

02 Jan 2018

Buy

Price
 RM1.12

Target Price
 RM1.26

Market Data

Bloomberg Code	MRC MK
No. of shares (m)	4,386.8
Market cap (RMm)	4,913.2
52-week high/low (RM)	1.57 / 0.87
Avg daily turnover (RMm)	13.2
KLCI (pts)	1,796.8

Source: Bloomberg, KAF

Major Shareholder (%)

EPF	(34.7%)
Gapurna	(16.8%)
Lembaga Tabung Haji	(8.1%)
Free Float	40.3

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	21.1	(7.0)	(3.5)
Rel Market (%)	18.3	(8.7)	(11.8)



Source: Bloomberg, KAF

Analyst

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MRCB

Carves out JV in Setapak

We maintain our BUY rating on MRCB with a TP of RM1.26. This pegs the stock at a 10% discount to NAV. MRCB has proposed to divest a 70% stake in its Setapak land to TH Properties for RM100m. Nevertheless, a successful divestment of its EDL toll concession will spur a stronger re-rating for the stock in the near-term, in our view.

Financial Highlights

FYE Dec	2015	2016	2017F	2018F	2019F
Revenue (RMm)	1,696.7	2,408.1	2,449.5	2,333.6	2,556.1
Core net profit (RMm)	1.0	75.0	61.1	131.6	185.2
Core EPS (Sen)	1.7	4.2	2.2	3.5	4.2
EPS growth (%)	9.8	>100	(47.7)	58.2	19.8
DPS (Sen)	2.5	2.8	2.0	3.0	3.0
Core PE (x)	58.3	24.9	50.7	32.1	26.8
Div yield (%)	2.5	2.6	1.8	2.7	2.7
ROE (%)	15.6	10.3	1.7	2.8	3.9
Net Gearing (%)	127.2	75.7	9.9	18.5	24.8
PBV(x)	0.9	0.8	1.0	1.0	1.0

Source: Company, KAF

Divests 70% of Setapak land

MRCB had on 26 December entered into a JV with TH Properties (THP) to divest a 70% stake in 59INC. Post its completion, MRCB's stake would be reduced to 30, with THP holding the balance 70%.

59INC is the developer of three parcels of land in Setapak. The leasehold land has a tenure of 99 years that will expire on 4 July, 2110. Through their new partnership in 59INC, both MRCB and 59INC will develop the Setapak Land as a mixed-project. It will consist of apartment blocks, a shopping center, car parks, shop offices and other related facilities. Under the agreement, MRCB will divest a 70% stake in 59INC for RM100m cash. The group will receive the entire disposal consideration within six months from the agreement.

Monetizing value upfront

By extension, the implied disposal price for the project land is approximately RM143m (RM120psf) vs its net book value of RM113m as per audited FY16 figures. While this represents a deep discount of 47% to its market value of RM270m, it enables MRCB to monetize upfront, part of the Setapak land.

Plus, despite a reduced stake of 30%, MRCB would still be able to participate in its future development profits. According to its announcement on Bursa Malaysia, MRCB is expected to rake-in an after-tax gain of RM58m from the JV. Concurrently, the group is able to extract additional fee-based income, as it will also provide management consultancy as well as sales and marketing services for the project.

Earnings forecast maintained

Based on a 100% stake, we currently value the Setapak land at ~RM270m (5 sen or ~3% of NAV). We maintain our current forecast pending more updates on the project's latest structure (e.g., estimated GDV, development period, project-related fees).

Nevertheless, a successful divestment of its EDL toll concession will spur a stronger re-rating for the stock in the near-term, in our view. Toll collection on the highway was abolished yesterday. MRCB had recently disclosed that it has received an invitation from the Ministry of Works to commence negotiations on the mutual termination of the EDL concession, which contributes c.RM31m or less than 1% of MRCB's NAV. Apart from plugging its associated earnings leakages, a removal of EDL from MRCB's books could further improve its net gearing, which is projected at 18% for 2018F.

Exhibit 1: NAV model

Divisions/Operations	Size		Value (RM)		Method	% of NAV	Effective stake (%)
	(acres)	psf	mil	/share			
Landbank							
Batu Feringghi, Penang	3.3	300	43.6	0.01			
Suria Subang	3.3	280	40.7	0.01			
Selbourne 2, Shah Alam	2.4	180	18.6	0.00			
Sub-total	9.1		103.0	0.02		1.3	
Development properties							
Sentral Residences (Lot D)			20.4	0.00	NPV @ 9%		51.0
Lot F - Office Towers			307.6	0.06	NPV @ 9%		100.0
9 Seputeh, Old Klang Road			200.3	0.04	NPV @ 9%		100.0
Sentral Suites, Brickfields			177.6	0.03	NPV @ 9%		100.0
Semarak City, Setapak			260.8	0.05	NPV @ 9%		100.0
MRCB Putra, Putrajaya			40.9	0.01	NPV @ 9%		70.0
PJ Sentral Phase 1 (PJ Garden City)			188.1	0.03	NPV @ 9%		100.0
Kwasa Sentral, Sg.Buloh			614.6	0.11	NPV @ 9%		70.0
Rahman Putra, Sg.Buloh			53.1	0.01	NPV @ 9%		100.0
German Embassy land, Jln Kia Peng			112.6	0.02	NPV @ 9%		100.0
Cyberjaya City Centre Phase 1, Cyberjaya			328.1	0.06	NPV @ 9%		70.0
KL Sports City			379.1	0.07	NPV @ 9%		17.0
Penang Sentral			321.8	0.06	NPV @ 9%		100.0
Pulai Land			82.5	0.02	NPV @ 9%		100.0
The Easton, Burwood			5.9	0.00	NPV @ 9%		100.0
Unbilled sales			91.7	0.02	NPV @ 9%		100.0
Metro Spectacular Land			335.5	0.06	Acquisition cost		100.0
Sub-total			3,520.5	0.64		43.9	
Investment properties							
		NLA/room bays	Value (RM) mil	/share	Method		Effective stake (%)
Menara Celcom (Lot 8)		450,908	402.6	0.07	NPI@6.25%		100.0
Menara MRCB, Shah Alam		216,000	25.9	0.00	NPI@7%		100.0
Plaza Alam Sentral, Shah Alam		433,349	105.7	0.02	NPI@6.5%		100.0
Kompleks Sentral, Segambut Industrial Park		484,689	45.0	0.01	NPI@6.75%		100.0
Nu Tower 2, KL Sentral		498,309	59.8	0.01	NPI@6%		100.0
Ascott Sentral (Lot 348), KL Sentral		143 rooms	121.6	0.02	RM0.85mil/room		100.0
St. Regis Hotel (Lot C), KL Sentral		208 rooms	62.4	0.01	RM1mil/room		30.0
Sub-total			822.9	0.15		10.3	
Cark parks							
Plaza Alam Sentral, Shah Alam		1,400 bays	70.0	0.01	RM50k/bay		100.0
St. Regis Hotel (Lot C), KL Sentral		797 bays	16.7	0.00	RM70k/bay		30.0
Sub-total			86.7	0.02		1.1	
Property management							
Quill Capita Management (QCM)			111.8	0.02	NPI@7%		41.0
Sub-total			111.8	0.02		1.4	
Expressways							
Eastern Dispersal Link (EDL)			31.4	0.01	DCF @ 7%		100.0
Sub-total			31.4	0.01		0.4	
Construction & Facilities Management							
Construction			500.8	0.09	12x FY17F net profit		
Facilities management			23.7	0.00	6x FY17F net profit		
Sub-total			524.5	0.10		6.5	
Listed-investments							
MRCB-Quill REIT			387.1	0.07	Market Value		27.9
Sub-total			387.1	0.07		4.8	
Others							
			330.0	0.06	Book value		4.1
Gross NAV							
			5,918.0	1.08			
Net cash (excluding EDL debt)			94.8	0.02	FY17F	1.2	
Proceeds from ESOS/warrant conversions			2,000.6	0.36	Warrants A exercise price: RM2.30 Rights Warrants exercise price: RM1.25	25.0	
Total NAV			8,013.4	1.46		100.0	
FD no of shares			5,487.4				
NAV/share			1.46				
TP (less: 15% discount)			1.26				
Capital gain (%)			12.2				
Discount to NAV (%)			(23.3)				

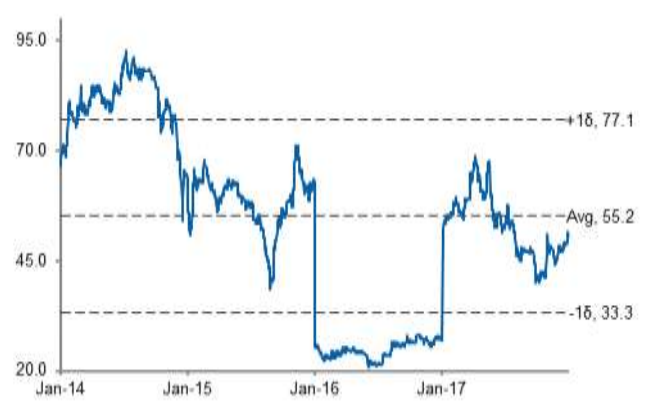
Source: Company, KAF

Exhibit 2: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 3: PE Band chart



Source: Company, KAF, Bloomberg

Income Statement

FYE Dec (RMm)	2015	2016	2017F	2018F	2019F
Revenue	1,696.7	2,408.1	2,449.5	2,333.6	2,556.1
EBITDA	242.5	411.1	364.5	403.8	493.2
Depreciation/Amortisation	(64.2)	(94.2)	(130.6)	(138.1)	(147.4)
Operating income (EBIT)	178.3	316.9	233.9	265.7	345.8
Other income & associates	7.9	32.7	38.0	71.9	76.2
Net interest	(145.5)	(149.3)	(139.9)	(96.3)	(98.1)
Exceptional items	329.4	192.4	5.5	0.0	0.0
Pretax profit	370.1	392.6	137.5	241.3	324.0
Taxation	(6.1)	(73.5)	(49.7)	(79.2)	(98.4)
Minorities/pref dividends	(33.6)	(51.7)	(21.2)	(30.5)	(40.3)
Net profit	330.4	267.4	66.6	131.6	185.2
Core net profit	1.0	75.0	61.1	131.6	185.2

Balance Sheet

FYE Dec (RMm)	2015	2016	2017F	2018F	2019F
Fixed assets	337.5	437.8	444.1	475.2	519.1
Intangible assets	317.1	252.9	247.3	241.7	236.2
Other long-term assets	3,741.0	3,895.9	4,044.8	4,473.1	4,753.6
Total non-current assets	4,395.5	4,586.6	4,736.3	5,190.0	5,508.9
Cash & equivalent	339.2	592.8	803.0	387.7	79.8
Stock	63.1	57.5	69.4	64.2	68.7
Trade debtors	1,113.8	1,600.5	1,442.8	1,470.5	1,610.7
Other current assets	1,178.1	914.8	940.4	753.4	794.8
Total current assets	2,694.3	3,165.6	3,255.6	2,675.9	2,553.9
Trade creditors	1,199.3	1,586.4	1,573.1	1,370.4	1,464.9
Short-term borrowings	1,049.5	806.3	729.8	724.8	729.9
Other current liabilities	47.7	42.6	42.6	42.6	42.6
Total current liabilities	2,296.5	2,435.2	2,345.4	2,137.8	2,237.3
Long-term borrowings	2,345.9	2,130.8	666.3	671.5	671.7
Other long-term liabilities	134.6	161.2	161.2	161.2	161.2
Total long-term liabilities	2,480.5	2,292.0	827.5	832.7	832.9
Shareholders' funds	2,260.1	2,925.8	4,698.6	4,744.5	4,801.3
Minority interests	52.6	99.2	120.4	150.9	191.3

Cash flow Statement

FYE Dec (RMm)	2015	2016	2017F	2018F	2019F
Pretax profit	370.1	392.6	137.5	241.3	324.0
Depreciation/Amortisation	64.2	94.2	130.6	138.1	147.4
Net change in working capital	606.2	(366.5)	107.0	(38.2)	(91.5)
Others	(853.7)	(261.6)	(87.7)	(151.1)	(174.6)
Cash flow from operations	186.8	(141.3)	287.4	190.1	205.3
Capital expenditure	(943.6)	(540.4)	42.9	(520.0)	(390.0)
Net investments & sale of fixed assets	4.2	300.0	0.0	0.0	0.0
Others	1,154.3	883.3	(285.2)	0.0	0.0
Cash flow from investing	214.9	642.9	(242.3)	(520.0)	(390.0)
Debt raised/(repaid)	0.9	(458.2)	(1,541.1)	0.3	5.3
Equity raised/(repaid)	0.8	401.9	1,765.2	0.0	0.0
Dividends paid	(82.4)	(76.6)	(59.1)	(85.6)	(128.5)
Others	(289.9)	(115.2)	0.0	0.0	0.0
Cash flow from financing	(370.7)	(248.1)	165.1	(85.4)	(123.2)
Net cash flow	31.0	253.5	210.2	(415.3)	(307.9)
Cash b/f	308.2	339.2	592.8	803.0	387.7
Cash c/f	339.2	592.8	803.0	387.7	79.8

Key Ratios

FYE Dec	2015	2016	2017F	2018F	2019F
Revenue growth (%)	12.0	41.9	1.7	(4.7)	9.5
EBITDA growth (%)	(17.5)	69.5	(11.3)	10.8	22.1
Pretax margins (%)	21.8	16.3	5.6	10.3	12.7
Net profit margins (%)	19.5	11.1	2.7	5.6	7.2
Interest cover (x)	1.2	2.1	1.7	2.8	3.5
Effective tax rate (%)	1.6	18.7	36.2	32.8	30.4
Net dividend payout (%)	13.5	22.1	128.6	97.6	69.3
Debtors turnover (days)	240	243	215	230	230
Stock turnover (days)	20	13	15	15	15
Creditors turnover (days)	371	358	340	320	320

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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