Equity | Malaysia | Property

09 Apr 2019

Buy

Price
RM0.97

Target Price
RM1.08

Market Data

Bloomberg Code	MRC MK
No. of shares (m)	4,399.9
Market cap (RMm)	4,267.9
52-week high/low (RM)	1.06 / 0.55
Avg daily turnover (RMm)	12.4
KLCI (pts)	1,644.4

Source: Bloomberg, KAF

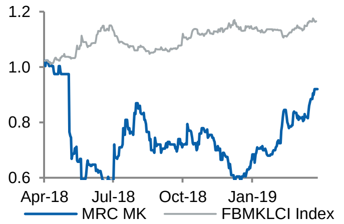
Major Shareholder (%)

EPF	(35.9%)
Gapurna	(16.1%)
Lembaga Tabung Haji	(6.9%)
Free Float	41.0

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	52.8	34.7	(0.5)
Rel Market (%)	55.4	45.5	11.1



Source: Bloomberg, KAF

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MRCB

Momentum building

We maintain our Buy rating on MRCB with a higher TP of RM1.08 (from 0.92), pegging the stock at a lower discount to NAV (from 15% to 10%). With a rejuvenated balance sheet (net gearing has strengthened to 20% in FY18 vs 55% in FY17), we envisage a strong upturn in MRCB's job replenishment prospects in the months ahead. Notably, the group is keen on expanding its track record in rail-related works (e.g. ECRL and KVDT Phase 2). As things stand, MRCB is already sitting on a sizeable orderbook of RM22b, with clear earnings visibility extending up to 20 years. Further out, we opine that there could be three other re-rating catalysts unfolding this year that could lift the stock further; (i) new opportunities from the power transmission & environmental segments; (ii) commercialization of Penang Sentral (transport hub completed); (iii) maiden residential launch of Kwasa Sentral. On the other hands, MRCB's earnings is already on the mend, with core net profit projected to rise from RM69m in FY19F to RM107m-RM165m in FY20F-21F. This is backed by the resumption of the LRT 3, lumpy billings from the Carnegie development in Melbourne and maiden launches for Kwasa Sentral (both expected by 4Q19).

Financial Highlights

FYE Dec	2017	2018	2019F	2020F	2021F
Revenue (RMm)	2,640.6	1,870.7	2,336.0	3,223.8	3,708.3
Core net profit (RMm)	95.6	101.2	68.8	106.7	165.0
Core EPS (Sen)	2.7	3.1	1.8	2.6	3.8
EPS growth (%)	(35.4)	12.4	(42.2)	44.1	47.1
DPS (Sen)	1.8	1.5	1.0	1.5	2.0
Core PE (x)	41.7	27.0	54.7	37.9	25.8
Div yield (%)	1.5	1.8	1.0	1.5	2.1
ROE (%)	4.2	2.1	1.4	2.2	3.3
Net Gearing (%)	55.2	19.6	27.4	31.1	30.0
PBV(x)	1.0	0.8	0.9	0.9	0.9

Source: Company, KAF

Rail play

As of end-January, MRCB is sitting on a sturdy outstanding orderbook of RM22b. This translates into a healthy orderbook cover of ~29x and provides clear earnings visibility that extends up to 20 years.

The group's ongoing tender book is approximately RM2.7b on a healthy outstanding job backlog of RM22b. Infrastructure projects accounts for 10% of this total, while the balance mostly consists of value-added or engineering based projects.

More importantly, we believe that MRCB could emerge as a dark horse for the civil packages under the East Coast Rail Line (ECRL), if the project is revived, as expected. During its last conference call with analysts, MRCB's management alluded that it is keen to expand its track record in rail-related works, if the government approves projects such as ECRL and Phase 2 of the Klang Valley Double Track Upgrade (KVDT).

Yesterday, The Star reported that China and Malaysia have agreed on a price for ECRL under a package deal, which may involve commercial elements and purchases of palm oil by the Chinese government.

Following renegotiations between both parties, ECRL may see its construction rates being pegged at RM50m to RM60m per km. This implies that the construction cost for ECRL could range between RM34b to RM41b.

As a cornerstone project of the Belt and Road Initiative (BRI), ECRL is of strategic importance to China. From our channel checks, the railway's route could be revised to focus on the link between Kuantan Port and Port Klang, before heading south towards Negeri Sembilan.

By extension, this rail-sea freight link will reduce the trading route and time between China and West Malaysia, which makes it a viable alternative to Singapore Port for inbound/outbound China goods along the East-West route.

From Malaysia's standpoint, China is still a vital trading partner. Furthermore, if Malaysia were to cancel the project unilaterally, The Star revealed that it would need to pay RM20b as compensation to China.

To be sure, a Malaysia delegation that is led by Daim Zainuddin was supposed to have been in China last week to finalize ECRL, for which what remains are smaller issues to be ironed out before Prime Minister Dr. Mahathir Mohamed himself heads to China to discuss the BRI.

If discussions are fruitful, we think that the contracts for ECRL could materialize by end-3Q19/4Q19. Per our estimates, the local portion of ECRL could be worth RM10b-RM12b, assuming a project cost of RM34b-RM41b.

As for KVDT Phase 2, the government is in the midst of preparing fresh tenders after the Pakatan Harapan administration terminated a RM5.2b contract that was awarded to a JV between Dhaya Maju (DMIA) and LTAT last April.

Interestingly, MRCB had in March 2015, disposed its 30% share of the KVDT project to DMIA in return for full control of the Sentral Suites project under a swap agreement. Before this, the MRCB-DMIA JV had in March 2013 received a letter of intent (LoI) for the first two phases of KVDT (i.e. Rawang to Salak South and Salak South-Seremban-SPK Port Klang).

Crucially, MRCB is no stranger to rail-based projects, having been the principal driver behind the KL Sentral and more recently, Penang Sentral integrated transportation hubs.

Prior to this, MRCB was involved in:

(i) Main facilities works for the Ampang Line Extension Package B (RM813m);

(ii) The installation of Segmental Box Girders (SBG) for Package B of the Kelana Jaya Extension (RM77m);

(iii) Lot B MRT works (RM65m);

(iv) Sentul Timur LRT works (RM10m); and

(v) Sg. Besi stabling yard (RM14m).

In terms of ongoing projects, MRCB is handling Package V210 of the MRT Line 2 worth RM648m (from Persiaran Apec to Putrajaya Sentral). It is also the turnkey contractor for the LRT 3 project in partnership with George Kent Holdings (GKEN MK, RM1.20, NC).

Accordingly, we have raised our new contract assumptions for MRCB to RM1b each over FY19F-21F, representing an increase of 25%-67% over our previous estimates. Earlier this year, MRCB won a RM323m construction package under the Sg.Besi-Ulu Kelang Expressway (SUKE).

More prospects from niche segments

Apart from railway infrastructure, MRCB is keen on expanding its niche in the power transmission and environmental engineering-related projects, which can fetch better margins.

Through wholly-owned unit Transmission Teknologi (TTSB), MRCB Is one of the leading power transmission contractors in Malaysia, with the capabilities to commission projects of up to 500 kilo watts (kV).

MRCB has also completed several rehabilitation and conservation works for beaches and rivers. This is undertaken through 55%-owned MRCB Environment, which was set up in 2003.

Notably, MRCB, partnering Ekovest (EKO MK, RM0.54, NC) was the project delivery partner (PDP) for the RM4b River-of-Life project before selling its 40% stake to the latter for RM9m back in February 2016.

Further out, we opine that MRCB has both the capacity as well as the expertise to handle 'green' or environmentally-friendly projects. This is in line with the government's multi-prong approach of seeing 20% of its electricity being generated through Renewable Energy (RE) sources by 2030.

Apart from Large Scale Solar (LSS) projects, the government is pushing forth with plans to build more waste-to-energy (WTE) plants.

Since 2011, the government has forked out an average of RM1.5b per year in managing solid waste and public cleansing for seven states (inclusive of the Klang Valley region). The funds are also utilized to promote 3R (reuse, reduce, recycle) programs, as well as promoting waste separation from homes. Presently, the country's waste separation and recycling rate stands at 24%, while the remaining 76% goes to the landfill.

Cognizant of this, the government aims to introduce WTE systems as an efficient way to manage the country's waste. In October, the Malaysian Reserve quoted Housing and Local Government Minister Zuraida Kamaruddin as saying that the government has targeted to establish one WTE plant in each state within the next two years.

Just last week, NST, citing Zuraida, updated that the government is evaluating sanitary landfills as sites to develop WTE plants. This came after Zuraida announced in January that the incinerator project in Kepong has been cancelled and will be replaced by a WTE project in Serendah, Selangor.

In March 2017, The Edge highlighted that the MRCB-Hyundai Rotem JV was one of two consortiums that were in the running for the Kepong WTE incinerator project in Taman Beringin. The other consortium was a pact between DRB-Hicom (DRB MK, RM2.14, NC) and its sister company, Malakoff (MLK MK, RM0.91, Hold).

According to The Edge, the incinerator was designed with a capacity of 1,000 tonne per day (tpd) and was supposed to be built on a 1.6ha site as part of the adjacent KL Transfer Station in Taman Beringin. The indicative cost for the facility, which includes an incinerator to burn waste that can be converted into energy for electricity, ranges between RM700m and RM900m.

MRCB-Hyundai Rotem had submitted a lower tipping fee on a build, operate and transfer (BOT) model. Back then, The Edge indicated that it was the second time bids were called. The first bid was scrapped after MRCB-Hyundai was the only party that submitted a final proposal.

Penang Sentral moving into commercialization stage

Modelled after the highly-successful KL Sentral, Penang Sentral has a total GDV of RM2.9b (land area: ~23 acres).

Penang Sentral is an integrated transport hub connecting KTMB's Electric Train Service (ETS) and Komuter train services, intercity, express and stage bus services, taxi and ferry services.

The transport hub commenced operations in December (capacity: 3,000 to 4,000 passengers daily), and MRCB has kicked-off initial works for a planned 400k sf retail mall although the actual size could be larger depending on market demand.

In totality, Penang Sentral has seven phases across a development period of 12 years, i.e. until 2030. Apart from the transport hub, three phases are currently under construction. This comprises the shopping mall, office tower and business hotel.

We understand that management remains open to strategic investors for its hotel and shopping mall components to accelerate the maturity of Penang Sentral.

The TOD-based integrated development accounts for RM207m (RM0.04) or 4% of the group's NAV. From our latest checks, the market value for the nearby Sunway Carnival mall in Seberang Jaya is ~RM900psf.

Based on a conservative market value of RM1,000psf, we estimate that the proposed mall at Penang Sentral alone could fetch RM400m or 14% of its original GDV. Its value could be more, if the NLA is enlarged.

Moving into IBS space

During our visit at the International Construction Week (ICW) late last month, we were briefed on MRCB's revolutionary MRCB Building System (MBS). MBS is one step ahead of the existing Industrialized Building System (IBS) methods in Malaysia. MBS infuse the pre-fabricated prefinished volumetric (PPVC) construction method with a jointing system known as the Candle-Loc.

Apart from bare walls, MBS can fabricate architectural fittings and interior finishes, which allows for total customization of the units. Most importantly, up to 95% of the work under MBS is done off-site for the building components, as opposed to 30%-40% under conventional IBS systems. This enables off-site fabrication, which includes fully-finished building components and 3D modules, to be done simultaneously with the site development.

This results in time and cost savings, minimizes physical labour, improves safety on- site via a controlled environment, lesser material wastage and better product quality.

Furthermore, MBS can be replicated for lower, medium and high-end developments such as single-story, low rise, high rise buildings, schools, hospitals, hotels and offices.

For a start, MRCB has built a prototype of a five-storey building using MBS at Kwasa Sentral although the system is designed to accommodate up to 25 stories. It targets to commercialize MBS' usage for the development's first residential phase (400 high-rise units) by year-end.

MRCB is one of only two local construction companies that has employed the PPVC method, the highest form of IBS, for its projects. The other player is integrated building materials solution provider, Chin Hin Group (CHIN MK, RM0.80, Buy).

All said, while MBS will prove beneficial in lowering MRCB's building cost and accelerating its billings cycle, we do not envisage its cost-savings to be immediate.

Minimal impact from Desaru claims

Last month, MRCB disclosed that its wholly-owned unit MRCB Builders has been served with a winding-up petition that was presented via the High Court of Malaya.

The petition was filed by Southern Builders (J) on 22 March 2019. The case management has been fixed for a hearing on 4 April, and the hearing will not proceed until 20 June.

Under the petition, Southern Builders is claiming a total of RM11m as follows:

- An adjudication amount of RM10m together with interest at a rate of 5% from 29 July 2017 to 28 September 2018 in the sum of RM583k;
- Adjudication costs of RM62k together with interest at a rate of 5% from 27 December 2017 to 28 September 2018 in the sum of RM3.6k; and
- Legal cost and reimbursements of RM66k (inclusive of GST) together with interest at a rate of 5% p.a. from 27 December 2017 to 28 September 2018.

The dispute arose after an adjudication decision under the Construction Industry Payment & Adjudication Act 2012 that was entered against MRCB Builders on 13 December 2017 for the total sum of RM11m.

MRCB has disputed the claim and has filed an appeal via the Court of Appeal. The appeal is fixed for hearing on 17 July 2019.

This relates to MRCB's building contracts in Desaru, Johor that was secured in June. Worth a combined RM492m, the contracts were for the construction of Desaru Convention Centre (RM61m), Desa Desaru (RM223m) and Westin Desaru Resort.

The contracts were awarded by Destination Resorts and Hotels (DRH), a subsidiary of Khazanah Nasional that is the strategic owner and developer of Desaru Coast, on the east coast of Johor.

Construction works for these three projects have been substantially completed; as at 28 January, the completion rate was ~90%-95%.

Southern Builders was one of several contractors that had been working on the Desaru projects. We have not accounted for these claims pending more updates from the case' hearing with the Court of Appeal.

Valuation and recommendation

TP raised to RM1.08

Despite its strong share price performance in recent weeks, we maintain our Buy recommendation on MRCB as momentum on its contract flows is on the ascendancy.

We have reduced our FY19F core earnings forecast by 5% but raise FY20F-21F by 4%-6%. This takes into account:

- Higher new contract assumptions of RM1b each for FY19F-21F;
- The lifting of its construction target PE by one-notch (i.e. from 12x to 13x).
- A rollover in the valuation base for its construction division to FY20F. The is premised on our expectations of a resumption of LRT 3 works by end-2019, once negotiations with its works package contractors are completed;
- Higher unallocated expense assumptions;
- Updates in the market value for MRCB-Quill REIT (MQREIT MK, RM1.10, Buy);
- Adjustments to the market values of its undeveloped landbank; and
- Inclusion of the Menara Celcom car park in our NAV model (estimated number of bays – 1,000; value per bay – RM60k).

Following our earnings upgrade, we have raised our TP for MRCB from RM0.92 to RM1.08. Our revised TP also incorporates a lower discount to NAV (from 15% to 10%) to reflect the group's sturdy orderbook, with more re-rating catalysts yet to come. This is underpinned by a rejuvenated balance sheet; net gearing has strengthened to 20% in FY18 vs 55% in FY17 following the successful divestment of the (i) Eastern Dispersal Link (EDL) concession; and (ii) EPF's subscription of an 80% stake in Bukit Jalil Sentral.

As things stand, MRCB's earnings is on the mend, with core net profits projected to rise from RM69m in FY19F to RM107m-RM165m in FY20F-21F. This is backed by the resumption of the LRT 3, lumpy billings from the Carnegie development in Melbourne and maiden launches for Kwasa Sentral (both expected by 4Q19).

On the flip side, we do not think that MRCB will be able to monetize its investments in Menara Celcom and Ascott Sentral in the near-term.

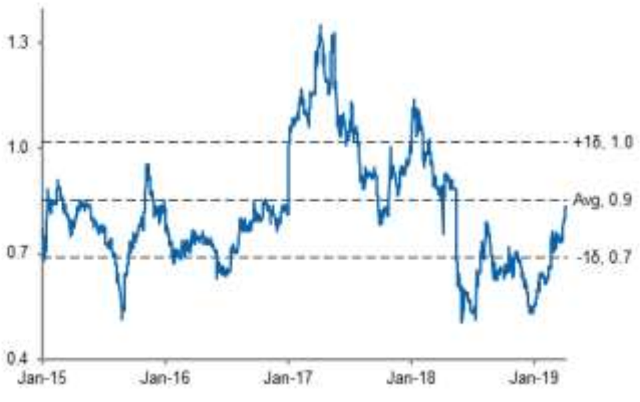
The planned injection of Menara Celcom into MRCB Quill REIT will likely be deferred at least until FY21F, taking into consideration potential taxation issues, in our view. There are similarly no further updates on the sale of Ascott Sentral. Collectively, both of these assets account for RM601m (RM0.12) or 10% of MRCB's NAV.

Exhibit 1: NAV Model

Divisions/Operations	Size (acres)	psf	Value (RM) m	/share	Method	% of NAV	Effective stake (%)
Landbank							
Suria Subang	3.3	400	58.2	0.01			
Selbourne 2, Shah Alam	2.4	300	31.0	0.01			
Metro Spectacular, Jln. Putra (51%)	10.1	500	171.1	0.04			
Sub-total	**15.8**		**260.3**	**0.05**		**4.5**	
Development properties							
Sentral Residences (Lot D)			2.3	0.00	NPV @ 9%		51.0
Lot F - Office Towers			269.9	0.06	NPV @ 9%		100.0
9 Seputeh, Old Klang Road			209.0	0.04	NPV @ 9%		100.0
Sentral Suites, Brickfields			156.9	0.03	NPV @ 9%		100.0
Semarak City, Setapak			61.7	0.01	NPV @ 9%		30.0
PJ Sentral Phase 1 (PJ Garden City)			163.9	0.03	NPV @ 9%		100.0
Kwasa Sentral, Sg.Buloh			579.8	0.12	NPV @ 9%		70.0
Rahman Putra, Sg.Buloh			48.2	0.01	NPV @ 9%		100.0
Cyberjaya City Centre Phase 1, Cyberjaya			321.0	0.07	NPV @ 9%		70.0
Bukit Jalil Sentral			441.5	0.09	NPV @ 9%		20.0
Penang Sentral			207.2	0.04	NPV @ 9%		100.0
Pulai Land			83.4	0.02	NPV @ 9%		100.0
1060 Carnagie, Melbourne			23.5	0.00	NPV @ 9%		100.0
Unbilled sales			80.5	0.02	NPV @ 9%		100.0
Sub-total			**2,648.7**	**0.55**		**46.1**	
		NLA/room bays	**Value (RM) m**	**/share**	**Method**		**Effective stake (%)**
Investment properties							
Menara Celcom (Lot 8)		450,908	419.3	0.09	NPI@6%		100.0
Menara MRCB, Shah Alam		216,000	25.9	0.01	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
Ascott Sentral (Lot 348), KL Sentral		143 rooms	121.6	0.03	RM0.85m/room		100.0
St. Regis Hotel (Lot C), KL Sentral		208 rooms	62.4	0.01	RM1m/room		30.0
Sub-total			**779.9**	**0.16**		**13.6**	
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	RM80k/bay		30.0
Menara Celcom (Lot 8)		1000 bay	60.0	0.01	RM60k/bay		100.0
Sub-total			**146.7**	**0.03**		**2.6**	
Property management							
Quill Capita Management (QCM)			84.9	0.02	NPI@7%		41.0
Sub-total			**84.9**	**0.02**		**1.5**	
Construction & Facilities Management							
Construction			1,341.3	0.28	13x FY20F net profit		
Facilities management			61.0	0.01	Net book value		
Bukit Jalil Sentral Management Contract			37.6	0.01	NPV@7.5%		
Sub-total			**1,439.9**	**0.30**		**25.1**	
Listed-investments							
MRCB-Quill REIT			293.6	0.06	Market Value		27.8
Sub-total			**293.6**	**0.06**		**5.1**	
Others			473.4	0.10	Net book value as of FY17		
Sub-total			**473.4**	**0.10**		**8.2**	
Gross NAV			**6,127.5**	**1.27**			
Net cash			(947.7)	(0.20)	FY18	(16.5)	
Proceeds from ESOS/warrant conversions			567.8	0.12	Warrants B exercise price: RM1.25	9.9	
Total NAV			**5,747.5**	**1.19**		**100.0**	
FD no of shares			4,837.7				
NAV/share			**1.19**				
TP (less: 10% discount)			**1.08**				
Capital gain (%)			**10.8**				
Discount to NAV (%)			**(18.4)**				
Total Return (%)			**11.9**				

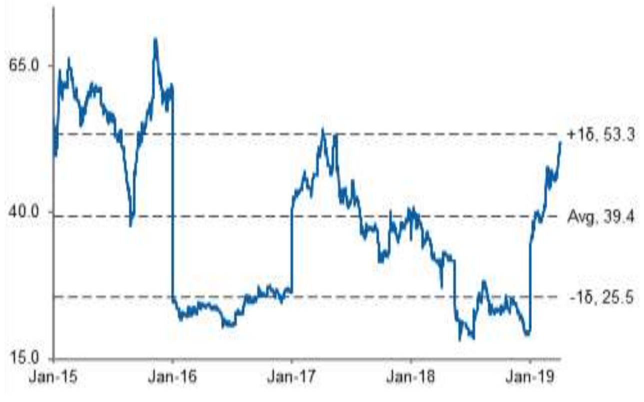
Source: Company, Bloomberg, KAF

Exhibit 2: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 3: PE Band chart



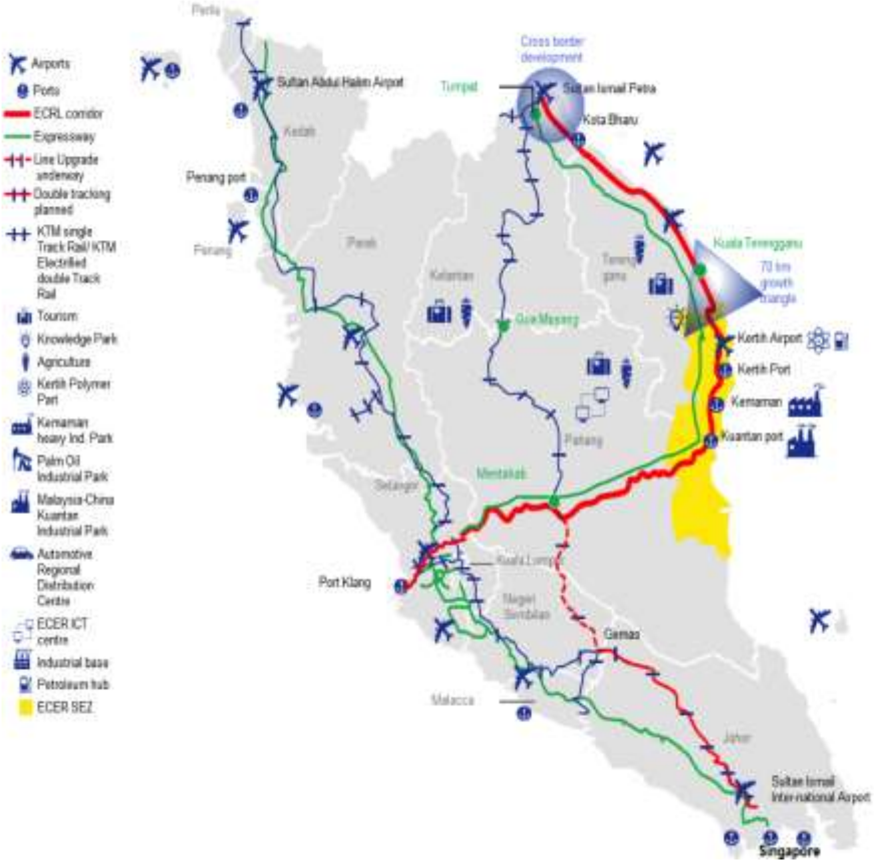
Source: Company, KAF, Bloomberg

Exhibit 4: Financial results

YE 31 Dec (RM m)	FY17	FY18	% YoY	3Q18	4Q18	% QoQ
Turnover	**2,752.7**	**1,870.7**	***(32.0)***	**663.8**	**374.1**	***(43.6)***
EBIT	**268.4**	**119.8**	***(55.4)***	**43.0**	**13.1**	***(69.4)***
Interest Expense	(116.1)	(43.3)		(15.1)	(7.2)	
Interest Income	25.5	21.1		3.4	3.2	
Pre-Exceptionals Profit	177.9	97.5		31.3	9.1	
Exceptionals	66.3	0.0		0.0	0.0	
Pre-Associates/JV Profit	244.2	97.5		31.3	9.1	
Associates/JVs	25.0	25.5		9.2	(0.2)	
Pretax Profit	**269.2**	**123.0**	***(54.3)***	**40.5**	**8.9**	***(78.0)***
Taxation	(68.8)	(46.1)		(22.0)	(8.4)	
Minority Interest/disct. ops	(38.5)	24.3		1.3	25.8	
Net Profit	**161.9**	**101.2**	***(37.5)***	**19.8**	**26.4**	***33.4***
Core Net Profit	**95.6**	**101.2**	***5.8***	**19.8**	**26.4**	***33.4***
Core EPS (sen)	3.7	2.3		0.5	0.6	
Gross DPS (sen)	1.8	1.8		0.0	1.8	
BV/share (RM)	1.10	1.10		1.09	1.10	
EBIT Margin (%)	9.8	6.4		6.5	3.5	
Pretax Margin (%)	9.8	6.6		6.1	2.4	
Effective Tax (%)	25.5	37.5		54.4	93.7	
Segmental Breakdown (RM m)						
Turnover						
Construction	1,773.9	1,042.7	*(41.2)*	177.3	481.4	*171.5*
Property development & investment	787.7	758.6	*(3.7)*	469.1	(124.4)	*(126.5)*
Infrastructure & concession	112.1	0.0	*n/m*	0.8	(2.2)	*n/m*
Facilities management & parking	55.8	53.3	*(4.4)*	13.7	13.6	*(0.4)*
Investment holding & Others	23.3	16.1	*(30.6)*	2.9	5.6	*91.8*
Total	**2,752.7**	**1,870.7**	***(32.0)***	**663.8**	**374.1**	***(43.6)***
EBIT						
Construction	92.7	97.8	*5.6*	3.8	53.0	*n/m*
Property development & investment	168.6	56.2	*(66.7)*	33.8	(32.6)	*n/m*
Infrastructure & concession	55.7	74.5	*33.7*	(4.8)	82.3	*n/m*
Facilities management & parking	11.4	6.4	*(44.1)*	4.8	0.8	*n/m*
Investment holding & Others	32.7	(17.3)	*n/m*	9.2	(37.3)	*n/m*
Total	**268.4**	**119.8**	***(55.4)***	**43.0**	**13.1**	***(69.4)***
EBIT margin (%)						
Construction	5.2	9.4		2.2	11.0	
Property development & investment	21.4	7.4		7.2	26.2	
Infrastructure & concession	49.7	n/m		n/m	n/m	
Facilities management & parking	20.5	12.0		34.9	5.7	
Investment holding & Others	n/m	n/m		n/m	n/m	
Total	**9.8**	**6.4**		**6.5**	**3.5**	

Source: Company, KAF

Exhibit 5: East Coast Rail Line



Source: ECRL, KAF

Exhibit 6: Klang Valley Double Track Upgrade

Source: SPAD, KAF

Exhibit 7: Penang Sentral

Source: SPAD, KAF

Income Statement

FYE Dec (RMm)	2017	2018	2019F	2020F	2021F
Revenue	**2,640.6**	**1,870.7**	**2,336.0**	**3,223.8**	**3,708.3**
EBITDA	**211.8**	**151.4**	**202.4**	**255.8**	**326.6**
Depreciation/Amortisation	(31.1)	(31.0)	(38.0)	(39.8)	(41.7)
Operating income (EBIT)	180.7	120.4	164.4	216.0	285.0
Other income & associates	25.0	25.5	31.6	55.4	75.7
Net interest	(2.8)	(22.9)	(54.6)	(65.6)	(68.2)
Exceptional items	66.3	0.0	0.0	0.0	0.0
Pretax profit	**269.2**	**123.0**	**141.4**	**205.8**	**292.5**
Taxation	(68.8)	(46.1)	(64.6)	(87.2)	(110.2)
Minorities/pref dividends	(38.6)	24.3	(8.0)	(11.9)	(17.3)
Net profit	**161.9**	**101.2**	**68.8**	**106.7**	**165.0**
Core net profit	**95.6**	**101.2**	**68.8**	**106.7**	**165.0**

Balance Sheet

FYE Dec (RMm)	2017	2018	2019F	2020F	2021F
Fixed assets	614.2	665.4	687.2	707.3	725.6
Intangible assets	225.6	226.7	220.5	214.3	208.1
Other long-term assets	3,499.3	3,979.6	4,037.5	4,119.2	4,221.2
Total non-current assets	**4,339.1**	**4,871.6**	**4,945.2**	**5,040.8**	**5,154.9**
Cash & equivalent	724.2	551.6	522.0	327.9	297.9
Stock	885.1	1,043.7	946.9	1,317.3	1,313.3
Trade debtors	3,155.0	1,864.5	2,240.0	2,561.4	2,692.3
Other current assets	72.3	18.8	18.8	18.8	18.8
Total current assets	**4,836.6**	**3,478.7**	**3,727.7**	**4,225.4**	**4,322.3**
Trade creditors	1,295.1	1,364.2	1,325.7	1,844.3	1,988.7
Short-term borrowings	2,491.7	729.4	502.6	587.6	665.1
Other current liabilities	217.9	15.4	15.4	15.4	15.4
Total current liabilities	**4,004.8**	**2,109.0**	**1,843.7**	**2,447.2**	**2,669.2**
Long-term borrowings	893.0	769.9	1,346.8	1,261.8	1,134.3
Other long-term liabilities	491.6	570.9	570.9	570.9	570.9
Total long-term liabilities	**1,384.6**	**1,340.8**	**1,917.7**	**1,832.7**	**1,705.2**
Shareholders' funds	**4,817.2**	**4,832.4**	**4,835.5**	**4,898.4**	**4,997.6**
Minority interests	104.5	68.0	76.0	87.9	105.2

Cash flow Statement

FYE Dec (RMm)	2017	2018	2019F	2020F	2021F
Pretax profit	269.2	123.0	141.4	205.8	292.5
Depreciation/Amortisation	31.1	31.0	38.0	39.8	41.7
Net change in working capital	(1,886.9)	1,200.9	(317.1)	(173.3)	17.6
Others	697.9	(194.3)	(96.1)	(142.6)	(185.9)
Cash flow from operations	**(888.7)**	**1,160.5**	**(233.8)**	**(70.3)**	**165.8**
Capital expenditure	(989.0)	(17.3)	(80.0)	(80.0)	(80.0)
Net investments & sale of fixed assets	12.7	68.0	0.0	0.0	0.0
Others	(80.7)	990.0	0.0	0.0	0.0
Cash flow from investing	**(1,057.0)**	**1,040.7**	**(80.0)**	**(80.0)**	**(80.0)**
Debt raised/(repaid)	444.3	(1,885.3)	350.0	0.0	(50.0)
Equity raised/(repaid)	1,798.1	0.0	0.0	0.0	0.0
Dividends paid	(70.1)	(106.2)	(65.8)	(43.8)	(65.8)
Others	(355.4)	(203.9)	0.0	0.0	0.0
Cash flow from financing	**1,816.9**	**(2,195.5)**	**284.2**	**(43.8)**	**(115.8)**
Net cash flow	**(128.7)**	**5.8**	**(29.6)**	**(194.1)**	**(30.0)**
Cash b/f	**628.8**	**500.0**	**505.8**	**476.2**	**282.1**
Cash c/f	**500.0**	**505.8**	**476.2**	**282.1**	**252.1**

Key Ratios

FYE Dec	2017	2018	2019F	2020F	2021F
Revenue growth (%)	9.7	(29.2)	24.9	38.0	15.0
EBITDA growth (%)	(44.6)	(28.5)	33.7	26.4	27.7
Pretax margins (%)	10.2	6.6	6.1	6.4	7.9
Net profit margins (%)	6.1	5.4	2.9	3.3	4.5
Interest cover (x)	63.5	5.3	3.0	3.3	4.2
Effective tax rate (%)	25.5	37.5	45.7	42.4	37.7
Net dividend payout (%)	47.5	65.0	63.7	61.6	53.1
Debtors turnover (days)	436	364	350	290	265
Stock turnover (days)	131	218	200	200	175
Creditors turnover (days)	192	285	280	280	265

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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