

28 Nov 2021

Hold

Price
RM0.35

Target Price
RM0.39

Market Data

Bloomberg Code	MRC MK
No. of shares (m)	4,467.5
Market cap (RMm)	1,512.2
52-week high/low (RM)	0.53 / 0.34
Avg daily turnover (RMm)	2.5
KLCI (pts)	1,512.2

Source: Bloomberg, KAF

Major Shareholder (%)

EPF	(36.2%)
Gapurna	(15.5%)
Lembaga Tabung Haji	(5.8%)
Free Float	42.5

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

Analyst

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MRCB

Another quarterly loss

We maintain our Hold rating on MRCB but lower its TP from RM0.44 to RM0.39, as it endured another loss-making quarter in 3Q21 on lockdown restrictions. New property sales could also fall short of its FY21F target (ytd - RM165m vs RM300m). While its launch pipeline remains unclear, the acquisitions of a balance 50% stake in LRT 3 and 22-acre Simpang Pulai land (100%) have been completed on 13 October.

Financial Highlights

FYE Dec	2019	2020	2021F	2022F	2023F
Revenue (RMm)	1,319.4	1,199.5	1,031.2	2,210.0	2,370.8
Core net profit (RMm)	31.7	(0.8)	(50.7)	31.6	66.1
Core EPS (Sen)	1.0	0.3	(0.7)	1.0	1.7
EPS growth (%)	(59.0)	(67.1)	n/m	n/m	71.2
DPS (Sen)	1.0	1.0	0.3	0.3	1.0
Core PE (x)	81.9	155.9	n/m	35.2	20.5
Div yield (%)	1.2	2.0	0.7	0.7	2.9
ROE (%)	0.5	(3.8)	(1.1)	0.7	1.5
Net Gearing (%)	27.4	30.4	30.3	27.8	26.7
PBV(x)	0.7	0.5	0.3	0.3	0.3

Source: Company, KAF

Core 3Q losses flat QoQ

MRCB's 3Q21 results came in below expectations, with core net loss remaining largely unchanged QoQ on 39% revenue shrinkage. This brought 9M21 core loss to RM59m vs -RM3m a year earlier. The continued losses for the quarter was largely due to the imposition of EMCO, which caused extensive construction site closures between June and August.

This was compounded by disruptions in the building materials supply chain and tight foreign worker supply.

The property and investment division accounted for the larger share of 9M21 revenue, at 59%. The key project contributors were Sentral Suites, 9 Seputeh, Alstonia and completed units from 1060 Carnegie.

Its property projects were also hit by the lockdowns; construction progress for Sentral Suites and TRIA@9 Seputeh only reached 55%.

Revenue from the construction division (35% of group total) came largely from the EPF HQ at Kwasa Sentral, DASH, MRT 2 and SUKE projects. At the JV level, the LRT 3 project posted a nine-fold YoY jump in profits, at RM19m.

Property sales fall behind FY21F target

Unless there is a significant uptick in year-end promotions/marketing activities, we believe that MRCB may miss its FY21F new property sales target of RM300m.

9M21 property sales came up to only RM165m. While domestic sales stayed soft, the 1080 Carnegie development in Melbourne only had 45 units reaching settlement vs 104 units a year earlier (91% take up rate; 158 units settled out of 160 sold).

The group's unbilled sales totaled RM941m; with bulk of it coming from 9 Seputeh (RM673m) and TRIA@9 Seputeh (RM212m).

Property inventories stood at RM814m; of which completed units was RM389m against RM425m projects that are under construction.

For now, its ongoing focus is to pare down on property stock, with VIVO@9 Seputeh having the most (RM227m), followed by St. Regis (RM91m) and Carnegie (RM43m).

Full control of LRT 3

MRCB assumed full control of LRT 3 from 13 October after buying out its remaining 50% stake from George Kent (Malaysia) [RM0.65, NC) for RM53m.

The positive move will allow MRC to have full control and consolidate the entire balance of earnings from the project as progress gathers momentum (61% as of 30 September vs end-2021 target of 65%), in our view.

Maintain Hold

Our TP has been revised downwards from RM0.44 to RM0.39 on wider discount to NAV (from 35% to 45%). This is to reflect a weaker-than-expected 3Q21 and poor project visibility in the near-term.

While the group's bid book is about RM2.2b, many of these tenders have either been delayed or postponed indefinitely due to the pandemic.

Emerging prospects could come from Phase 3 of the RM350 Sg. Pahang flood mitigation project and Pan Borneo Sabah projects, although overall contract flows are unlikely to perk up significantly in the months ahead.

On the other hand, we expect MRCB to return the black with core profits of RM32m in FY22F (FY21F: core losses of RM51m), driven by a pick-up in progress for key projects - i.e. LRT 3 and Sentral Suites.

As of 30 September, MRCB's net gearing position was unchanged from last quarter, at 29%.

Exhibit 1: Financial results

YE 31 Dec (RM m)	9M20	9M21	% YoY	2Q21	3Q21	% QoQ
Turnover	890.6	590.3	(33.7)	225.7	137.9	(38.9)
EBIT	39.1	(40.5)	n/m	(31.6)	(19.9)	n/m
Interest Expense	(50.4)	(61.2)		(20.2)	(22.8)	
Interest Income	14.1	10.2		2.9	3.4	
Pre-Exceptionals Profit	2.8	(91.5)		(48.9)	(39.3)	
Exceptionals	(202.5)	0.0		0.0	0.0	
Pre-Associates/JV Profit	(199.7)	(91.5)		(48.9)	(39.3)	
Associates/JVs	9.3	28.9		10.7	9.2	
Pretax Profit	(190.4)	(62.6)	n/m	(38.2)	(30.1)	n/m
Taxation	(14.9)	(5.1)		(1.5)	(1.9)	
Minority Interest/disc. ops	(0.3)	8.4		7.3	(0.2)	
Net Profit	(205.6)	(59.4)	n/m	(32.4)	(32.2)	n/m
Core Net Profit	(3.1)	(59.4)	n/m	(32.4)	(32.2)	n/m
Core EPS (sen)	(0.1)	(1.3)		(0.7)	(0.7)	
Gross DPS (sen)	0.0	0.0		0.0		
BV/share (RM)	1.03	1.00		1.02	1.00	
EBIT Margin (%)	4.4	(6.9)		(14.0)	(14.4)	
Pretax Margin (%)	(21.4)	(10.6)		(16.9)	(21.8)	
Effective Tax (%)	(7.8)	(8.2)		(3.8)	(6.2)	
Segmental Breakdown (RM m)						
Turnover						
Construction	363.2	206.5	(43.2)	72.0	50.0	(30.5)
Property development & investment	489.4	345.9	(29.3)	142.8	71.0	(50.3)
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	33.7	26.1	(22.5)	9.0	8.2	(8.0)
Investment holding & Others	4.2	11.8	178.6	2.0	8.6	n/m
Total	890.6	590.3	(33.7)	225.7	137.9	(38.9)
EBIT						
Construction	(198.7)	(51.7)	n/m	(31.3)	(18.7)	n/m
Property development & investment	44.4	17.6	(60.3)	3.3	1.2	(65.4)
Infrastructure & concession	0.0	0.0	n/m	0.0	0.0	n/m
Facilities management & parking	5.7	1.5	(73.0)	0.1	1.0	n/m
Investment holding & Others	(11.0)	(59.6)	n/m	(35.1)	(22.0)	n/m
Total	39.1	(40.5)	n/m	(31.6)	(19.9)	n/m
EBIT margin (%)						
Construction	(54.7)	(25.0)		(43.5)	(37.3)	
Property development & investment	9.1	5.1		2.3	1.6	
Infrastructure & concession	n/m	n/m		n/m	n/m	
Facilities management & parking	16.9	5.9		1.4	11.8	
Investment holding & Others	n/m	n/m		n/m	n/m	
Total	4.4	(6.9)		(14.0)	(14.4)	

Source: Company, KAF

Exhibit 2: NAV calculation

Divisions/Operations	Size (acres)	psf	Value (RM)		Method	% of NAV	Effective stake (%)
			m	/share			
Landbank							
Suria Subang	3.3	250	36.4	0.01			
Selbourne 2, Shah Alam	2.4	200	20.6	0.00			
Metro Spectacular, Jln. Putra (51%)	10.1	300	171.1	0.04			
Sub-total	15.8		228.1	0.05		6.5	
Development properties							
Lot F - Office Towers			260.1	0.05	NPV @ 9%		100.0
9 Seputeh, Old Klang Road			131.0	0.03	NPV @ 9%		100.0
Sentral Suites, KL Sentral			32.4	0.01	NPV @ 9%		100.0
Semarak City, Setapak			43.1	0.01	NPV @ 9%		30.0
PJ Sentral Phase 1 (PJ Garden City)			94.0	0.02	NPV @ 9%		100.0
Kwasa Sentral, Sg.Buloh			425.1	0.09	NPV @ 9%		70.0
Bukit Rahman Putra, Sg.Buloh			39.5	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			179.6	0.04	NPV @ 9%		100.0
Pulai Land			45.3	0.01	NPV @ 9%		100.0
1060 Carnegie, Melbourne			9.3	0.00	NPV @ 9%		100.0
Aotea Central Over Station Development (OSD), Auckland			89.3	0.02	NPV @ 9%		100.0
Unbilled sales			28.7	0.01	NPV @ 9%		100.0
Sub-total			1,807.6	0.37		51.9	
		NLA/room bays	Value (RM) m	/share	Method		Effective stake (%)
Investment properties							
Menara Celcom (Lot 8)		450,908	387.1	0.08	NPI@6.5%		100.0
Menara MRCB, Shah Alam		216,000	3.5	0.00	NPI@7.5%		100.0
Plaza Alam Sentral, Shah Alam		433,349	53.0	0.01	NPI@7.5%		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	114.4	0.02	RM0.8m/room		100.0
Sub-total			601.4	0.12		17.3	
Car park 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			583.8	0.12	12x FY21F net profit		
Facilities management			160.2	0.03	Net book value as of FY20		
Bukit Jalil Sentral Management Contract			40.5	0.01	NPV@7.5%		
Sub-total			784.5	0.16		22.5	
Listed-investments							
Sentral REIT			268.4	0.06	Market Value		27.8
Sub-total			268.4	0.06		7.7	
Others			396.8	0.08	Net book value as of FY20		
Sub-total			396.8	0.08		11.4	
Gross NAV			4,318.2	0.89			
Net cash			(1,392.3)	(0.29)	FY20		(39.9)
Proceeds from ESOS/warrant conversions			559.5	0.12	Warrants B exercise price: RM1.25		16.1
Total NAV			3,485.4	0.72		100.0	
FD no of shares			4,864.6				
NAV/share			0.72				
TP (less: 45% discount)			0.39				
Upside (%)			12.6				
Implied PE (x)			n/m				

Source: Company, Bloomberg, KAF

Income Statement

FYE Dec (RMm)	2019	2020	2021F	2022F	2023F
Revenue	1,319.4	1,199.5	1,031.2	2,210.0	2,370.8
EBITDA	150.2	101.7	68.6	193.6	235.9
Depreciation/Amortisation	(69.8)	(60.2)	(91.8)	(97.3)	(104.0)
Operating income (EBIT)	80.4	41.4	(23.2)	96.3	131.9
Other income & associates	6.6	19.5	48.7	32.3	40.9
Net interest	(26.0)	(38.6)	(63.6)	(61.6)	(55.2)
Exceptional items	(8.0)	(175.3)	0.0	0.0	0.0
Pretax profit	53.0	(152.9)	(38.1)	67.1	117.6
Taxation	(34.3)	(23.0)	(14.2)	(30.0)	(43.6)
Minorities/pref dividends	5.0	(0.3)	1.6	(5.5)	(7.9)
Net profit	23.7	(176.1)	(50.7)	31.6	66.1
Core net profit	31.7	(0.8)	(50.7)	31.6	66.1

Balance Sheet

FYE Dec (RMm)	2019	2020	2021F	2022F	2023F
Fixed assets	677.6	740.1	757.7	802.9	865.1
Intangible assets	224.3	219.4	213.3	207.3	201.2
Other long-term assets	4,274.7	4,390.9	4,445.4	4,534.0	4,628.7
Total non-current assets	5,176.6	5,350.4	5,416.4	5,544.2	5,695.0
Cash & equivalent	516.9	540.4	674.0	658.9	546.9
Stock	963.2	852.3	747.7	939.7	947.6
Trade debtors	1,726.7	1,287.4	988.9	1,332.0	1,299.1
Other current assets	97.6	322.2	309.4	295.8	281.1
Total current assets	3,304.4	3,002.3	2,720.0	3,226.4	3,074.6
Trade creditors	989.9	966.9	747.7	1,476.6	1,563.5
Short-term borrowings	825.6	638.6	468.7	441.2	383.7
Other current liabilities	43.3	69.4	69.4	69.4	69.4
Total current liabilities	1,858.8	1,675.0	1,285.9	1,987.3	2,016.6
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
Total long-term liabilities	1,798.8	2,089.0	2,358.2	2,264.9	2,171.5
Shareholders' funds	4,791.6	4,578.0	4,483.3	4,503.9	4,559.0
Minority interests	31.9	10.7	9.1	14.5	22.5

Cash flow Statement

FYE Dec (RMm)	2019	2020	2021F	2022F	2023F
Pretax profit	53.0	(152.9)	(38.1)	67.1	117.6
Depreciation/Amortisation	69.8	60.2	91.8	97.3	104.0
Net change in working capital	(236.1)	527.2	183.9	193.8	111.9
Others	(232.1)	(218.9)	(62.9)	(62.3)	(84.5)
Cash flow from operations	(345.4)	215.6	174.7	295.9	249.1
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	53.0	0.0	0.0
Cash flow from investing	158.0	(133.6)	(97.0)	(180.0)	(200.0)
Debt raised/(repaid)	335.9	103.8	100.0	(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)	(11.0)	(11.0)
Others	(208.9)	16.7	0.0	0.0	0.0
Cash flow from financing	18.5	54.8	55.9	(131.0)	(161.0)
Net cash flow	(168.9)	136.7	133.6	(15.2)	(112.0)
Cash b/f	505.8	336.9	473.6	607.2	592.1
Cash c/f	336.9	473.6	607.2	592.1	480.1

Key Ratios

FYE Dec	2019	2020	2021F	2022F	2023F
Revenue growth (%)	(29.5)	(9.1)	(14.0)	114.3	7.3
EBITDA growth (%)	(5.2)	(32.3)	(32.6)	182.4	21.8
Pretax margins (%)	4.0	(12.7)	(3.7)	3.0	5.0
Net profit margins (%)	1.8	(14.7)	(4.9)	1.4	2.8
Interest cover (x)	3.1	1.1	(0.4)	1.6	2.4
Effective tax rate (%)	64.7	(15.0)	n/m	44.7	37.0
Net dividend payout (%)	185.9	n/m	n/m	34.9	66.7
Debtors turnover (days)	478	392	350	220	200
Stock turnover (days)	369	346	350	210	200
Creditors turnover (days)	380	392	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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