

25 Mar 2019

Buy

Price
RM0.82

Target Price
RM0.92

Bloomberg code
MRC MK

Equity | Malaysia | Property
Flashnote

Analyst

Mak Hoy Ken
(603) 2171 0508
mak.hoyken@kaf.com.my

MRCB

Key takeaways from MBS visit

Financial Highlights

FYE Dec	2017	2018	2019F	2020F	2021F
Revenue (RMm)	2,640.6	1,870.7	2,275.0	2,986.1	3,452.2
Core net profit (RMm)	95.6	101.2	72.6	102.8	156.1
Core EPS (Sen)	2.7	3.1	1.9	2.5	3.6
EPS growth (%)	(35.4)	12.5	(39.6)	33.6	44.5
DPS (Sen)	1.8	1.5	1.0	1.5	2.0
Core PE (x)	41.7	27.0	44.2	33.1	22.9
Div yield (%)	1.5	1.8	1.2	1.8	2.4
ROE (%)	4.2	2.1	1.5	2.1	3.2
Net Gearing (%)	55.2	19.6	26.4	28.0	27.4
PBV(x)	1.0	0.8	0.7	0.7	0.7

Source: Company, KAF

- We maintain our Buy rating on MRCB with an unchanged TP of RM0.92. This pegs the stock at a 15% discount to NAV. We attended a briefing cum visit on MRCB's new Industrialized Building System (IBS).
- This was in conjunction with the International Construction Week (ICW), which was held last week at the Malaysia International Trade and Exhibition Centre (MITEC). Below are the key takeaways:
- At MRCB's booth in MITEC, we were briefed on the group's revolutionary MRCB Building System (MBS) by its Chief Corporate Officer Amarjit Chhina and Chief Financial Officer, Ann Wan Tee.
- First of all, MBS is one step ahead of the existing IBS methods in Malaysia. MBS infuses the pre-fabricated prefinished volumetric (PPVC) construction method with a jointing system known as the Candle-Loc.
- 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. The latter is achieved through high-tech automation, which facilitates the conversion of 2D precast panels into a 3D model.
- Apart from bare walls, MBS can fabricate architectural fittings and interior finishes, which allows for total customization of the units.
- After the fabrication work is done off-site, it will be delivered to the project site to be installed using Candle-Loc, a fastening process. Once this is done, solid stainless-steel pins and lateral tie plates are fitted in each unit to firmly secure the modules in place.
- The completed MBS units will then be stacked on one another, and will be locked into position to form a building.
- This results in time and cost savings, minimizes physical labour and improves safety-on-site via a controlled environment. Other key benefits include lesser material wastage, better product quality and the potential to entice local talent to join the construction workforce through a more convenient, safe and efficient work place.
- We understand that MBS may also result in reduced foundation costs through (i) the Candle-Loc system, which does not require weight-bearing columns and beams; and (ii) the adoption of lightweight, concrete products.
- Because of its modular structure, certain sections of the MBS units are also hackable while it can also be customized to accommodate the varying needs of customers (e.g. rockwool board for sound insulation and fire resistance).

- Going forward, MRCB believes that Malaysia has what it takes to successfully implement MBS, as more companies are tipped to participate in the supply chain. To be sure, it noted that there are already many factories in Johor that have been set up to supply building components abroad.
- 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.
- From our channel checks, MRCB is one of only two local construction companies that have 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 we believe that 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.

Exhibit 1: Model of MBS module



Source: Company, KAF

Exhibit 2: Candle-Loc system



Source: Company, KAF

Exhibit 3: Fixtures & fittings



Source: Company, 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.

Disclaimer

This report has been prepared solely for the information of clients of KAF Group of companies. It is meant for private circulation only, and shall not be reproduced, distributed or published either in part or otherwise without the prior written consent of KAF-Seagroatt & Campbell Securities Sdn Bhd.

The information and opinions contained in this report have been compiled and arrived at based on information obtained from sources believed to be reliable and made in good faith. Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made by KAF-Seagroatt & Campbell Securities Sdn Bhd as to the accuracy, completeness or correctness of such information and opinion.

Any recommendations referred to herein may involve significant risk and may not be suitable for all investors, who are expected to make their own investment decisions at their own risk. Descriptions of any company or companies or their securities are not intended to be complete and this report is not, and should not, be construed as an offer, or a solicitation of an offer, to buy or sell any securities or any other financial instruments. KAF-Seagroatt & Campbell Securities Sdn Bhd, their Directors, Representatives or Officers may have positions or an interest in any of the securities or any other financial instruments mentioned in this report. All opinions are solely of the author, and subject to change without notice.



Dato' Ahmad Bin Kadis
Managing Director
KAF-Seagroatt & Campbell Securities Sdn Bhd (134631-U)