

19 Oct 2017

Buy

Price
 RM0.92

Target Price
 RM1.26 (from RM1.40)

Market Data

Bloomberg Code	MRC MK
No. of shares (m)	2,192.6
Market cap (RMm)	2,017.2
52-week high/low (RM)	1.57 / 0.87
Avg daily turnover (RMm)	7.9
KLCI (pts)	1,744.0

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 (%)	(24.2)	(34.1)	(23.6)
Rel Market (%)	(23.7)	(34.2)	(27.0)



Source: Bloomberg, KAF

Analyst

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MRCB

Time to deliver

We maintain our BUY rating on MRCB with a revised TP of RM1.26 (cum-rights: RM1.40), after its share price went ex-rights last Thursday. With its massive rights issue out of the way and a re-capitalized balance sheet (net gearing to improve substantially to 10% by end-FY17F vs 76% in FY16), this paves the way for the group to kick-start the development of its prime TOD projects, starting with KL Sports City.

Financial Highlights

FYE Dec	2015	2016	2017F	2018F	2019F
Revenue (RMm)	1,697	2,408	2,449	2,334	2,556
Core net profit (RMm)	1	75	61	132	185
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	41.7	26.3	22.0
Div yield (%)	2.5	2.6	2.2	3.3	3.3
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)	0.8	0.8	0.9	0.9	0.8

Source: Company, KAF

Share price goes ex-rights

Last Thursday, MRCB's share price went ex-rights. This follows its proposal in May to issue up to 2.8b new rights shares (1-for-1) along with free warrants. Based on the rights issue price of RM0.79, we estimate MRCB to raise c.RM1.7b under a minimum scenario. The exercise price for the rights warrants has been set at RM1.25, with a tenure of ten years. Adjusting for the rights issue, our TP has been revised to RM1.26 (cum-rights: RM1.40).

Ready to roll

Last Thursday, MRCB's share price went ex-rights following its proposal in May to issue up to 2.8b new rights shares (1-for-1) with free detachable warrants. The new rights shares will be listed on 3 November. Meanwhile, the proceeds from this rights issue should be received by month-end. Assuming it raises RM1.7b, we project MRCB's balance sheet to improve significantly – with projected net gearing ratio falling to ~9% by end-FY17F (FY16: 76%).

Given the sheer size of this exercise, we do not expect MRCB to make another cash call anytime soon. Furthermore, the irrevocable undertakings provided by MRCB's top two shareholders, i.e. EPF and Gapurna, toward their respective rights entitlements (~ half of the total) reflects the duo's renewed commitment to MRCB's future prospects, we believe.

More importantly, with a re-capitalized balance sheet, this allows management to re-focus on its value-unlocking activities, which are NAV-accretive. This should start with the roll-out of KL Sports City, one of several prime, transit-oriented developments (TOD). The re-development project will be jointly-developed by MRCB and EPF on a 20:80 basis. Other TOD projects that are waiting in the wings include PJ Sentral, Kwasa Sentral, Penang Sentral and Cyber City Center. Nevertheless, the litmus test is on its execution.

Likewise, we draw comfort that the LRT 3 project is gaining traction following the award of several major civil and systems packages in recent months. This should translate into more meaningful fee-based contributions by 2H next year, for which MRCB is the project delivery partner (PDP) under a 50:50 JV with George Kent Holdings (GKENT MK, RM3.26, Unrated).

Apart from this, management is still locked in discussions concerning the potential divestment of its EDL toll concession in Johor. As for the disposal of Menara Celcom, the deal will only be concluded at the earliest, in 2018. Trading at a deep NAV discount of 37%, the stock is also viable election play that is backed by its prime, TOD landbank.

Exhibit 1: NAV calculation

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
		NLA/room bays	Value (RM) mil	/share	Method		Effective stake (%)
Investment properties							
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 (%)			36.6				
Discount to NAV (%)			(37.0)				

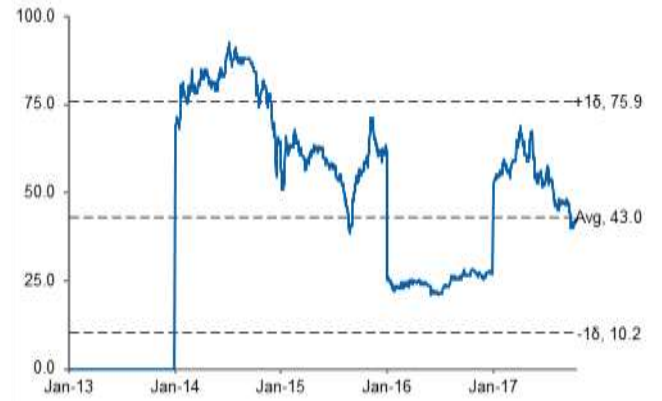
Source: Company, KAF

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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