1.4	180	10.8	0.00			
Simpang Pulai	22.0	33	31.5	0.01			
Sub-total	39.2		173.7	0.04		4.9	
Development properties							
St.Regis Service Residences (Lot C)			5.5	0.00	NPV @ 9%		100.0
Lot J			19.9	0.00	NPV @ 9%		100.0
Lot F - Office Towers			259.7	0.05	NPV @ 9%		100.0
9 Seputeh, Old Klang Road			130.1	0.03	NPV @ 9%		100.0
Sentral Suites, KL Sentral			21.8	0.00	NPV @ 9%		100.0
Kota Semarak, Setapak			50.0	0.01	NPV @ 9%		30.0
PJ Sentral Phase 1 (PJ Garden City)			99.2	0.02	NPV @ 9%		100.0
Kwasa Sentral, Sg.Buloh			444.2	0.09	NPV @ 9%		70.0
Bukit Rahman Putra, Sg.Buloh			39.5	0.01	NPV @ 9%		100.0
Bukit Jalil Sentral, KL			259.2	0.05	NPV @ 9%		20.0
Cyberjaya City Centre Phase 1, Cyberjaya			169.9	0.03	NPV @ 9%		70.0
SIDEC (Bandar Seri Iskandar Phase 2C, 2D & 3)			12.7	0.00	NPV @ 9%		70.0
Penang Sentral			195.2	0.04	NPV @ 9%		100.0
Pulai Land			47.1	0.01	NPV @ 9%		100.0
1060 Carnegie, Melbourne			5.7	0.00	NPV @ 9%		100.0
Vista, Surfers Paradise, Gold Coast			84.1	0.02	NPV @ 9%		100.0
The Symphony Centre, Auckland			83.8	0.02	NPV @ 9%		100.0
Unbilled sales			49.5	0.01	NPV @ 9%		100.0
Sub-total			1,977.0	0.40		56.0	
Investment properties							
		NLA/room bays	Value (RM) m	/share	Method		Effective stake (%)
Menara Celcom (Lot 8)		450,908	442.8	0.09	NPI@6.25%		100.0
Menara MRCB, Shah Alam		216,000	25.0	0.01	NPI@7.25%		100.0
Plaza Alam Sentral, Shah Alam		433,349	93.7	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
Sub-total			683.6	0.14		19.4	
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		4.0	
Property management							
Quill Capita Management (QCM)			91.3	0.02	NPI@7%		41.0
Sub-total			91.3	0.02		2.6	
Construction & Facilities Management							
Construction			1,001.5	0.20	10x FY23F net profit		
Facilities management			173.1	0.04	Net book value as of FY21		
Bukit Jalil Sentral Management Contract			48.2	0.01	NPV@7.5%		
Sub-total			1,222.8	0.25		34.6	
Listed-investments							
Sentral REIT			262.4	0.05	Market Value		27.8
Sub-total			262.4	0.05		7.4	
Others			(45.8)	(0.01)	Net book value as of FY21		
Sub-total			(45.8)	(0.01)		(1.3)	
Gross NAV			4,505.1	0.92			
Net cash			(1,523.1)	(0.31)	As at FY22		(43.1)
Proceeds from ESOS/warrant conversions			548.1	0.11	Warrants B exercise price: RM1.25	15.5	
Total NAV			3,530.1	0.72		100.0	
FD no of shares			4,906.0				
NAV/share			0.72				
TP (less: 50% discount)			0.36				
Upside (%)			10.7				
Implied PE (x)			21.6				
Discount to NAV (%)			(54.8)				

Source: Company, Bloomberg, KAF

Income Statement

FYE Dec (RMm)	2021	2022	2023F	2024F	2025F
Revenue	1,448.5	3,205.1	2,347.7	1,922.9	1,728.1
EBITDA	48.7	297.5	254.9	242.2	240.8
Depreciation/Amortisation	(63.8)	(68.0)	(71.6)	(74.2)	(76.9)
Operating income (EBIT)	(15.1)	229.6	183.3	168.1	164.0
Other income & associates	31.3	5.6	35.6	43.3	55.7
Net interest	(78.7)	(80.8)	(79.2)	(75.9)	(69.8)
Exceptional items	123.7	0.0	0.0	0.0	0.0
Pretax profit	61.3	154.3	139.6	135.4	149.8
Taxation	(54.6)	(100.8)	(63.9)	(51.1)	(54.1)
Minorities/pref dividends	9.1	11.3	(10.5)	(11.5)	(12.1)
Net profit	15.8	64.8	65.2	72.9	83.6
Core net profit	(107.9)	64.8	65.2	72.9	83.6

Balance Sheet

FYE Dec (RMm)	2021	2022	2023F	2024F	2025F
Fixed assets	742.5	776.0	783.2	788.3	791.4
Intangible assets	215.7	194.8	187.1	179.4	171.7
Other long-term assets	4,595.8	4,687.4	4,739.2	4,818.3	4,909.4
Total non-current assets	5,554.0	5,658.2	5,709.5	5,786.0	5,872.6
Cash & equivalent	578.7	533.6	307.3	423.6	328.5
Stock	857.7	785.2	1,094.6	840.8	744.0
Trade debtors	2,089.7	2,184.9	1,736.7	1,422.4	1,278.3
Other current assets	125.4	72.9	64.7	56.2	47.4
Total current assets	3,651.4	3,576.6	3,203.2	2,743.0	2,398.3
Trade creditors	1,901.1	1,812.7	1,570.5	1,261.1	1,116.1
Short-term borrowings	478.6	840.8	525.4	504.9	484.4
Other current liabilities	71.7	48.6	48.6	48.6	48.6
Total current liabilities	2,451.3	2,702.1	2,144.4	1,814.6	1,649.0
Long-term borrowings	1,453.6	1,215.9	1,421.4	1,328.9	1,186.4
Other long-term liabilities	760.1	781.0	780.1	779.1	778.1
Total long-term liabilities	2,213.7	1,997.0	2,201.5	2,108.0	1,964.5
Shareholders' funds	4,512.7	4,530.2	4,550.8	4,579.0	4,617.9
Minority interests	27.8	5.5	16.0	27.5	39.6

Cash flow Statement

FYE Dec (RMm)	2021	2022	2023F	2024F	2025F
Pretax profit	61.3	154.3	139.6	135.4	149.8
Depreciation/Amortisation	63.8	68.0	71.6	74.2	76.9
Net change in working capital	90.8	(111.1)	(103.4)	258.8	95.7
Others	(408.9)	(192.2)	(99.6)	(94.3)	(109.8)
Cash flow from operations	(193.1)	(80.9)	8.3	374.0	212.6
Capital expenditure	(171.1)	(34.7)	(80.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	0.4	6.9	0.0	0.0	0.0
Others	479.4	81.2	0.0	0.0	0.0
Cash flow from investing	308.7	53.4	(80.0)	(100.0)	(100.0)
Debt raised/(repaid)	(802.4)	122.2	(110.0)	(113.0)	(163.0)
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(44.1)	(44.7)	(44.7)	(44.7)	(44.7)
Others	779.9	(63.6)	0.0	0.0	0.0
Cash flow from financing	(66.6)	14.0	(154.7)	(157.7)	(207.7)
Net cash flow	49.0	(13.5)	(226.3)	116.3	(95.1)
Cash b/f	467.3	515.9	501.6	275.2	391.6
Cash c/f	515.9	501.6	275.2	391.6	296.5

Key Ratios

FYE Dec	2021	2022	2023F	2024F	2025F
Revenue growth (%)	20.8	121.3	(26.8)	(18.1)	(10.1)
EBITDA growth (%)	(63.5)	n/m	(14.3)	(5.0)	(0.6)
Pretax margins (%)	4.2	4.8	5.9	7.0	8.7
Net profit margins (%)	1.1	2.0	2.8	3.8	4.8
Interest cover (x)	n/m	2.8	2.3	2.2	2.3
Effective tax rate (%)	89.0	65.3	45.8	37.7	36.1
Net dividend payout (%)	n/m	68.9	68.5	61.3	53.4
Debtors turnover (days)	527	249	270	270	270
Stock turnover (days)	260	119	230	220	220
Creditors turnover (days)	576	274	330	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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